

Louvain School of Management

How the nature of venture capitalists' involvement influences venture performance

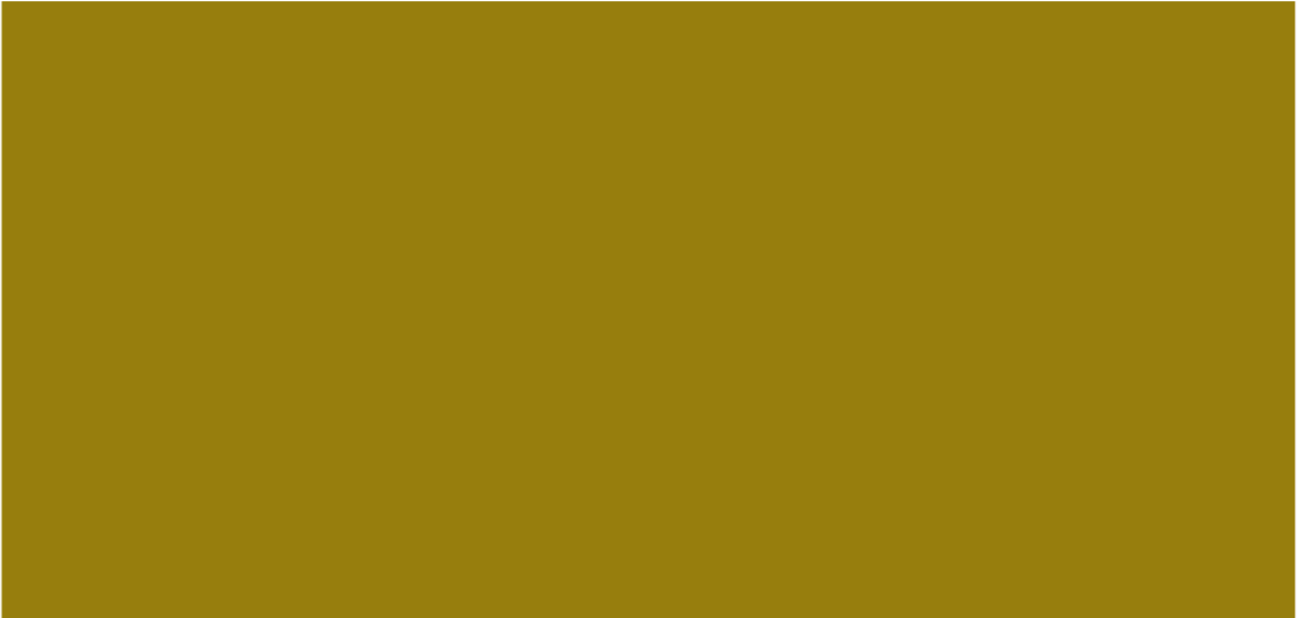
Mémoire recherche réalisé par
Eléonore Lambilliotte

en vue de l'obtention du titre de
Master en ingénieur de gestion, à finalité spécialisée

Promoteur
Gerrit Sarens

Année académique 2016-2017

Place des Doyens, 1 bte L2.01.01, 1348 Louvain-la-Neuve, Belgique www.uclouvain.be/lsm



ACKNOWLEDGEMENTS

This thesis has been accomplished with the help and support of several people I would like to thank.

Foremost, I would like to give my sincere thanks to my thesis advisor Gerrit Sarens for his advice, support, patience and availability in answering all of my questions and guidance in my research.

I would like to acknowledge and thank all the interviewees who have contributed to the development of the practical analysis. They gave not only their time but an invaluable insight.

I would also like to give gratitude to those who gave their opinion concerning this work.

Finally, I wish to warmly thank, my family and friends for their support through the accomplishment of this thesis.

TABLE OF CONTENT

1. Introduction	1
2. Literature review	3
2.1. Venture capitalists	3
2.1.1. Venture capital history	3
• International expansion of venture capital	3
• Venture capital industry in Europe	4
2.1.2. What is it? How does it work?	6
2.1.2. Board of directors, governance systems and potential issues	7
• Potential issues	7
• Board of directors	7
• The added-value created by venture capitalists	8
2.1.3. Involvement in the management	9
• Managerial intervention	9
• From passivity to deep involvement	10
2.1.4. Professionalisation of the venture capital backed firm	11
• An appropriate management team	11
• Regular contact with the top management	12
2.1.5. On the entrepreneur side	13
2.1.6. Summary	14
2.2. Entrepreneur - venture capitalist relationship	15
2.2.1. After the first investment	16
• Interaction between the investor and the entrepreneur	16
• Correlation between interaction and performance	17
2.2.2. The benefits of the relationship	17
• Important factors	17
• The benefits of the co-operation	18
2.2.3. The drawbacks of the relationship	18
2.2.4. The sources of power	19
• The dominant position	19
• Different sources of power	20

2.2.5. Confidence.....	21
• Balance between control and trust	21
• Self-interest vs. co-operation.....	21
• The prisoner’s dilemma.....	22
2.2.6. Summary.....	23
2.3. Intragroup conflict.....	24
2.3.1. Types of conflict and their sources	24
2.3.2. Consequences on satisfaction and performance	25
• Main impacts.....	25
• Correlation between conflict types.....	26
• Routine tasks vs. non routine tasks	27
• Divergent opinions	28
2.3.3. Diversity in teams.....	30
• Homogeneity vs. heterogeneity.....	31
• Different types of diversity.....	32
• Importance of cognitive diversity	33
• Contradiction?	34
2.3.4. Innovation and creativity	35
2.3.5. Conflict management.....	36
• Collaborate, contend or avoid conflict?	37
2.3.6. Summary.....	38
3. Methodology and data	39
3.1. Methodology.....	39
3.2. Data.....	40
3.2.1. Venture capitalists’ data	41
3.2.2. Entrepreneurs’ data	43
4. Results	44
4.1. Venture capitalists’ analysis	44
4.1.1. Venture capitalists’ activeness	44
• Board of directors.....	45
• Professionalisation of the portfolio companies	45

• Correlation with performance	47
• Role separation.....	48
4.1.2. Relationship with the management of the venture	49
• The interpersonal relationship.....	49
• Goal alignment.....	50
• Sources of conflict.....	51
• Conflict connotation.....	53
4.1.3. Conflict outcomes.....	54
• Conflict benefits and drawbacks	54
• Impact of conflict on performance	55
• Conflict management	57
• Important factors for conflict management.....	58
4.1.4. Venture capital	59
4.2. Entrepreneurs' analysis.....	60
4.2.1. Investors' activeness in the post investment phase.....	60
4.2.2. Relationship with the investors.....	61
4.2.3. Conflict outcomes.....	62
4.2.4. Venture capital	63
4.3. Summary of the practical analysis.....	64
• Venture capital.....	64
• Investors' activeness.....	64
• Investors- management team relationship.....	65
• Conflict management	66
• Impact on performance.....	66
5. Limitations	67
6. Conclusion.....	69
References	71

1. Introduction

Nowadays, in a challenged business environment gaining a sustainable competitive advantage and being inimitable are mandatory. Modern organisations have become boundary less and are collaborating and networking more than ever before. They face an uncertain, challenging and changing environment and economic conditions, and need to be well-suited for rapid innovations. Therefore, co-ordination and co-operation between teams in an organisation are essential in order to reach a higher level of performance. Projects and team-based organisations have also become the norm. Consequently, they do not have a rigid hierarchy anymore, but have moved to self-managed teams. This means people exchange their ideas, opinions, knowledge and experiences to clarify issues towards attaining an agreement. The goal is to be as efficient as possible, to be strategically viable, and reduce as much as possible, the uncertainty surrounding the organisation (Higashide & Birley, 2002). Teamwork has become increasingly the norm in companies but has revealed challenges, and one of them being, conflicts among group members. This can lead to tension inside the team because they perceive differences (De Dreu & Weingart, 2003).

A new phenomenon in the business environment is the emergence of new and innovative companies, known as 'startups', that are disrupting existing industries or creating new fields. The rise of startups is both explained by recent technological developments and the increasingly important role of venture capital funds.

Venture capitalists give funds to a limited number of start-up companies in exchange of equity. In general, venture capitalists tend to invest in five to thirty firms (Kanniainen & Keuschnigg, 2002). They usually invest more than once in each venture. The environment surrounding ventures is very uncertain, complex, competitive and there are information asymmetries between what entrepreneurs and investors know. So the risk is high but there are

potentially high reward projects (Gompers & Lerner, 2001). Venture capital backed firms are flatter, more decentralised organisational firms.

In addition to this, venture capitalists are an outside source of finance who contribute significantly in their portfolio companies, beyond providing money. They primarily have a monitoring function with a speciality for active governance and thus differ from traditional intermediaries who are only active on the financial side. Therefore, they have a constant contact with the companies they fund and play a role on the human resource side. It appears that entrepreneurs have less experience in managing a firm (Amit et al., 1990). They are key participants in the creation of a start-up company, as suggested by Steier and Greenwood (1995), and the collaboration process plays a vital role. The entrepreneur has a good technical core but lacks administrative knowledge. The level of involvement can vary from one venture capitalist to another. It is usually a short term association, five to ten years, as the investors' purpose is to exit the venture with a good return (Flynn, 1990). Consequently, venture capitalists tend to differ from traditional institutions as they play a role in the management of the firm.

Research has focused more on the investment decisions and less on the post-investment phase. Little is known about the venture capitalists' involvement in their portfolio companies (which is the term used for all the start-ups a venture capitalist funds), how much value they add, on the decision-making process, and about their relationship with the entrepreneur and the management team (Sapienza, 1992). Therefore, the focus of this paper is on the post-investment phase and on the venture capitalists- management team relationship. Indeed, there might be tension as the venture capitalists want to maximise their returns and are preoccupied about exiting, this is thinking in the short term. While, the entrepreneur sees further and wants to reach a long-term performance. Moreover, there are several differences between both parties, for example their backgrounds and experiences. The aim of this paper is to give insights into this relationship and how it affects the performance of the venture capital backed

firm. How each party will react and deal with conflict? And the impact it has on performance? Consequently, does it mean that if conflict is experienced, is the venture destined to fail? Hence, the main question of this study is how the nature of venture capitalists' involvement influences the venture performance?

In order to shed light on this important question, I will first build a literature review on prior research on venture capitalists and conflict theories. Then, I will explain the nature of venture capitalists and how they operate. I will look into depth regarding their relationship with the entrepreneur. I will also discuss the types of conflict, their causes and consequences on team members and on the organisation. Secondly, I will carry out a qualitative analysis based on interviews performed, explaining the method I used. Then, the results of this analysis and a discussion will be shown. Finally, the limitations of this research and a conclusion will draw a close to this paper.

2. Literature review

2.1. Venture capitalists

2.1.1. Venture capital history

- *International expansion of venture capital*

The venture capital industry started in America with academic institutions in the 1940s and spread around the world. The 1980s are considered as the golden age of venture capital, investments became profitable and the first successful companies, such as Apple Inc. and Genentech, appeared (Mougenot, 2014). The European industry is much younger and smaller. There are differences between the U.S. and the European venture capitalist markets, which both grew rapidly in the early 2000s. Venture capitalist activities in Europe has continued to increase since then. In the U.S., it is a more mature market than in Europe, where the U.K. is

ahead of the rest. It can be observed in Appendix 1 and Appendix 2 that venture capital fundraising and investments are larger in America. Moreover, the type of venture capital investors in Europe is more heterogenous (see Appendix 3). Generally, venture capitalists are the most needed in high-tech industries and, in the seed and start up phases, especially in U.S.A. (see Appendix 4, Appendix 5 and Appendix 6). In the latter stages, other sources of capital are easily available. Another important difference is the number of funds venture capitalists have raised, which is much greater in America and can be observed in Appendix 7. This indicates American investors have more experience in the field. The typical size of a venture capital-backed company in Europe is approximately 644 thousand EUR sales, 1824 thousand EUR total assets and 14 employees (VICO¹ database), read in Tykvová et al. (2012) . The size differs considerably across countries.

- *Venture capital industry in Europe*

The venture capital industry in Europe has recently seen a decline in deal closing. After the 2008 financial crisis, the industry bounced back in 2015, with more than 4,000 deals completed and €15.5 billion invested (see Appendix 8). This has doubled from the two previous years. However, the number of financings has declined since. Moreover, the industry is coming off two years of record fundraising, with more than €17 billion raised (see Appendix 9). The fundraising figures have almost kept pace with overall investment in the past years, this can be observed in Appendix 10. Appendix 11 shows the European venture capital backed exits by type. Regarding exits, acquisitions have provided the most opportunity.

Europe is facing challenges with Brexit, the nature of the European union, political elections worldwide and members' financial hubs. Hence, despite a shared concurrency, the region might be difficult to understand for investors and might have made the public market less enticing for privately held companies. In addition to this, the continent is quite fragmented

¹ See VICO (2011). *Venture capital: Policy lessons from the VICO project*. http://www.vicoproject.org/doc/policy/VICO_FinalPolicyBrief.pdf

with an economic output centred in one city in most countries. The largest deals can be found in The U.K., in London, but cities such as Paris, Berlin or Stockholm are also able to supply and support the venture capital markets (see Appendix 12). In 2017, Europe has seen a rather low start. In the three first months, 50% of the deals have been in software companies, highlighting the importance of this sector. Recently, European politicians have been trying to help and boost the venture capital industry. They proposed regulations aiming at reducing entry barriers and costs for venture capitalists (PitchBook database²).

However, the performance of European venture capital backed companies lags behind that of the American ones. So, why do we keep investing in these funds? Governments are keen on trying to create new wealth, new jobs and new industries in order to be able to compete with the U.S. market. There are other reasons as well for such differences, such as the external environments and the way venture capitalists operate. In Europe, there is an absence of a stock market which is eager to trade the stock options of a new organisation. Some researchers suggest there is no stock market equivalent to NASDAQ in Europe. European venture capitalists are less sophisticated than the American ones although they operate similarly. In addition to this, America encourages entrepreneurship through its open mind and its failure tolerance. According to Manso (2010), it should be promoted in Europe as well, in order to foster innovation.

In addition to that, there is a shortage of venture capital demand and supply and, thin markets. The reason why they lack supply is that there are not enough large institutional investors who are active. Then, the institutional investors try to avoid this market because of the low returns. This is mainly due to the small size of most venture capital backed companies, their low experience and the fragmentation of this industry across boundaries. Moreover, large corporations have a low involvement and there could be taxation issues. In brief, it does not

² See PitchBook: M&A, Private Equity & Venture Capital Database (2017). *European Venture Report 2017 1Q*. https://files.pitchbook.com/pdf/PitchBook_1Q_2017_European_Venture_Report.pdf

appear that attractive to private investors. Accordingly, the venture capital supply is much lower in Europe but the quality, as well as, European investors have less experience and are less qualified than their American counterparts. Increasing the quality might be particularly time consuming and challenging. On the demand side, there is a lack of valuable investment opportunities, which is mainly due to the general difficult economic conditions. There are different obstacles during the entrepreneurial process. Research and development expenditures and property rights protection are costly and the risk is high. The reason for the thin markets is the low mobility of both the entrepreneurs and the venture capitalists (Tykvová et al., 2012; Hege et al., 2003).

2.1.2. What is it? How does it work?

Venture capital is a type of financial intermediary, which finance entrepreneurial companies. These firms are often innovative without an established track record or with a low fraction of tangible assets, and with large investment needs. Venture capitalists invest in early-stage businesses that have potential and may offer high returns, however these projects are high risk. In addition to this, these young companies often lack management experience, the founder often has the technical background but not the managerial one. Most of the time, the agreement has a finite life and this is why investors often finance more than one fund, typically in the same sector. Venture capitalists will invest at well defined stages if the milestones set are reached. This is how they set performance objectives and if they are not met, there are penalties. There will be several rounds of financing, this is a way in which to reduce the risk. A venture capitalist often does not take a majority ownership in the firm on his own, there is a group of venture capitalist investors who make sure the control is in their hands. The stock purchased is illiquid, this is also the reason why there are several investors, so they are less exposed to the potential risks. (Berlin, 1998; De Clercq et al., 2006; Fried et al., 1998; Tykvová et al., 2012). Nevertheless, a number of investors focus on a particular stage of the life cycle. Venture capitalists also differ from traditional institutions such as

banks, which only provide funds and invest in many more companies. They generally do not want to take risks with young firms and do not want to be preoccupied with management support (Kanniainen & Keuschnigg, 2002).

2.1.2. Board of directors, governance systems and potential issues

Through funding ventures, investors obtain ownership rights and participate actively in the company, while the entrepreneur's ownership decreases giving him less influence. Consequently, it gives the venture capitalists the power to lead the firm in the direction they want.

- *Potential issues*

Compared to traditional corporations, the governance systems in venture-backed firms are quite different. Moreover, certain issues may arise. First, the entrepreneur and the venture capitalist have different information. This phenomena is called adverse selection. There are several ways in which to address this issue, such as good controls and screening procedures. Secondly, there is a moral hazard issue, which occurs in an agency relationship or because of information asymmetry, both the entrepreneur and the venture capitalist can not anticipate all possible scenarios in a contract. Thirdly, the agency problem where a conflict of interest is part of any relationship (Sahlman, 1990).

Kanniainen and Keuschnigg (2002) showed there is a double moral hazard and there should be incentives for both the entrepreneur and the venture capitalist. On the one hand for the entrepreneurial effort, and on the other for an active involvement of the investors in their portfolio.

- *Board of directors*

Regarding the board of directors of venture capital-backed firms, they are usually small in size and composed of outside directors, most of whom are venture capitalists.

Consequently, there is a small insider representation and the board members are mostly equity owners. Hence, they are active board members and are highly involved due to aligned interests with other stockholders. Investors have more power when they own larger blocks of a company compared to many venture capitalists with minimal ownership. This is also different to small firms where the manager is often the owner and outside board members have less power than him. In ventures, there is a concentration of ownership and the board has much more power than the management because the directors are stockholders (Fried et al., 1998). The authors also suggest that these investors have a low diversification. Lerner (1995) believes that the company's need for oversight should influence the composition and the membership of the board of directors. When there is a larger need for oversight, venture capitalists should be more present on the board. In case of crisis or CEO turnover, the need for investors to monitor the venture increases. Nevertheless, a high involvement implies costs which are reduced if the location of the company is nearby.

While, Rosenstein et al. (1993) argue that venture capitalists do not especially give better advice than other board members, unless they are lead investors and part of the top-20 venture capital companies. Nevertheless, the former kind of investors are more likely to gain control of the board.

- *The added-value created by venture capitalists*

Venture capitalists differentiate themselves from their competitors with their added-value to the companies they finance. The authors found that the activity where the venture capitalist is the most helpful is as a sounding board to the management. There are other important activities such as, the recruitment or replacement of a CEO, monitoring the financial and operating performance, strategic decisions or assisting in financial issues. Their networking connections and expertise are considered as being extremely useful. Their network is particularly essential when the venture wants to raise additional money. The venture capitalists' image and reputation are also used to augment funds in order to gain the lender's confidence. If the investor has a successful past, it is easier to ask for funds. In

addition to this, it is an important source when they want to hire employees. These value-added activities and benefits evolve thanks to the relationship and the interaction between the entrepreneurs and the venture capitalists. Moreover, the investors appear to be more helpful towards early-stage companies.

A controversial question, is the number of board positions a venture capitalist should hold. The director's human capital is seen as a source of competitive advantage due to his education, expertise and experience. Khanna et al. (2013) suggest the board member's ability of processing information is limited. Consequently, the human capital and benefits a director can bring to the company also depends on his other board appointments and the information processing demands. Indeed, board members need to be able to process huge amounts of information in order to add value and monitor the management effectively. An overload is likely to lower the firm performance as multiple board appointments in multiple sectors might decrease the cognitive capacity.

2.1.3. Involvement in the management

- *Managerial intervention*

Regarding share ownership, as the entrepreneur's ownership decreases, the risk that he might have opportunistic incentives increases. And as the investor's ownership increases, he will likely strengthen the management team because the business risk increases. Consequently, this is a risk that investors will not get adequate returns. Therefore, managerial intervention is necessary and two risks have to be managed in the relationship; the business risk and the agency risk. This means higher involvement, which consequently means that various costs are incurred (Sapienza & Timmons, 1989). Venture capitalists get involved in the management of the venture for the purpose to be as efficient as possible and increase the likelihood of success, and maximise return on investment. Before funding, they look for the potential growth of the company, its patents and so on. But when this is completed, investors

look for their way out with the best return as possible and the maximisation of the value of the venture. This is the reason why they advice and interact with the management, rather than the technical core. Their involvement is also a way for them to address the information asymmetry problem. Hence, they devote time to the companies they invest in. If the venture fails, there will be heavy consequences (Sahlman, 1990; Caselli et al., 2009).

- *From passivity to deep involvement*

Investors' engagement varies from being deeply involved to passivity. It also depends on their prior experience, their knowledge, the size of their portfolio, the proximity of the venture and the amount invested (Flynn, 1990). When venture capitalists invest in a firm they want to increase its value, to make it grow faster. Therefore, as aforementioned, in order to have a potential growth, they monitor and add value in several ways to the company. They monitor through the milestones set, board appointments and through reporting requirements in order to improve the performance but also to make sure the entrepreneur has the right incentives. Indeed, the agency problem could arise in the relationship, and to reduce this risk, the venture capitalists monitor their ventures. Moreover, whether or not they add value has been controversial. However, most papers suggest they do. The investors add value through different roles. Financing is considered as the main one, but there are other important roles such as, the strategy, the discipline and so on. They provide advice to the entrepreneur and the management team and act as a sounding board. Venture capitalists often have the experience or the expertise and proper contacts in the industry which is very helpful. Experience is essential, it helps to face any potential issues and find appropriate solutions. They do not decide but provide suggestions, and can also serve as a mentor to the entrepreneur. In addition, thanks to a good reputation and a successful history, they can arrange other financing further on. It also enhances the reputation of the venture, making it easier to attract other investors, key personnel or to influence its stakeholders. Venture capitalists are very active for different reasons. Firstly, because of the uncertainty faced by the venture, then, the illiquidity of the investment and their reputation in case of future investments in the venture. Finally,

because their compensation depends on the performance. Their purpose is, at the end, to maximise the return on investment.

Some authors believe the venture capitalists' involvement might start to increase when they find the venture performance unsatisfactory, or perceive it that way. In this case, they feel they can contribute to it effectively. Hence, the perceived performance might be the cause why investors increase their involvement (Higashide & Birley, 2002).

2.1.4. Professionalisation of the venture capital backed firm

- *An appropriate management team*

The capability of the management team is assessed and, most of the time, venture capitalists prefer replacing the CEO, who is often the founder of the venture, by an external experienced person. This is also a way to add value to the company, investors argue that a professional top management is vital for the firm. In addition to this, if the venture has a poor performance, they also make relevant modifications. They want to make sure the key CEO is in place, the right person to execute the ideas as they believe entrepreneurs' interests are opposed to those of the venture (De Clercq et al., 2006). There are two ways to professionalise the firm. Hellmann and Puri (2000) suggest there is a soft way and a hard way. The soft way which views investors in a constructive role, as being supportive, incorporates help and support to the organisation in order to build up an appropriate management team. The hard way involves the firing of the entrepreneur through the investors control rights. Nevertheless, the entrepreneur might remain in the firm, at another level of the organisation after the new CEO arrives.

It is at times difficult for the founder to accept the decision and leave the company as he has often developed an attachment to his firm. If investors decide not to change the CEO, the venture capitalists want to keep the entrepreneur motivated (De Clercq et al., 2006). Nevertheless, they often use their control to replace the top management which makes the treatment of the founder a contentious issue.

As aforementioned, the venture has to reach the milestones set. Therefore, in order to achieve the performance targets, venture capitalists put pressure on the management team. There are two solutions to get an appropriate managerial system. Venture capitalists either keep the management team in place, work with it and help members to improve their managerial skills. Or, as previously mentioned, they can replace the actual management team or part of it with experienced managers. It is easier for venture capitalists to attract people with relevant experience. Top-20 investors are more likely to modify the management team, while other investors have a tendency to deal with short term financial crisis. The ultimate goal is to reach the highest level of performance and excellence. Investors spend on average two hours per week working with the companies they finance (Ehrlich et al., 1994).

- *Regular contact with the top management*

Fried and Hisrich (1995) argue that on average, a lead investor could spend thirteen hours per month on the venture, while a non-lead venture capitalist spends less than five hours per month. Papers are quite controversial about the time spent working with the venture. Nevertheless, the authors suggest that a regular contact with the top management is necessary, along with outsiders. As previously mentioned, venture capitalists help to select the management or a CEO, but do not get involved in the search process, they serve as a sounding board. They also do so for a variety of operating problems.

Research has shown that venture capital backed companies are quicker in the development of their product and moreover, more innovative. Venture capitalists are also different than traditional institutions, like banks which only provide funds and invest in many more companies (Kanniainen & Keuschnigg, 2002). Table 1 summarises the main characteristics of venture capitalists which research has highlighted.

Table 1: Characteristics of venture capitalists

	Venture Capitalist
Source of funds	Outside limited partners
Legal form	General partnership
Typical size of investment	\$2-20Mio
Financing stages	All stages
Geographic proximity preferences	Proximity is preferred
Motive for the investment	Strategic and Equity growth
Investment criteria	Growth prospect and Strategic value
Reporting requirements	Regularly timed Strategically and Financially focused
Involvement level	Moderate Informal or Board
Exit planning method	Often planned IPO/Acquisition/Trade sale

Source: De Clercq, D., Fried, V. H., Lehtonen, O., & Sapienza, H. J. (2006). An entrepreneur's guide to the venture capital galaxy. *The Academy of Management Perspectives*, 20(3), p.91.

2.1.5. On the entrepreneur side

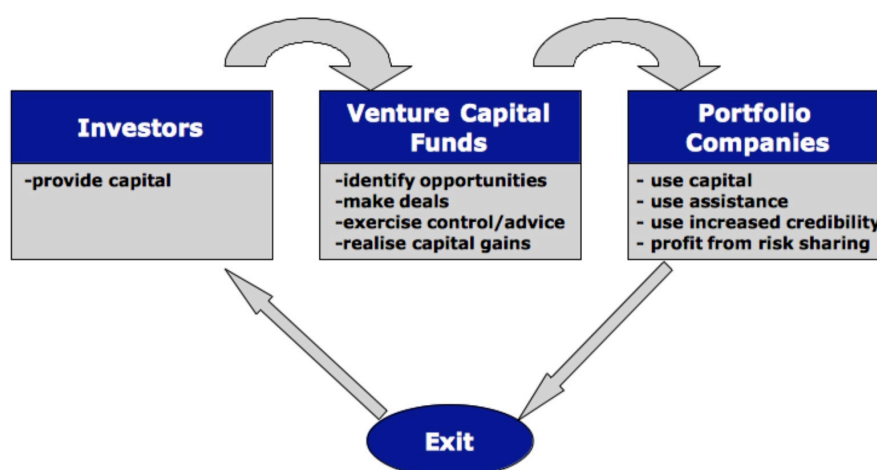
Regarding the entrepreneur, he wants venture capitalists to get involved in his company to share the high risk, as well as the need of funds. He does not want to bear all the risks alone. Moreover, an association with a venture capitalist who has a good reputation improves the venture's image and credibility, and makes it easier to negotiate with the stakeholders of the firm. The entrepreneur is the one who innovates new products and services as well as ameliorating existing and new production lines. It is about being effective and efficient in order to meet the customers' needs. This depends on the entrepreneur's ability, his talent, experience and so on (Amit et al., 1990). Perhaps entrepreneurs lack experience and expertise at the beginning, but Sapienza and Timmons (1989) do not necessarily see this as a drawback. Entrepreneurs have fresh ideas and are full of energy to accomplish their

endeavours and succeed. This might counterbalance the potential disadvantages faced by an inexperienced entrepreneur.

2.1.6. Summary

Overall, venture capitalists are more than financial intermediaries. They are able to deal with information asymmetries and the uncertain environment of a venture. They have imperative roles, such as serving as a sounding board or as consultants, then, these financiers serve as a mentor and a confidant to the CEO (Sapienza & Timmons, 1989; MacMillan et al., 1989). The value venture capitalists truly add to their portfolio companies is related to face-to-face interactions with the CEO and the time devoted to each company. This is a means of gathering information in order to understand the employees and the company, and moreover, to manage the agency risks. Figure 1 shows the venture capital's cycle; the roles of these investors and the interrelations. However, when there are interactions, conflicts appear and cannot be avoided.

Figure 1: Venture capital's cycle



Source: Tykiová, T., Borell, M., & Kroencke, T. A. (2012). Potential of Venture Capital in the European Union. European Parliament (Directorate-General for Internal Policies. Policy Department A, Economic and Scientific Policies. Policy Area Industry, Research and Energy), p.19.

The next section is on the post-investment phase which is crucial to the entrepreneur-venture capitalist relationship. Sometimes, there are disagreements about the venture, regarding the direction it should follow. But it can also be for self-interest actions. Indeed, the entrepreneur could have incentives to follow his own interests and not those of the venture. Opportunistic behaviour is always a threat. This is known as the agency problem. Another important aspect to take into account, is the power, which is in the hands of those providing money. The entrepreneur is a shareholder, but outside investors provide a considerable amount of money which could lead to potential conflicts. Moreover, information asymmetry is also an issue. The entrepreneur possesses information concerning his firm which the venture capitalists do not have, and furthermore, the entrepreneur could hide negative information. It is observed that the venture capitalist has the money power and the formal power, whereas the entrepreneur has the operational power. A misuse of these powers is detrimental to the relationship (De Clercq et al., 2006). Guéry-Stévenot (2006) suggests that conflict is about the objectives and goals the firm wants to pursue, and the manner in which to achieve it. The entrepreneur and the venture capitalist have differing logics. Investors want to exit at some point and are thus looking for a financial maximisation, while the entrepreneur is guided by the industrial logic.

2.2. Entrepreneur - venture capitalist relationship

The interests of the venture capitalist and the entrepreneur are assumed to be the same or aligned in the negotiation phase. However, it might change afterwards. Commitments and intentions are sometimes difficult to gauge. The entrepreneur and the venture capitalist are supposed to be well-aligned and to have the same goal, which is the profitability of the venture. However, divergent interests can create a certain tension between both of them. For example, the investor might want to harvest the profits instead of reinvesting it in the venture,

or the entrepreneur might have personal motivation and needs (Hellmann, 1998; Higashide & Birley, 2002). Nevertheless, the theory agency can not explain all the relationships between investors and an entrepreneur and, as argued by Arthurs and Busenitz (2003), there is sometimes a goal congruence. Moreover, when the venture capitalist and the entrepreneur reach an agreement and sign the contract, they cannot anticipate every possible situation, disagreement or conflict.

2.2.1. After the first investment

- *Interaction between the investor and the entrepreneur*

After the first investment, a question remains, which is whether or not, the investor is going to add value to the companies funded. The involvement of the venture capitalist depends on the stage of the venture, its proximity and the entrepreneur's experience with new ventures. Furthermore, the innovation and competitive strategy pursued by the organisation and, the environmental uncertainty the firm faces influence the level of involvement. Early stage ventures might need more insights, therefore it makes it easier for the investors to be located in close proximity. Later stage ventures are by then supposed to be viable and, consequently, do not need as much oversight and involvement from venture capitalists. So, their location is not of huge importance. In addition to this, the type of interaction and frequency of interaction between the investor and the entrepreneur could also play a role. Early stage ventures face more uncertainties than ventures that are at a latter stage and might need more oversight as found by Sapinza et al. (1996) and Sapinza and Timmons (1989). Moreover, there is more interaction when the venture capitalist is based close by the venture, when the geographic distance is not too large. Nevertheless, the authors found that performance has a significant impact on the level of interaction and venture capitalists are more active in firms performing well. As aforementioned, the capabilities, the experience, the technical and managerial knowledges of both the entrepreneur and the venture capitalist are necessary. A successful venture needs their inputs and professional skills and in order to

achieve this, interactions are key. Furthermore, interactions increase the learning benefits. Nonetheless, there are safeguards for self protection. The venture has to balance between these safeguards made to protect both parties' interests and openness (Maula et al., 2009).

- *Correlation between interaction and performance*

Sapienza (1992) found earlier, that neither the stage nor the entrepreneur's experience made a significant impact on the value added by investors. Moreover, Higashide and Birley (2002) suggested that there is no significant correlation between the frequency of interaction and the performance of the venture. Consequently, they did not find the evidence that the venture capitalists' involvement in the venture positively affects the performance. It does not guarantee that the investors add value. They actually suggest it should be complemented by other human aspects and a proper relationship between the venture capitalists and the management team. Emotions play an important role as well and should not be underestimated. Being too rational is not always the right approach, emotions should be adjusted to manage the relationship properly. Moreover, information quality is necessary for good decision making, which leads to a competitive advantage for the venture. Therefore, performance is influenced by co-operation and information quality. The authors point out the importance of not acting individually nor having an opportunistic behaviour.

2.2.2. The benefits of the relationship

- *Important factors*

More importantly, Sapienza (1992) found that innovation and the interaction between the entrepreneur and the venture capitalist have an effect on the benefits of their relationship. This partnership is characterised as a knowledge intensive relationship and thus, can provoke tension. Solid communication and less conflict appear to be essential. According to the author, conflict should be minimised in order to get the best out of the company. In order to integrate

appropriately resources valuable to the firm, frequent and open communication and interactions are required (Maula et al., 2009).

All these factors have an impact on the performance of the venture and venture capitalists seem to add value to their portfolio companies. Nevertheless, Sapienza (2002) also mentions an important point, which is the perception. He believes it plays an essential role not only on the performance but vice versa. The performance influences the perceptions a group has. However, the opposite is also true, perceptions might have an effect on the performance. An important role that venture capitalists also have is the interpersonal one, being a mentor or a confidant to the CEO and supporting him morally (Fried & Hisrich, 1995).

- *The benefits of the co-operation*

A venture capitalist who shows himself to be fair and just impacts positively the relationship, which consequently has a positive effect on the performance. The benefits of this co-operation are the sharing of knowledge, the access to scarce resources and the speed to market the products of the venture (Busenitz et al., 2004). It cannot contradict the fact that venture capitalists spend much time in the firms they finance. Barry (1994), Gorman and Sahlman (1989) mention they spend a lot of time monitoring companies resulting on average 110 hours per year in each firm, with an average of nine ventures in their portfolio. Hence, research has found that information the venture capitalists bring to the venture adds value and has found support for the non financial input they provide. However, Busenitz et al., (2004) did not find such evidence. The authors argue that investors play a role in the company, serving as a sounding board and so on, but they might hinder the growth if their strategic input is wrong.

2.2.3. The drawbacks of the relationship

Co-operation might provoke conflicts. All the aspects of the venture capitalists-entrepreneur relationship previously found, like the conflicts of interest, information

asymmetry, infrequent communication, power, different goals and so on, might prevent a good co-operation. Moreover, as aforementioned, frequent and open communication is essential. Nevertheless, attention must be paid to opportunistic behaviour. Naive openness might be detrimental and could result in the misappropriation of valuable resources and knowledge (Maula et al., 2009). In addition to this, Busenitz et al. (2004) found that they do not bring support for strategic information. With inappropriate information or constraints, they can damage the venture growth. In addition to that, when a personnel is dismissed, it affects negatively the long-term performance. Moreover, the authors believe venture capitalists do not play a good role when dismissing team members, which can impact their relationship with the entrepreneur.

2.2.4. The sources of power

- *The dominant position*

On the other hand, Flynn (1990) has a more negative point of view on the relationship. At the beginning, it is the entrepreneur who possesses more power, he makes the operating decisions and has more information. Moreover, he might have an opportunistic behaviour. Therefore, his characteristics will impact the performance of the new venture, until a certain threshold, where it becomes dysfunctional. The entrepreneur focuses on the technical core and the venture capitalist on the administrative and strategic parts. Indeed, the investors are outsiders and are therefore, more effective at observing the potential opportunities and competitive threats. Then, the investors gain control and take the dominant position. Flynn (1990) suggests that the venture capitalists exercise their control power, especially when the performance is low, as a response to different threats. According to the author, financial help and control power are not sufficient to face the competitive and environmental threats, there is a need to be more involved in the management. Indeed, the success of the venture and its ability to deal with the different threats will depend on the relationship between the venture capitalist and the entrepreneur.

- *Different sources of power*

Fried and Hisrich (1995) argue that there are different sources of power, and the impact the venture capitalist has depends on how intense these powers are. The first one is money. For the company's development additional funds are necessary, and investors are the most likely to provide it. This is a strong source of power when the venture has a poor performance. Then, the authors say that personal relationship is a second power determinant, which depends on the investor's devotion to the company, and whether or not he has enough expertise. The last source mentioned is formal power coming from the contract. Investors usually get control of the board through contractual rights. This type of power is a source of dispute as it is very confrontational. Nevertheless, the contract might give the entrepreneur certain rights as well. Another approach that could also lead to conflict are the funding stages. What is the adequate amount of money the venture capitalist should give at each stage? The valuation and down-rounds (Forbes et al., 2010) might become an issue between both parties. Managers might say they are underfunded or the investor does not want to finance adequately the venture. In contrary to this, venture capitalists are at times willing to fund properly, the company they invest in. Thus, it is observed that control and money are two major sources of conflict. Moreover, goals are mentioned to be an additional source of conflict. Indeed, those of the entrepreneur and those of the venture capitalist might differ. In this case, the investor might want to exit the firm in order to become liquid. This often ends by an IPO.

Moreover, as previously mentioned, venture capitalists often use their control over the board to replace the top management and, the appointment of a new CEO might be contentious. There is a conflict of interest, as the entrepreneur wants the financing of his firm, since he is wealth constrained and the investor wants to get the best return on his investment. There is a tradeoff for the entrepreneur between the performance of the venture and self-interest benefits. The allocation of control is an issue which matters. Indeed, the bargaining power of the entrepreneur against the investors depends on this. If the entrepreneur is wealth-constrained

and does not have much equity or if he does not have valid experience, it is more likely that the venture capitalist will have more control. This is why some entrepreneurs choose more passive investors instead of venture capitalists (Hellmann, 1998).

2.2.5. Confidence

- *Balance between control and trust*

It can be argued, as Shepherd and Zacharakis (2001) suggest, that it is primordial to achieve confidence. It can be defined as the belief or faith that one will act in a proper and effective way. An appropriate balance between control and trust is necessary in order to achieve confidence in the relationship, and consequently co-operation between the partners. The investors have to gain control while generating trust. This consequently will lead to the success of the venture according to the authors. Nevertheless, the optimal level of both variables vary from one relationship to another. It is suggested that this kind of relationship is the main determinant of the success of venture-capital backed companies, more than the capital. However, there is a need to balance control as it appears that the relationship between control and trust is curvilinear. Too much control is at the detriment of trust. The venture capitalist and the entrepreneur both need to build up trust through commitment, fairness, good and frequent communication and consistency.

- *Self-interest vs. co-operation*

The way confidence is generated and all the processes that lead to it have to be understood. Frequent communication appears to be essential, along with co-operation. However, one of the parties might have incentives to act contrary to that. Indeed, as aforementioned, information asymmetry remains an issue, which cannot be neglected. It must be kept in mind that the venture capitalist is diversified, while the entrepreneur is not, and his returns depend on the success of the venture. Moreover, Shepherd and Zacharakis (2001) consider two perspectives of the relationship. Firstly, the agency problem which has previously been

mentioned, where it is uncertain whether or not one party will pursue his own interests. Secondly, the prisoner's dilemma, where both parties have an incentive to act according to their self-interest rather than co-operation.

In addition to this, co-operation between the entrepreneur and the venture capitalist is seen as even more important for the performance and success of the startups, than the capital itself. Both parties have different knowledge, and the exploitation of the specifications of both of them, contribute to the development of the venture. As discussed above, the venture capitalist adds value to the firm in several ways and the entrepreneur has technical knowledge and specialises in the day-to-day operations and activities.

- *The prisoner's dilemma*

On one hand, research has argued that competition between individuals may enhance personal benefits. While on the other hand, other researchers have argued that mutual co-operation is better for everyone. However, Cable and Shane (1997) suggest that even if both parties know co-operation is vital for the success of the venture, the prisoner's dilemma is present when the relationship is negotiated. According to the authors, neither the agency problem nor the principal-agent problem are appropriate to explain the relationship. The entrepreneur or the venture capitalist can experience higher short-term payoffs if one of them defects. The opportunity costs or the information asymmetries could be the reasons why one of the parties might be tempted by non-cooperation, and consequently by defection. The authors suggest, that the probability of co-operation increases when there is a congruence in values, when the investor and the entrepreneur are similar demographically, and when they perceive they have the same power. In order to reach it, information transfer through personal contacts is essential, and will improve the probability of success. Moreover, social relationships also encourage generosity and trust, which are essential for co-operation. As Sapienza (1992) mentioned, frequent and open communication between the entrepreneur and the venture capitalist, so as to increase the quality of information transfer, contribute to the success of the relationship.

Perry (1988) differentiated three types of entrepreneur and three kinds of venture capitalists. He then analysed the relationship between them. This is represented in Table 2. Investors mainly want short-term returns and rarely manage the venture, or only in case of problems. Advisors and Partners bring more than money to the company as they give advice and counsel, in addition to the capital.

Table 2: Characteristics of relationships between founders and venture capitalists

	<i>Inventors & Investors</i>	<i>Builders & Advisors</i>	<i>Innovators & Partners</i>
Founders' Goals	Creation of wealth	Build & manage unique form of organization	Development of radically innovative technology
Goals of Venture Capitalist	Short-term, above normal returns on investments	Build company for initial public stock offering	Facilitate development of ultimate technology by building people and company
Locus of Control	Venture Capitalists	Founders	Shared: Founders have technical control; venture capitalists are majority owners
Quality of Relationship	Short-term, formal, financial agreement; monitoring relationship	Cooperative (conflicts of interest can hamper relationship); helping relationship	Highly interdependent, based on shared vision; collaborative relationship
Contributions of Venture Capitalists	Money	Money; wise counsel, advice, and information about competitors	Unlimited support
Contributions of Founders	Single-product technology	Company growth through broad spectrum of innovative capacities	Long-term, focused, radical product innovation
Kind of Innovation Fostered	Process-driven incremental product innovation	Market-driven, incremental and radical product innovation	Technology-driven, radical product innovation

Source: Perry, L. T. (1988). The capital connection: How relationships between founders and venture capitalists affect innovation in new ventures. *The Academy of Management Executive*, 2(3), p.211.

2.2.6. Summary

Although communication and trust amongst others, are said to be essential for any relationship, too much confidence can be detrimental to the success of the venture. Indeed, it

is not ideal to place too much trust in each other's honesty or competence. In order to reach good quality decision, people have to be able to voice themselves. They should not be afraid of contradicting other's opinions. In case of over-confidence, there is a threat that opinions and decisions will not be scrutinised.

The following section concerns conflict in organisations and its consequence on the team members' satisfaction and on performance.

2.3. Intragroup conflict

Conflict arises from incompatible interests, goals, resources or values. Different types of conflict have been discovered by researchers. Early theorists believed all types of conflict were negative as it produces tension, and therefore diminishes productivity, innovation, team satisfaction and performance. Moreover, they suggested that team members are distracted and do not perform the task asked properly.

More recently, some authors distinguish between two types of conflict, while others have three categories. They have a more modern opinion and agree on the fact that disagreements lead to better decisions. These conflict types have various consequences on the performance of the company and have to be managed accordingly. In this paper, the focus will be on task conflict and relationship conflict.

2.3.1. Types of conflict and their sources

Task conflict, also known as cognitive conflict, refers to disagreements concerning the content of a task or decision, which may result in different points of view or opinions among group members. Relationship conflict or emotional conflict, is more personal and refers to perceptions of incompatibilities amongst group members. It can be about values, tastes,

political preferences and so on, and leads to tension and anxiety in the team. One conflict could in turn lead to the other one. The third type of conflict examined by some authors (e.g. Jehn & Mannix, 2001; Hinds & Bailey, 2003; Behfar et al., 2002) is process conflict. This work will focus on the two previous ones.

It is also important to consider conflict attributes which are, according to Jehn (1997), emotions, norms and communication, and intensity and size of conflict. Emotions are an important factor, which are often highlighted through the group members' reaction to different situations. Stress and threat often appear in case of conflict. When a team experiences this, the reasoning of members becomes weaker due to emotions taking over, and consequently, work is less effective. Communication and norms also influence conflict. These factors help to control how conflict is perceived and what impact it could have on performance. The intensity of the conflict has an effect on the outcome as well. It implies the number of people involved, and the interdependence between the types of conflict.

2.3.2. Consequences on satisfaction and performance

- *Main impacts*

Research has found that task conflict has potential benefits for the quality of a group decision. It encourages a better understanding and more scrutinising of the issue. Therefore, groups facing this type of conflict tend to make better decisions. In addition to this, it has also been found that the team tends to accept the group decisions. This affective acceptance is due to a proper level of satisfaction of each team member and the desire to continue adhering to the group. Indeed, each person has the possibility to voice himself and his own perspective on issues that are being discussed. Hence, group members value this, improving the quality of decision making process as the affective acceptance is greater. Consequently, task conflict often has positive outcomes (Simons & Peterson, 2000; Higashide & Birley, 1999; Pearson et al., 2002).

Nonetheless, Simons and Peterson (2000) point out the fact that task conflict does not necessarily mean improved performance. It is beneficial until a certain threshold above which commitment and member satisfaction may decrease. The duration of the conflict also plays a role. When decisions have to be made quickly, for example in top management teams, it has a positive impact on the performance. But not in the case of slower decisions, as a feeling of frustration could appear due to the length of time it takes to reach an agreement or a decision and members feel dissatisfied about this.

Regarding relationship conflict, it is mostly the perceptions of personal incompatibilities. All the researchers agree on the idea that it has a negative impact on the quality of group decisions, and on commitment and group satisfaction. Simmons and Peterson (2000) suggest that firstly, it limits the ability to process information because team members tend to spend too much time on themselves and on others rather than on the issues being discussed. Secondly, it enhances anxiety, stress and animosity resulting in low cognitive functioning from group members. Thirdly, it increases the chance of creating a self-fulfilling vision as it encourages antagonistic behaviour. Consequently, the decision quality becomes damaged and the affective acceptance is deteriorated.

- *Correlation between conflict types*

According to these theories, teams should encourage task conflict and avoid relationship conflict to yield positive consequences. However, it is not that simple as there might be correlations between the two. Cognitive conflict sometimes turns into emotional conflict. Thus, there is a risk of triggering the drawbacks of relationship conflict when stimulating task conflict. This comes from the process of misattribution or the perceptions of personal attacks due to the process of biased information. Group members might interpret distrust through behaviour towards other team players. In case of deep trust, it is less likely that task conflict leads to relationship conflict. Moreover, the debate tactics also influence this correlation. The language used, forceful tactics, intimidation or humiliation could result in

members feeling offended, which may result in emotional conflict. Consequently, when aggressive tactics are used to negotiate, relationship conflict might be triggered. Nevertheless, emotional conflict rarely triggers cognitive conflict (Simons & Peterson, 2000; Higashide & Birley, 1999). As a result, if trust is well established among the group, task conflict should be encouraged to yield to positive consequences with a minimisation of relationship conflict. Therefore, if cognitive conflict is stimulated, the trust generated should increase. As aforementioned in the previous section, the level of intragroup trust is an important construct. Table 3 summarises the main reactions to conflict.

Table 3: Reactions to conflict and group interaction processes

	Individual level	Group level
Relationship conflict	Distraction Limits cognitive processes and ability to assess information Decreases commitment	Decreases cooperation, communication and understanding Limited access to new information
Task conflict	Increased effort because of being challenged Increases cognitive processes Enhances task focus	Increases divergent opinions, interpretations, critical evaluation and assessment Increases communication, shared information Increases group-problem solving

Source: Jehn, K. A., & Bendersky, C. (2003). Intragroup conflict in organizations: A contingency perspective on the conflict-outcome relationship. *Research in organisational behaviour*, 25, p.203.

- *Routine tasks vs. non routine tasks*

The authors, e.g. Jehn (1995, 1997), make the distinction between routine and non routine tasks. Routine tasks refer to simple tasks that have been well-learned, while the latter, refers to more complex tasks, which need to be scrutinised before reaching a decision. There are not any standard solutions for this type of tasks. The processing of information is very

important in this case and it fosters creative ideas and development. At the end of the day, it results in the group being more effective and a higher level of innovation.

- *Divergent opinions*

According to Jehn (1995) and Lehmann-Willenbrock et al. (2011), experiencing task conflict whilst dealing with non routine tasks predicts a higher level of performance, than if it was a routine task. By contrast, they did not find any effects of relationship conflict on performance, whether the task performed was routine or not. This is because, in this case, the group avoids to work together.

De Dreu and Weingart (2003) agree on the fact that relationship conflict has a negative impact on the group performance and on members satisfaction. However, they reveal, contrary to what has been predicted, that task conflict also affects negatively these two variables. Moreover, the impact is greater for complex tasks than for less complex ones. But the impact is less important, if the correlation between the two types of conflict is weak. As mentioned above, disagreements increase the quality of the decision but, this is only true until a certain threshold. When conflict is too intense, negative effects appear. Thus, conflict is beneficial as long as it is at a low level. Hence, when group members know there will be co-operation at the end of the discussion, in a situation of low conflict, they are more flexible. Contrary to this, when the discussion is hostile, in case of high conflict, this flexibility is negatively impacted. As aforementioned, a little conflict stimulates the ability to process information until a certain threshold, where it becomes damaged and affects the performance negatively.

So, on one hand some researchers found a positive correlation between task conflict and the performance of the team, while on the other hand, others did not find a positive one, but indeed a negative correlation. They do not make any distinctions between the two types of conflict, as both negatively affect the satisfaction and the performance of the team. The other point of view is that both of these conflicts have a negative impact on members' satisfaction.

However, task conflict is more beneficial for the performance than relationship conflict, which has a negative impact. According to De Dreu and Weingart (2003), despite the non routine or the complexity of the tasks, both conflicts are equally detrimental, neither correlation is positive. They counter the beliefs of Jehn (1995) and consider that even if task conflict might be beneficial at the beginning, it quickly impedes the capacity of information processing, especially for complex tasks, resulting in poor performance. However, the impact is less negative (but still present), when both conflicts are weakly rather than strongly correlated. Moreover, the authors found that emotional conflict is worse than cognitive conflict for team satisfaction, as this type of conflict is more interpersonal.

Janssen et al. (1999) have a totally different opinion. Instead of fostering task conflict and avoiding relationship conflict which might be possible only in some situations, they suggest that the interdependence of both task and relationship conflict has a positive effect on the decision making process. But only if they both interfere and not in case of one-sided conflict or no conflict at all. Accordingly, a positive interdependence leads to the perception of a positive relation among the parties' goals. Thus, they are likely to be in favour of a constructive conflict handling, which will improve decision-making outcomes and thus the effectiveness of decision making. Hence, the conflict appears to be positive as the members' goals are perceived to be interdependent in a positive way. The attainment of these goals is thought to be interdependent and members need each other for a joint performance. It prevents them from the detriments of emotional conflict, so much so, that it also fosters the management of conflict. Parties are more open-minded and have a different conflict behaviour, understanding each other's positions and developing positive attitudes. A negative interdependence renders conflict management worse and destructive. As a consequence, groups should not be afraid when both types of conflict arise alongside, as long as the members perceive they need to stand together in order to attain their goals.

2.3.3. Diversity in teams

Nowadays team work has become the norm in companies and employees of different backgrounds need to work and interact together. This enables a competitive advantage in an uncertain environment. This diversity can be form demographic attributes; age, gender, education, tenure, functional background and so on. Diversity does not encompass attitude nor personality. There are attributes more visible than others, and job-related attributes, such as education or experience as represented below in Table 4.

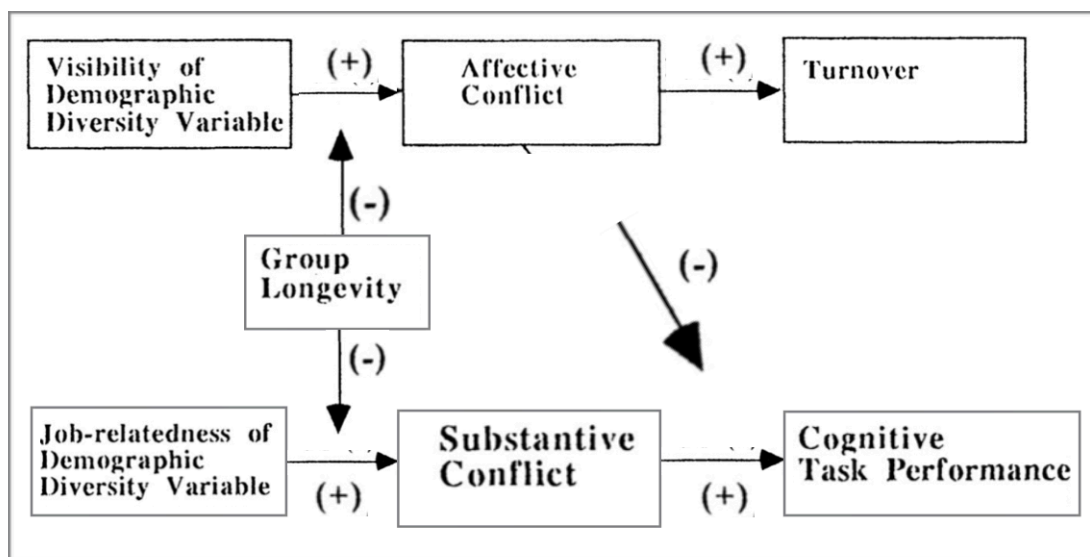
Table 4: Demographic diversity variables

	Low job-relatedness	High job-relatedness
Low visibility		Education Experience Functional background Organisational tenure
High visibility	Age Gender Race	Group tenure

Source: Pelled, L. H. (1996). Demographic diversity, conflict, and work group outcomes: An intervening process theory. *Organization science*, 7(6), p.617.

When diversity is more of a visible type, it is more likely to encounter relationship conflict, which in turn, increases the chances of turnover. While, when it concerns more job-related attributes, it increases the chances to experience task or substantive conflict, which has a positive effect on cognitive task performance. Nevertheless, contextual factors or the organisational level (whether the group is part of the top management or not) might affect or influence the generalisability of this model, represented in Figure 2 (Pelled, 1996).

Figure 2 : Relationships among group diversity, conflict and consequences



Source: Pelled, L. H. (1996). Demographic diversity, conflict, and work group outcomes: An intervening process theory. *Organization science*, 7(6), p.618.

- *Homogeneity vs. heterogeneity*

Today, competition is more intense and the environment changes more rapidly than it used to. Muray (1989) argues that thanks to heterogeneity in groups, it is easier to adapt to environmental changes. It is therefore favourable to have heterogenous groups. However, in case of high competition, it is imperative to be as efficient as possible. Homogenous groups are thus more adapted to this type of situation. Hence, in a growing competition environment, greater efficiency is preferable and required. Consequently, the author believes a trade-off has to be made between what the company is looking for when they form a team. Either adaptability or efficiency. The environmental conditions influence this decision, which affects the firms performance. Heterogeneity allows people to be put together from different backgrounds, which caters for a greater exploration of alternatives. Moreover, it means a wide variety of skills and the appropriate decision is more likely to be taken. As a result, this adaptability increases the positive impact on the long term performance. Under quick environmental changes, strategic adaptation is thus essential.

- *Different types of diversity*

Diverse groups would outperform homogenous ones but are more likely to experience conflicts. Jehn et al. (1999) distinguish several types of diversity as they agree that flexibility and responsiveness are essential to rapidly changing conditions. First of all, informational diversity refers to different knowledge, which comes from educational backgrounds, expertise or work experience and is considered as an important resource. According to the authors, it increases task conflict and therefore enhances group performance. Secondly, social category diversity refers to difference in race, ethnicity or gender. It increases relationship conflict and has a positive impact on satisfaction, commitment, the intention to remain in the company and so on. It thus affects positively the person's moral. Thirdly, diversity in values increases both types of conflict. Groups facing this type of diversity are less effective and less efficient. The perceived performance decreases, which provokes a decline in the employee moral and in actual performance. As a result, various forms of diversity lead to different types of conflict, which affect the perceived performance, satisfaction, commitment, the actual performance and the employees' intention to remain in the company. High information diversity and low value diversity allow teams to be more effective. Teams looking for efficiency should minimise value diversity. In general this type of diversity has to be as low as possible in order to have a higher level of worker morale. In addition to this, informational diversity in groups performing non routine tasks leads to a better performance. Task interdependence also plays an important role on satisfaction and commitment in groups experiencing social category diversity. As a consequence, Jehn et al. (1999) believe that well-managed diversity in groups is beneficial for performance, however having similar values is an essential condition.

Moreover, the task type and the task interdependence are moderators of the group outcomes. As aforementioned, heterogeneity in work groups tends to lead to a better performance, while homogeneity allows to have easier workgroup processes. Besides this, relationship conflict often intensifies at the end of a project when members feel very interdependent and under the pressure of an upcoming deadline. Regarding high performing groups, they generally

experience more task conflict in the middle phase (Jehn & Mannix, 2001). The authors also argues that homogeneity is beneficial as it decreases relationship conflict, but is detrimental for task conflict as it reduces it as well. Heterogeneity is also needed. Consequently, a question is, how should a group be composed? What is important in a work group is respect between members and a cohesive environment, in order to have a constructive debate.

Nonetheless, the similarity- attraction theory argues that group members prefer similarities when interacting with one another. This is a way to promote an effective working environment. Here, homogenous groups are shown to enhance communication and avoid excessive conflicts.

- *Importance of cognitive diversity*

In every company, the top management team decides and makes the strategic decisions in order to seek the best performance. To do so, these decisions need to be of the best quality, therefore the decision process is of importance. Further on, the consensus of all parties and positive affective relationships are necessary to have a proper implementation of these strategic decisions. Hence, these parameters also have an impact on performance. The management team needs to deal and manage conflict, in order to reach better quality decisions, whilst having consensus and affective acceptance from the team members (Amason, 1996). Indeed, the strategic decisions are about different issues which take into account the organisational resources.

The author goes on to suggest two factors that influence the quality of a decision. Firstly , the cognitive capabilities of the team members; secondly, the interaction process. The first one refers to the cognitive diversity of the group, which the team counts on, when solving complex issues. If the group members have a variety of skills, experience or knowledge, they are more effective at dealing with a potential problem and consequently, reach higher-quality decisions. In addition to this, process and interaction techniques also influence the attainment of better decisions. A debate of opposing positions contributes to a solution of improved quality. Members have to identify and extract the best from the different positions. Moreover,

it is essential to have consensus among members and to promote it in order to facilitate the implementation of a decision. The group has to do more than agreeing. It needs to understand the decision and its commitment is essential for a successful implementation. Nevertheless, to achieve this, the author suggests that affective acceptance is an important tool, which is necessary in order to work together in an effective manner. Members with a negative sentiment do not contribute to the decision process, which affects the decision and its quality. Consequently, all together, it contributes to a positive impact on performance.

- *Contradiction?*

However, it is argued that these parameters are contradictory. Diversity in teams is necessary, but groups with less diversity experience less contentions or conflict. Nevertheless, the lack of diversity means the quality of the decision is weaker. Moreover, decision processes with less confrontation might improve consensus and positive acceptance, nonetheless it may decrease the quality of the decision as well. Diversity, conflict and confrontation appear to be essential according to the author, in order to achieve good quality decisions and consequently, the best performance possible. However, it is important to distinguish the various dimensions of conflict and take into account the dimensions that enhance it and not the ones that attenuate it. Thereby, cognitive conflict contributes to the increase of the quality of the decision by confronting different and opposing propositions. Members feel that they exercise their voice and have participated in finding a solution. It also enhances understanding and commitment, both necessary as aforementioned. In addition to this, it improves the affective acceptance as the members are encouraged to express their opinion in the decision process (Horwitz S. & Horwitz I., 2007). This is why, cognitive conflict emerging from the decision process and strategic decision making, contributes to high-quality decisions and is beneficial for the performance. The authors argue that it should be strengthened. The only danger is that, as already mentioned, cognitive conflict turns into affective conflict, which is negative for the decision quality.

2.3.4. Innovation and creativity

Participating in the decision-making process is very important as previously mentioned. However, it appears that it creates dissents, which in turn foster innovation. Innovation is key in an ever changing environment, which is more and more challenging. When team members participate actively in a decision-making process, conflict is more likely to appear. This fosters creativity and consequently innovation. It is important to process these creative ideas and assess those that are valid to implement and those that are not. It is not beneficial for effectiveness to move to an agreement too quickly, divergent thoughts need to be confronted. Therefore, participation is very essential and ideas have to be critically confronted and examined. A low level of participation does not foster innovation because this implies a low willingness to influence or to be influenced, more resistance and a less critical way of processing (De Dreu & West, 2002). It is important to say that the authors suggest this result is independent of the diversity of the team. However, it can not be assumed that task conflict automatically harbours innovation. Being able to utilise and use the knowledge resources is essential. This capability of knowledge integration helps to increase innovation (Xie et al., 2014).

Collewaert and Sapienza (2014) have another point of view and suggest that task conflict has a slight negative impact on innovation. According to them, it is even worse in the case of goal incongruence between the parties. However, if the same objectives and agreement on priorities are attained, these negative effects are diminished. They also believe the level of communication is an important parameter, however too much is not beneficial for innovation when the team experiences task conflict. Farth et al. (2010) and Xie et al. (2014) argue that creativity depends on the life cycle of the team, but also on the level of conflict. As aforementioned, up until a certain threshold of task conflict, creativity increases then decreases afterwards, like a curvilinear curve. Too much task conflict might prevent groups from arriving to a coherent solution. In addition to this, the effect is stronger in the early phase

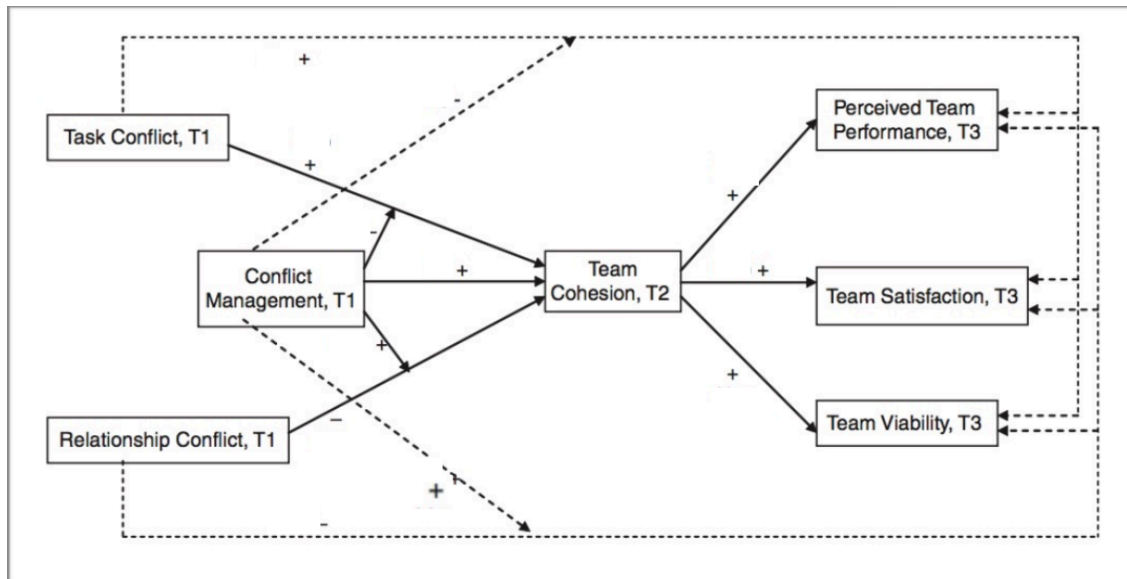
of the team life cycle. Consequently, a moderate level of task conflict in early stages, fosters a higher level of creativity. However, the openness of the group is not to be forgotten. A safe team climate is also key and each idea should be taken into consideration and debated.

2.3.5. Conflict management

An important point is the management of conflict in workgroups. The effectiveness of the group and the organisation, its performance as well as the well-being of employees, depend on how conflict is managed (De Dreu et al., 2001).

Both relationship and task conflict needs to be managed in order to have a positive effect on team cohesion. Doing so diminishes the negative effects of relationship conflict and increases the positive effects of task conflict on team cohesion. Hence, team cohesion impacts positively the perceived performance, the team viability and its satisfaction. Teams experiencing relationship conflict should learn processes to manage it. However, it is advised that teams facing low relationship conflict and a relatively high level of task conflict should not try to over manage it. Working together and expressing themselves is the best way forward. Team cohesion is important for a group to interact efficiently on the long-term and moreover, in order to develop a team identity. Furthermore, when managing conflict, group members develop trust which also enhances team cohesion (Tekleab et al., 2009). The authors suggest a model showed in the following Figure 3.

Figure 3: Conflict management outcomes



Source: Tekleab, A. G., Quigley, N. R., & Tesluk, P. E. (2009). A longitudinal study of team conflict, conflict management, cohesion, and team effectiveness. *Group & Organization Management*, 34(2), p.174.

- *Collaborate, contend or avoid conflict?*

Several authors, such as Rahim (2002), believe conflicts should not be suppressed or necessarily eliminated, but well-managed in order to increase effectiveness and learning among members. The authors argue that emotional conflict should be reduced and cognitive conflict should be maintained at a moderate level for non routine task. Both types of conflict need to be managed differently in order to be less destructive, and therefore, more productive. Conflict can be managed in three different ways, members either collaborate, contend or avoid it. It has been found to be more beneficial for the effectiveness of the group and its functioning to avoid relationship conflict. The other two responses distract members from the task being performed. Task conflict however should not be avoided. This kind of conflict requires collaboration and cooperation, which requires addressing the problem, working together and looking for a mutually acceptable solution, which satisfies all parties. Hence, it enhances team effectiveness (De Dreu & Van Vianen, 2001; Janssen et al., 1999). However,

Callister et al. (1995) suggested that teams should not build conflicts. Indeed, according to the authors, a conflict avoided, is better than managing a conflict.

De Dreu and Van Vianen (2001) argue that conflict is negative for effectiveness, well-being and the turnover; especially conflict related to interpersonal relationships. It creates negative emotions. But, nonetheless, it harbours innovation. The authors also believe establishing and maintaining trust is essential in order to work together effectively, a positive climate helps to do so. Moreover, it is a way in which to prevent relationship conflict and the correlation between the two types of conflict. However, relationship conflict can not be totally avoided. Sooner or later, groups face emotional conflict and have to learn how to deal with it. If teams have developed shared work values, it enhances trust and reduces the likelihood that relationship conflict appears.

In brief, some authors such as De Dreu and Weingart (2003) suggest that both types of conflict are negative for performance and team satisfaction, and should therefore be minimised. While others believe, relationship conflict should be avoided and task conflict has benefits when it happens at a moderate level and when it does not translate into relationship conflict (Tekleab et al., 2009). It is essential to understand each type of conflict, the negative emotions that it produces and their consequences, the importance of it, and how to resolve it. Consequently, this enhances discussions for task conflict and helps to resolve relationship conflict. The benefits of group interaction can be threatened in case of destructive conflict with negative emotions and negative uncertainties.

2.3.6. Summary

To sum up, teams should keep a low level of relationship conflict during the whole project and have a moderate level of task conflict, starting in the middle of the lifecycle. Then, the group can have benefits from the members' diversity, tasks that are interdependent, and

norms when experiencing task conflict. In addition to this, conflict management and positive emotions are beneficial. However, the group should not take into account the negative effect of routine tasks and should avoid negative emotions. Hence, all these factors will foster a better performance, creativity, consensus and satisfaction among the group (Jehn & Bendersky, 2003).

Overall, groups have different points of view on what should be considered as ethically acceptable. Therefore, conflict is inevitable and affects both the well-being of employees as well as the performance of the company. Effectively, conflict affects emergent states such as trust, respect and team cohesion, which in turn, has an effect on group outcomes. However, there has been a shift in the view and perception of conflict among group members in organisations. From a negative opinion, where all types of conflict were once seen as disruptive and stressful for the team to a more optimistic opinion. Conflict is seen as potentially stimulating because opinions, which may have been avoided are brought to the table. Team members have to feel secure when bringing opinions. Relationship conflict harms the team effectiveness and the performance of the group, however task conflict appear to have benefits under very specific circumstances. Openness, trust and safety are important moderators to improve collaboration. However, overconfidence and a too high level of trust are detrimental to the company. It is important to scrutinise each decision or action entirely and to remain objective to improve the quality of the decisions taken (De Clercq et al., 2006; Collewaert & Fassin, 2013).

3. Methodology and data

3.1. Methodology

Data was collected from the venture capitalists and entrepreneurs interviewed about their behaviour, experiences and opinions. The data is therefore subjective but helps to shed light on the relationship between both parties. Consequently, such as MacMillan et al. (1989) perceptual data was collected and as Sapienza (1992), both parties were asked to answer their respective questionnaire.

Interviews were conducted in Belgium and Paris in April and May 2017. These two regions were selected in order to get a proper cross-section of venture capitalists. The investors surveyed are either related to an investment bank or an investment company. Regarding the entrepreneurs, they are based in Belgium and have developed their own companies. Consequently, they both had a different questionnaire (see Appendix 13), which was written in advance and consists of 20 questions each. Some interviewees developed more their answers than others, going deeper into the topic and giving several examples, whilst others did not develop their answers and were brief. The discussions lasted between 20 and 50 minutes per interview. Most of the time, it was a face to face discussion. In some cases, it was a call, as it was easier for the interviewee. Nonetheless, both types of conversation were recorded and their names were kept anonymous for confidentiality. At the end, 14 people were interviewed consisting of 11 venture capitalists and 3 entrepreneurs. The latter permitted to get a different point of view. It is interesting to see how both parties view and interpret the relationship and the investment. Their recounted experiences are valuable in order to understand the behaviours.

3.2. Data

Data was analysed when the transcripts of the interviews conducted were written. These can be found in Appendix 14 for venture capitalists and in Appendix 15 for entrepreneurs. This was the basis for the analysis. Relying on the methods used by Willis et al.

(2016) and Onwuegbuzie and Byers (2014), data was classified by different topics in order to observe the similarities and the differences between the cases.

3.2.1. Venture capitalists' data

The first venture capitalist interviewed, works as a managing director in a large investment bank, which is internationally oriented and invests in the tech sector. The investment is mainly targeted towards the automobile industry, usually at the start-up phase, but at times during the seed³ phase as well. The firm usually takes a minority stake and rarely a majority stake. The reason for this is that the investor wants to keep the management motivated, but also because the companies are young and riskier. The second venture capitalist, who works as an investment manager for an investment company active in Europe, focusses on more mature companies, which are already profitable. His firm invests in four sectors: retirement homes and medicines, sustainability, outsourcing and efficiency and leather and luxury. This organisation wants to invest for a majority stake or to have a control ownership. This is the general rule. However, in case of a minority stake, they ask for control rights that can be far reaching. They have around 30 to 40 companies under management. The third venture capitalist interviewed is based in Paris and is an investment company as well, which invests in the industrial and energy sectors and in companies that are more mature. The company focuses on the French market, with a portfolio of 10 companies. The particularity of this firm is that they want to turn the venture around and consequently, take a majority stake. The fourth investor is an investment manager in a venture capital fund, which invests in high-growth technology and digital sectors in Europe. They do not invest in the seed phase but more in series A or series B⁴ funding rounds, and usually take a significant minority stake

³ The seed is the first stage of venture capital financing. Venture capitalists provide modest amounts for the early development of a project.

⁴ Series A, B, C funding rounds refer to the development of a company which is raising funds. At these rounds, the maturity level of the business is different as well as the type of investors.

with clear minority rights. A buyout⁵ might happen as well, but this is rarer. This fund wants to own at least 15% to 20% so it can have an impact on the management and influence the way the business is run. It has 13 companies in its portfolio, where 11 are in growth capital and 2 are buyouts. The fifth venture capitalist, who is the senior managing director, represents a large investment fund, which invests in several sectors around the world. It does not focus on one industry, but gives importance to three different elements; a solid sector, a solid company and a solid management. The fund almost always takes a majority stake, as it wants to act quickly and to be able to guide the firm. The sixth interviewee is the managing director at a large investment bank, based in Belgium. He has also experienced boards of directors for many years. The company typically invests in Belgian family businesses, once they have become profitable, in the growth phase. The investment bank generally owns a minority stake and has a portfolio of more or less 40 companies. The seventh investor is a specialist in venture capital and private equity for an investment company based in Belgium. The firm invests mainly in IT businesses, but in the biotech sector as well. It does not invest in the start-up phase except for one project. It normally invests in companies willing to increase their capital and not to start-up a project. Most of the time, it takes a minority stake, but does not consider it as an asset when a problem arises. Its portfolio includes 5 to 6 companies. The eighth interviewee is the CEO of a small investment company, which does not invest in a particular sector. It selects projects, in which it can add value, or projects that have an important societal value. In addition to this, it focuses on the seed phase and has 16 companies under management. It usually invests for a minority stake but will take a majority stake if a firm has a high need of capital. The ninth person interviewed is the manager of a corporate fund, which has four funds under management. The company is active at the European level in venture capital and private equity. The firm invests in different sectors; in ICT, in pharmaceuticals, in renewables and chemicals and in clean technology (photovoltaic, wind energy and so on). It focuses on early stage investments, as it wants to groom the companies

⁵ A buyout is the purchase of a company's shares, which permits to gain a control of ownership.

to be successful and ultimately, make good returns. It typically funds series A financings, but it could also be a spinoff⁶. The fund always holds minority stakes. It is exceptional that it passes 50%, as it is against the company's will. It depends on the capital increase and on the number of investors. It has a portfolio of approximately 20 companies and always requires a seat on the board of directors. If a seat is not given, it does not invest. A member of the fund usually remains on the board until the IPO⁷ or the exit. The tenth venture capitalist interviewed has a very interesting profile, as he has a broad expertise as an investor. He started his career as a business angel and has now been active in venture capital and private equity for some time. He has experience in transmission and buyouts as well. He does not invest in a particular sector and usually owns a majority stake, investing between €10 million and €60 million per deal. His company is mainly active in Europe, but also in Africa (Morocco, Tunisia, Egypt and South Africa) and has, currently, 17 firms under management. The eleventh interviewee works for a large European investment company based in Paris. It finances small and medium-sized enterprises at various stages of growth and always invests for a minority stake in the digital, health and "smart cities" (a mix of digital and energy) sectors. It has financed more than 3,500 European companies through its three business lines: venture and capital growth, private debt and private funds group. It has more than €7 billion under management in which the venture and growth capital represents €1.9 billion.

3.2.2. Entrepreneurs' data

The first entrepreneur interviewed is one of the three founders of a chain of quality fast food restaurants. The company was founded in 1999 and opened its first restaurant in 2001. The firm is now in its growth phase. Investors have been investing in the project since the beginning. The first investor took a majority stake, afterwards other venture capitalists

⁶ A spinoff is a type of divestiture which conducts to the creation of a new business. A parent company sells the shares of one of its divisions for example.

⁷ Initial Public Offering.

invested for a minority ownership. When it began, they were initially three founders and the parent company. Then, the parent company and one of the founders sold their shares to new entrants. At present, there are several investors. The second entrepreneur is active in the digital sector and describes his company as a factory of start-up creations. Some of the companies are at the start-up phase, while others are in their growth phase. Venture capital funds are invested in the company for a minority stake; 20 to 25% on average. The third entrepreneur founded a company active in digital marketing. It takes care of the online visibility of small and medium-sized companies in Belgium. The firm is now in its growth phase, what is called a scale-up⁸. The firm started with a venture capitalist after 6 months then a second one after 18 months, both taking a minority ownership.

4. Results

Results are presented in two sections; the analysis of the venture capitalists' interviews and the analysis of the entrepreneurs' approach. The first section presents different topics: firstly, the venture capitalists' activeness, secondly the relationship they have with the management team, thirdly the conflict outcomes and finally a broader sub-section about venture capital in general. The second section is separated as follows: firstly, the investors' activeness in the post investment phase, secondly the relationship entrepreneurs have with their investors, and thirdly the conflict outcomes. The managers' opinion on venture capital ends this section. All the cases are compared.

4.1. Venture capitalists' analysis

4.1.1. Venture capitalists' activeness

⁸ A scale-up is a company which is looking to expand itself in terms of market, revenues and employees, for example.

The investors own either a majority stake or a minority stake, there is no rule for this. It can be observed that in most cases, when the investment is at an earlier stage of the business lifecycle, they will take a minority stake as the project is more risky and managed by inexperienced entrepreneurs. When they invest in later stages, the firm is more mature, has developed itself and has passed the risks a young company faces. In this situation, they often opt for a majority stake as venture capitalists want more influence. These deals are more volatile than typical business deals.

- *Board of directors*

All the interviewees require a seat on the board of directors. This is a condition for them to invest in the company, as it gives them the opportunity to have their say about the “big picture” of the firm. Case 1 also gives importance to corporate governance, and every case negotiates veto⁹ rights, so the funds can have a minimum of negotiation power. This is a formal way in which to interact with the management of the venture. These arguments are in line with Sahlman (1990) and Fried et al. (1998). However, cases 5, 7, 8 and 9 believe this is not enough to groom the company sufficiently. *“Waiting for the quarterly results and attending the board meetings are not an adequate way of functioning, the day-to-day management is just as important”* (Partner- Case 7). Good news or problems might arise at any time. Case 7 considers board meetings as a milestone about what has been accomplished over the past three months for instance. Besides the board of directors, all the venture capitalists, except one (case 6), mention they are informally extremely implicated in their portfolio companies.

- *Professionalisation of the portfolio companies*

The investors’ first role is clearly providing money, as mentioned by cases 1, 2 and 4. Then, both the venture capitalist and the entrepreneur want, what cases 1 and 4 call, smart

⁹ Veto rights permit the shareholders and the board members to veto decisions made by the management or decisions which the management wants to take.

money. In order to fuel the growth of the venture, investors give funds and after that, smart money, which means experience and expertise are brought to the company. *“Venture capitalists can help to avoid the typical mistakes a founder might make when developing his company”* (General director- Case 8). Interviewees, all agree that this type of investor adds value to the company in several ways. Firstly, as a sounding board, then venture capitalists have important roles such as designing the corporate strategy, having a scrutiny right when hiring or using their network, which is useful. *“The network allows the venture to connect with the companies the investor has in his portfolio, in order to do business or to exchange various topics”* (Investor- Case 1). It also allows, as case 8 argues, to give contacts to the entrepreneur in his sector or in a particular company. Case 4 uses its general expertise in sales and marketing to help its portfolio companies professionalise their approach in sales and marketing. Investors usually help the company according to their skills and experience. However, they might ask external consultants if they feel that they are not the most appropriate to do so, as proposed by cases 6 and 7. Case 8 also suggests the level of interaction depends on the sector and on the other investors as well. As aforementioned, some investors might be more capable of helping the company regarding a particular issue, and this will evolve during the lifecycle of the company. Furthermore, cases 5, 7 and 10 attach a particular importance to the reporting and its frequency. Consequently, the venture capitalists’ added-value is not only financial but also strategic and at times legal. This is consistent with prior research (Flynn, 1990; Sapienza & Timmons, 1989; MacMillan et al., 1989; Hellmann & Puri, 2002), which argue that venture capital investors professionalise the firm. Table 5 shows the monitoring roles and added-value of the venture capitalists in the post-investment phase.

Table 5: Venture capitalists’ issues and roles in the post-investment phase

Post investment phase	
Monitoring	<ul style="list-style-type: none"> • Milestones set • Board representation • Reporting requirements for entrepreneur

Post investment phase	
Added-value	<ul style="list-style-type: none"> • Moderate to high • Roles: financing, strategic, technical ,networking, reputation, discipline, human

Case 6 is particular as the investment bank invests in family businesses and mentions it might have a psychological role, a kind of “go between” when opposing views arise. It has a close proximity with the families.

- *Correlation with performance*

Nevertheless, some investors are more hands-on than others. Their implication is case by case based, as suggested by cases 2, 7, 8, 10 and 11. Investors are involved at any time, but depending on the performance of the venture, the focus is not the same, as proposed by cases 2, 5 and 7. *“Interactions with the management depend on the willingness of the entrepreneur and his demand”* (Venture capital investor- Case 11). Hence, investors do not want to be intrusive. Most of the interviewees have at least a monthly contact with their portfolio companies if everything is going well and according to plan. However, if the performance is poorer, they will interact on a weekly or even on a daily basis with the managers. It can be via phone calls, e-mails or even face-to-face interactions. Case 1 has the opinion that the involvement of venture capitalists depends on the performance of venture. It also depends on the lifecycle of the project. Early stage deals might have a poorer performance than later stage businesses and might therefore, require more insights from investors. Cases 2, 7, 10 and 11 have a different point of view. *“The issues the firm has to tackle differ from one company to another”* (Investor- Case 10). If everything goes well, the level of interaction is lower. In other companies, different types of topics have to be tackled; financial, technical, strategic and human. *“For example, an acquisition, which is not a negative issue but a positive challenge, takes a lot of time and energy”* (Partner- Case 7). Both the investors and the CEO have to follow up the management, they have to meet the target, they have to consult auditors and so

on. Consequently, it can be very tense for a period and then at other times much calmer. So, investors' implication is not especially correlated to the performance. This is contrary to Sapinza et al. (1996) and Sapinza and Timmons (1989), who suggest that involvement increases when a firm performs well. However, this in line with Higashide and Birley (2002), who suggested that there is no significant correlation between the frequency of interaction and the performance of the venture. *“Quite naturally, if the company has a poor performance, the venture capitalist will be more implicated, in order to try to restore profitability”* (Partner-Case 7). In addition to this, the path the company needs to follow and decisions which have to be taken. Investors might spend time in the company daily, to help rectify the situation. Human issues always have to be taken into account. In this case, management is key as it has to take the appropriate decisions to save the company, to give it the possibility to resume the activity and to perform again. It is important to address a message to the employees, to keep them motivated.

- *Role separation*

As case 7 mentions, the management is essential for the success of the venture. Some of the interviewees suggest they replace the management when investing or in case of a mistake, or if the performance is not in line with their expectations. While other investors keep and respect the management in place.

As cases 1, 2, 5, 7 and 11 suggest, it is however important to separate the roles. Venture capital investors are not responsible for the management of the company. There could be a risk that if the investor starts playing the role of the manager, the latter may shy away from his role. The more the investor plays the managerial role, the less the manager plays his, therefore loosing his empowerment. *“It is essential to understand the decisions the management is going to take and the decisions the venture capitalists are going to take”* (Senior managing director- Case 5). The management decides and the venture capitalist has a grand-fathering role.

To sum up, the interaction venture capitalists have is formal through the board meetings, but informal as well. The board of directors is more “static” and in between meetings, various actions are performed. The investors and the managers work on avenues and issues, which are either positive or negative. At the end of the day, an informal relationship is created. If there are no human, financial, technical or strategic problems, it does not mean that both parties can sit at rest. Both parties always have to think about the strategy as thunderstorms are on the horizon. Anticipation is important and this is the role of the board as the directors deal with the strategy. However, it is important to separate the different roles and to be cautious from a legal point of view, in order not to mix the interests.

4.1.2. Relationship with the management of the venture

- *The interpersonal relationship*

Most of the time, the investment is in the long-term, there will be few “jackpots” and lots of cash burns. Moreover, the risk is high and the amount invested is often large. Consequently, at first glance, the relationship might seem tense. However, the relationship between the entrepreneur and the venture capitalist is described as a generally good relationship, even if at times it may be rather tense. Some investors interviewed (cases 1, 2, 5 and 10), even define it as a partnership or a collaboration. *“We build our relationship with the managers in an informal way, each team member will interact with the company, as at one point in time, they may have a role to play”* (Investment manager- Case 4). Those who are responsible for following the company have a direct connection with the management. It is not only with the CEO. The interviewee says, investors can go once a month or once every two months to their portfolio companies. *“This can be out of the blue, without an agenda, and talk with the management in order to feel the atmosphere, to spot any potential problems and then figure out, where and how we can help”* (Investment manager- Case 4). They want to accelerate problem solving and to be a coach for young CEOs. Furthermore, training and

guiding entrepreneurs is important, investors want to create a bond that many managers appreciate. However, case 9 and 11 argue that some entrepreneurs do not like the involvement of investors in what they view as their territory. Case 8 and 10 mention the importance of being positive towards the managers and adopting a constructive and creative approach. This is not always easy. The interpersonal relationship might at times become tense for several reasons.

- *Goal alignment*

Regarding the vision and the goal alignment, when the venture capitalist and the entrepreneur close the deal, they agree on a business plan, on the strategy and the path the venture will follow. Table 6 summarises the steps in the different stages of the investments. The investors and the entrepreneur also define the shareholders' agreement which describes how the company should be operated and the rights and obligations the shareholders have. Before investing, venture capitalists assess the business plan and the management team. Consequently, at the beginning, the investors interviewed agree on the fact that both parties share the same vision and are well-aligned. This is in line with prior research, such as Arthurs and Busenitz (2003). Then, during the lifecycle of the investment, there are several possibilities. *“Either everything goes according to plan, or investors receive negative news about the performance of the firm or misalignment rise up a few years after the closing of the deal”* (Investor- Case 1). The parties involved might change their minds. The investors and the managers may have the same goals, such as the profitability of the venture, but their opinions and expectations might be different, as suggested by cases 4, 6, 8, 9 and 10. Case 7 believes the place of the founder is also important, as also suggested by Hellmann and Puri (2000) and De Clercq et al. (2006). *“It is essential to make the distinction between the companies in which the founder is part of the management and those, in which he is not. The first case is more sensitive”* (Partner- Case 7). For example, if the founder is still active but

has reached the Peter Principle¹⁰, he will not bring the company further and investors want to make a change. Consequently, it is important that investors conduct a good due diligence before investing in order to identify the potential human and social problems. Despite this or because they neglected to conduct a proper assessment, they might have conflict with the management.

Table 6: Steps in the investment cycle

	Entrepreneur	Venture capitalist
Pre-investment	<ul style="list-style-type: none"> • Term sheet negotiations and agreement • Shareholders' agreement negotiations and agreement 	<ul style="list-style-type: none"> • Term sheet negotiations and agreement • Due diligence process • Shareholders' agreement negotiations and agreement
Post-investment	Operating the business	<ul style="list-style-type: none"> • Venture capitalist monitoring • Venture capitalist value-added
Exit	IPO, trade sale, buyback or liquidation	IPO, trade sale, buyback or liquidation

However, the interviewees are not totally in line with conflict occurrence. Cases 1, 3, 5 and 11 do not experience conflict that often. While, cases 2, 4, 7 and 9 see conflict arising more frequently. Cases 4, 5 and 8 suggest it happens when they are confronted with underperformance of the business. Here, no distinction is made between the types of conflict.

- *Sources of conflict*

Investors distinguish between two types of conflict and are thus consistent with the literature (eg. Simons & Peterson, 2000; Higashide & Birley, 1999; Pearson et al., 2002). The first type of conflict refers to different elements that could lead to this conflict. Firstly, there might be disagreements on the strategy of the company, as venture capitalists might think

¹⁰ Peter Principle is based on the idea that a competent employee will get promotions until a certain position in the hierarchy of a company, for which he is incompetent. He will remain at this position because he does not demonstrate further competences.

managers are destroying value. *“Both parties might have different opinions about how the company should be run when moving forward”* (Investor- Case 10). Secondly, venture capitalists might not be satisfied with the management and the way the managers run the business, they might be operationally not competent enough as already observed by cases 2, 3, 4, 5, 8 and 10. *“In this situation, we either replace the management or coach it”* (Investment manager- Case 4). Thirdly, the way the company is organised might also be a contentious issue. The founder might be satisfied with the way the firm was organised for the past years, nevertheless, it might not suit the context of the organisation anymore. Creating an executive committee, where issues are discussed, might be necessary for example, but the founder does not want to change anything as he is set in his ways. Then, the last important source of conflict is the exit or the liquidity of the investment. Will it be an IPO? Are they going to float the company or are they going to sell it? Are they going to call for other rounds of financing? These are important questions and both parties have to agree beforehand and have to be aligned on the exit. It is a timing issue in this case and the length of the deal varies. *“The venture capitalists’ business is to give the cash back to their investors, so they will need liquidity at some point. In the best case, there will be an IPO or a buyout in the short-term. Or, the investor can be stuck with his shares because there are going to be several rounds of financing, then a merger and then an IPO for example”* (Investor- Case 1). It is not always easy for the venture capitalist to see when he is going to get his cash back. Cases 5, 6, 9 and 10 mention additional sources of conflict, namely the priorities and the communication policy. For example, a part of the business is performing poorly and the CEO has another point of view on how to restore profitability. There is a conflict on whether they wait for it to ameliorate or they decide to intervene. A communication conflict is about the information provided and the transparency. *“If there is an issue or a disagreement during a board meeting, it may be due to the fact that the CEO took a position based on the information provided, which had not been given beforehand to the other board members or information provided, which is incorrect”* (Manager- Case 9). In addition to this, a manager has to be transparent and communicate if an issue arises.

The second type of conflict refers to personal or human conflict. Case 1 mentions there are three sides to the deal; the money side, the smart side and the fit side. *“It is an adventure of several years with ups and downs, we are going to collaborate and to stick together”* (Investor- Case 1). Consequently, it is better if right from the start the fit is good. However, it is difficult to have an idea before having worked together or before a problem appears. Some interviewees mention they do not experience this type of conflict, such as cases 5 and 9, while cases 1, 2, 3, 7 and 10 argue “humans are humans” and tend to change over time. *“An entrepreneur might have been gentle at the deal closing, but after that, he might change his behaviour”* (Investor- Case 10). In addition to this, the investors suggest that venture capitalists and entrepreneurs have strong characters, especially venture capitalists. *“They might have a huge ego and might think they are the kings of the world. If it was a world of people without a drive, it would not work”* (Investor- Case 1). This is part of their personality, so of course this type of conflict might appear. Moreover, some managers might not like the control power an investor has in case of majority ownership. *“We often have to deal with psychological problems with or between managers”* (Investment manager- Case 2). This investor considers it as normal as the management is challenged. However, it is not always an aggressive conflict. Successful managers and investors always have specific characters. The interviewee who invests in family businesses mainly, case 6, suggests there might be conflict because of the family situation outside the firm. This emotional situation often has nothing to do with the company and should be avoided. Cases 5 and 6 are the only ones to argue that the first type of conflict could turn into personal conflict. If the perceptions are different, there is a risk that it goes from a rational to an emotional problem, migrating from the professional field to the personal one. This is in line with Simons and Peterson (2000) and Higashide and Birley (1999).

- *Conflict connotation*

An important point is the connotation and definition of conflict which is often negative and wrong, as suggested by a few interviewees. *“Where is the cut off? When the parties yell at*

each other, when they have a strong discussion, or when they have a very amicable discussion but disagree?” (Partner- Case 7) A violent conflict might be very short, about minor details, which does not jeopardise the strategy. On the other hand, it could be an amicable conflict, still a dissenting discussion about very important issues but the parties just argue very strongly. It is not necessarily violent. Some cases, such as cases 6, 7, 9 and 11, do not like the term conflict, but prefer the word “discussion” or “negotiation”.

4.1.3. Conflict outcomes

- *Conflict benefits and drawbacks*

As an initial reaction, conflict is not agreeable, not easy, not fruitful, not amusing and it could destroy value if it is not resolved very quickly. At a certain point of time in the business, it loses value as the employees only think about these contentious issues and do not work effectively. Nevertheless, to a certain extent, it is important not to hide the problems. *“If conflict is needed in order to solve the issues, this is fine, but it does not have to last too long”* (Partner- Case 7). *“It is sometimes useful as it is the only way to bring issues to the forefront and to make a team conscious that a change is needed”* (Investment manager- Case 2). A person has to be able to confront that the perceptions or the assumptions he has might be wrong.

The outcomes of conflict can be positive and beneficial for the firm. Cases 2, 5, 6, 9 and 11 suggest that constructive conflict with a collaborative purpose is positive. It is important to know how to manage conflict, in order to understand the opinion of the other party, but also to have other points of view and to scrutinise any forthcoming ideas. This will lead to the right decision. These investors do not have any problems with conflict, if they always agree it means there is only one thought. This is consistent with what De Clercq et al. (2006) and Collewaert and Fassin (2013) suggested. Two points are important; firstly, if both parties are aware it is a rational and professional issue, then it is fine. Secondly, it is essential to make sure that conflict does not stay unresolved, it has to be handled and managed, which is in line

with Tekleab et al. (2009) and De Dreu et al. (2001). However, cases 2, 3, 7 and 10 mention it is not a motivation in itself, conflict can arise by itself but it is not a source or a way of management and consequently, it should not be generated. Cases 1 and 3 see all types of conflict as detrimental to the firm, especially personal conflict, which is the worst according to cases 5 and 6. *“A conflict can not become emotional”* (Managing director- Case 6) . They suggest it is important to leave the ego aside, as it is not productive.

Some investors see benefits to conflict, whilst others do not. It is beneficial when conflict concerns the idea. Cases 1, 2, 5 and 9 believe it challenges the management in order to make the current situation evolve and change. However, case 1 argues it might stimulate the managers, but this is rarer. Several interviewees also see drawbacks to conflict. It is time consuming (cases 2, 4, 5, 7, 8 and 10), resource consuming and it disturbs the management who might take the wrong decisions instead of focusing on the development of the business (cases 3, 7 and 8). As a consequence, it destroys value. According to cases 1 and 8, deadlock situations are the worst and should be avoided at all cost.

- *Impact of conflict on performance*

If a key person in the organisation, particularly in the management needs to spend time on an issue that is not in the core business of the company, resolving conflict and not just pushing the company forward, it might have an harmful impact on the performance, as suggested by cases 1, 3, 4, 8 and 10. Especially conflict related to personal issues, which are the worst. Some of the interviewees, such as cases 2 and 9, believe conflict is beneficial to performance. According to them, it is all about challenging the management. When conflict arises, this is when the management is put under pressure. *“By confronting ideas, the strengths and weaknesses of all the options put on the table, are debated. The best alternative will ultimately be selected”* (Investment manager- Case 2). It is part of the generating of good returns and performance as they see conflict as a normal evolution of a good return company.

Cases 5, 6 and 7 observe both positive and negative impact on performance. On one hand, they mention conflict has a negative effect if it is not properly managed. *“It might diminish the focus of the managers on important topics and may consequently hinder them from managing the business”* (Managing director- Case 6). The interviewees believe it is not the conflict in itself which impacts the performance, but the absence of issue resolution. *“If it lasts too long and if unresolved quickly, it might destroy value and affect the performance negatively”* (Managing director- Case 6). On the other hand, if a company has a culture that accepts conflict and knows how to handle it in order to take the best out of it, in this case, it might have a positive impact on performance. *“Mutual challenge and rational discussions are positive, both parties push each other to get broader insights”* (Investment manager- Case 2) . In this sense, it is beneficial. It is essential to take a step back and reflect. Furthermore, cases 10 and 11 believe that the purpose of a decision, such as firing an employee, which has been mutually taken, is to improve the situation and not deteriorate it. In addition to this, there are other important factors to take into consideration. Firstly, the size of the company and the way it is organised. The larger the company is, the less impact it will have on performance. The firm will continue to have its turnover, its sales, its costs and so on. If it is a small organisation, employees feel the problem more rapidly. For example, if an employee is fired, the rest of the company will feel it, contrary to a larger organisation, where it is absorbed. Secondly, the size of equity plays a role as well, as suggested by cases 8 and 10. On one hand, if the venture capitalist is the majority shareholder, he has the control power and consequently, has the possibility to decide. This argument is consistent with Flynn (1990). On the other hand, if the investor holds a minority stake, he can not force the entrepreneur to follow the right path. For example, a change of strategy, a repositioning of the company, recruitments and so on, can only be conducted with the agreement of all parties. Inevitably, some managers are stubborn and are resistant to change. Consequently, the situation might lead to a stalemate. As aforementioned, deadlock situations are detrimental to the company. The first interviewee argues that if conflict is about exit or liquidity issues, in this case, the company is performing well and conflict does not have any impact.

- *Conflict management*

Regarding the management of conflict, the investors interviewed have different opinions, except for personal conflict which has to be avoided or eliminated, otherwise the discussion is polluted by irrelevant issues. Some of them, such as cases 1 and 3, believe it should imperatively be avoided and team members should not look for conflict generation. *“Developing conflict is not the target”* (Investment director- Case 3). This is consistent with prior research, such as Callister et al. (1995). However, when it does appear, they agree that it should be quickly resolved, solved or managed, in order not to damage the performance of the company, which is in line with Rahim (2002). Both parties interact by phone calls, through emails or when it is more complicated, they have face-to-face meetings. They should discuss, find the roots and reasons of the issue and should succeed in finding a solution. If it is not possible to do so, both parties have to agree on some changes, as suggested by cases 2, 3, 5, 6, 8 and 10. *“Both parties should come back to the common vision, if it is feasible, they can start being on the same page again, otherwise they have to separate”* (Investment director- Case 3). The investors will either replace the manager or give him another role in the company. *“It is important to make sure that if the personality does not fit the function in which the person needs to perform, the investor has to actively coach him and tell him he needs to change his behaviour”* (Investment manager- Case 4). If this fails to work, the person will change his role in the firm or will even be replaced. However, as aforementioned, if it is a shareholder or the founder, the situation is much more complicated. *“It is harder to replace him, but he should understand that he does not have the proper profile to be the CEO anymore”* (Investment manager- Case 2). The venture is scaling up and needs to be professionalised, as also been suggested by De Clercq et al. (2006). However, the interviewees barely experience this type of conflict. It is essential to bring the right person at the right time to the company. The founder might be active at another level of management, this argument is in line with Hellmann and Puri (2000). If it becomes very complicated and tense, cases 1, 10 and 11 mentions both parties refer to the shareholders’ agreement, which covers many potential

situations in order to avoid conflict. *“The shareholders’ agreement is one of the most important legal documents when investing in a company. It describes the next rounds of financing, the exit possibilities, the veto rights the investors have and so on”* (Venture capital investor- Case 11). Consequently, there are lots of closes in the shareholders’ agreement, which facilitates conflict resolution. However, it is not possible to write about every possible event and some conflict can not be managed, as argued by cases 2 and 3. *“In this case, the organisation should learn to live with it”* (Investment manager- Case 2).

Cases 4, 5, 9 and 10 believe both parties should avoid conflict exploding, but they should not avoid it or eliminate it as such, except personal conflict which has to be avoided. This is consistent with prior research, such as Tekleab et al. (2009).

- *Important factors for conflict management*

Several factors are extremely important. Firstly, it is suggested that management has to be transparent and has the best interest for the company in mind (cases 2, 4 and 5). A good communication between the investors and the management team is essential. Cases 5, 10 and 11 attach importance to trust, which is, according to the interviewees, essential in any relationship. *“The investor should trust the managers of his portfolio companies, in order to have a positive climate and consequently, work together effectively”* (Venture capital investor- Case 11). This argument is in line with De Dreu and Van Vianen (2001). Secondly, it is primordial to take quick decisions and to stay rational, as suggested by cases 1, 5, 6, 7, 9 and 10. Especially in today’s uncertain economical and political context, firms have to take quick decisions. As aforementioned, the size of equity has an important impact, if the investor owns a majority stake, conflict is handled pretty quickly. Contrary to this, when the investor is a minority shareholder, it is harder to have a real impact or influence. In this case, if a solution is not found, the venture capitalist sells his shares back to the entrepreneur or to a third party. Thirdly, negotiation skills and psychology are core to conflict management. Each party has to try and understand what the other party wants and listen. Team members should be firm in their convictions and in the way they put forward their arguments. *“Using psychology is*

essential as entrepreneurs are sometimes geniuses and because of this, they might not be easy to manage” (Partner- Case 7). It is not like the CEO of a larger company, who has plenty of experience, expertise and will be more easily in favour of a discussion. A conflict with him will remain very gentle. Entrepreneurs can be very agreeable as well. However, it is important not to forget that they consider the company as their child, if the investor goes too far, he can rub the entrepreneur up the wrong way. Venture capitalists should be cautious.

4.1.4. Venture capital

Venture capital is a resource of equity, which is indispensable for firms to grow. Especially after the crisis of 2008, risky projects are rarely funded by banks anymore. This is in line with Kanninen and Keuschnigg (2002). Venture capitalists play an important role at funding these companies, which need to grow and can not find debt financing. Banks can not take as many risks anymore, but such investors can. The latter add value and spend resources on it. There are tremendous opportunities in the technological sector for them. *“The evolution of the technologies will bring massive opportunities to a lot of companies and will disrupt markets”* (Manager- Case 9). Banks, assurance companies, pension funds and so on used to be the key investors in the 2000s. After that, large corporations started to invest in venture capital funds as they needed new technologies. In the globalised world, there are the multinationals and the rest. Nowadays, there is a need for new generation companies to appear and exist. *“The larger companies are sometimes lazy and do not have the ability and flexibility smaller companies have”* (Investor- Case 10). The latter create added-value and intelligence quicker and indeed, this is how the biotech industry started. Start-ups might be sold to the community, to another group or to a major group company. Facebook, Google and so on bought dozens of companies. There is a recreation of businesses that are very useful. Larger companies do grow, but at a slower pace. There is a need of a reinvention of skills, in order to contribute to progress. *“Venture capital will always be required because these companies need private money in order to grow and to progress”* (Manager- Case 9). Larger corporations sometimes

fund smaller ones because they believe that these companies are more capable than their research and development department. They might subcontract the business because there could be a tradition of laziness, which is absent in a start-up. For this to happen, fundings are needed and this is what venture capitalists provide. Nevertheless, the valuation of these companies is an important controversial topic. This is consistent with prior research, such as Forbes et al. (2010). It is not easy to value the future, and this is why diversification is important. Moreover, the State has become a major investor as well, however are they able to check and monitor their investments properly?

Furthermore, venture capitalists differentiate themselves from traditional institutions or investors by their added-value, such as their network or expertise in certain sectors. They also play the role of a sounding board who can challenge the managers, otherwise the management is very lonely in its ivory tower, according to case 2. Fundamentally, venture capitalists add lots of value to their portfolio companies.

4.2. Entrepreneurs' analysis

4.2.1. Investors' activeness in the post investment phase

Venture capitalists always require a seat on the board directors. In addition to this, they attend general assemblies and have meetings with the management of the venture on a regular basis. According to the entrepreneurs interviewed, the main role of the investors is the financial one. However, money is not enough as the access to other sources of capital has become easier. *“Venture capitalists want the value maximisation of their investments, consequently they are active board members”* (Entrepreneur- Case 13). Firstly, they advise the managers and play the role of a sounding board. *“They have experience, the know-how and knowledge of the sector of the company, which are very beneficial”* (Owner- Case 12). Investors can enlighten the entrepreneurs on certain issues based on similar experiences. They

coach the managers on important decisions which have to be taken. Secondly, they advise with the recruitment of the top management. *“Finding the appropriate person is not an easy task and venture capitalists have a reputation, image or notoriety, which are helpful when hiring employees”* (Entrepreneur- Case 14). The interested party believes it is an ambitious project with a competent team, because the venture capitalist invested in the company and consequently, wants to join the venture. A good reputation might also help if the venture is looking for additional funds, which was also suggested by Rosenstein et al. (1993) and Flynn (1990). Thirdly, the investor might become a coach, therefore supporting the CEO of the firm. Then, they bring their network, as aforementioned not only for the recruiting process, but also supplier recommendation and a potential clientele, for example.

These dimensions make the difference between venture capitalists. In addition to this, the exit is a potential issue between both parties. However, a good investor knows the appropriate moment to sell the company.

This implication does not always depends on the performance and is not constant over time, according to the entrepreneurs interviewed. The added-value of the investor varies during the life of the company. *“Some venture capitalists specialise in a particular phase of the life cycle or in a particular field”* (Owner- Case 12). As the company evolves, the approach and advice needs to be adjusted accordingly. Moreover, in the case of issues, investors spend more time in the company.

4.2.2. Relationship with the investors

The entrepreneurs interviewed look for a long-term partnership with their investors. They all describe this relationship as an association or partnership, such as mentioned by several venture capitalists interviewed, as the investment often lasts a few years. *“At the beginning, we both have the same vision, appreciate each other and work together”* (Owner- Case 12). This is an essential start for the association, both parties have to get along very well

and be motivated to make a success of the project. A good understanding and a good relationship are primordial. However, this might change and provoke conflict, as case 12 suggests. In one particular case, a founding member left the venture and sold his shares to a new investor. This argument is in line with what has been mentioned by the investors interviewed. In addition to this, if the company gets into trouble, additional funds might be needed. Cases 12, 13 and 14 argue that valuation after the first investment is an important source of conflict and probably the largest. *“The venture capitalist might either finance adequately the venture, or he might give less money than needed”* (Entrepreneur- Case 13). Down-rounds and dilution are contentious issues, which is consistent with prior research, such as Forbes et al. (2010). As aforementioned, reputation is key. *“If an investor has played underhand, it will be known and ambitious projects will not agree to receive funds from this type of venture capitalist”* (Entrepreneur- Case 13). Consequently, an investor at times has to make investments in a company, which has a poor performance and which makes no sense economically, just to ensure the reputation.

Another important point is transparency, which has also been mentioned by the venture capitalists interviewed. On one hand, the CEO might not always be transparent about what is going on in the company. He might only communicate the results without involving the investors in the development and the evolution of the venture. *“It is important that the board of directors and the investors feel involved”* (Entrepreneur- Case 14). On the other hand, it might be the opposite and the manager involves the venture capitalists, by sending them all the necessary documents before a board meeting, for example. Consequently, the discussion will be more fruitful as information has been relayed beforehand. In this case, the manager expects the investors to challenge him and this type of CEO is very co-operative. *“Humans are humans and act differently”* (Owner- Case 12). Furthermore, one person to another might work differently, such as a French and a German who have a different work methodology. Nevertheless, conflict does not arise often and when it does, it is quickly managed.

4.2.3. Conflict outcomes

Entrepreneurs have the same opinion as venture capitalists on the fact that conflict has a negative connotation. *“It is beneficial for the partnership to accept discussions and particularly tougher ones”* (Entrepreneur- Case 13). However, a conflict might be time, energy and resource consuming, as also suggested by the investors.

Regarding the impact that conflict has on performance, the entrepreneurs believe it can be either positive or negative depending on how it is handled. This is in line with what the venture capitalists interviewed suggested. On one hand, it is time consuming and has a negative impact on performance. *“The CEO might not feel supported by the investors”* (Entrepreneur- Case 14). On the other hand, it might awaken the management, create opportunities and consequently, ameliorate the situation of the company. However entrepreneurs argue, conflict should not be stimulated, which has also been mentioned by a few venture capitalists. In addition to this, the entrepreneurs interviewed, mention that the life cycle of a project also has to be taken into account, an important conflict which arises at the beginning might provoke the failure of the project.

According to the entrepreneurs interviewed, conflict should be avoided but this is a complicated task. When it is not possible, the parties should discuss and be very transparent. When neither of them is able to deal with the issue, they should ask the advice of a third party or a mediator. This is consistent with the arguments of the venture capitalists interviewed.

4.2.4. Venture capital

Venture capital has an important mission, which is to facilitate innovation and value creation. *“Venture capitalists are important stakeholders regarding innovation”* (Entrepreneur- Case 13). The entrepreneurs suggest there are many types of venture capitalists. Some of them have a long-term vision, while others have a short-term one, which is a drawback. The latter is

a speculative investor who might be costly to the venture. His purpose is to get his cash back and consequently, he is not beneficial to the project as he invests for his own interest (cases 12 and 14). The former type of investors have a long-term goal and a common interest, consequently, they can be more effective at helping and adding value to the company. *“Their know-how and network are very helpful for the venture”* (Owner- Case 12). However, if the profitability is not good enough, they might divest. If the personal interest surpasses the common interest, it provokes conflict. Successes and failures are first a human factor, the human being is complex and indeed, one person is not the other.

4.3. Summary of the practical analysis

- *Venture capital*

Venture capital is essential in order to launch innovative businesses. In the early stage, it secures the required fund to support the project development at its highest risk phase. In the development stage of a business, it supports the project promoters to better manage the company. Regarding the phasing-out phase, venture capitalists prepare with the entrepreneurs the best shareholding options including new equity partner profiles.

- *Investors' activeness*

The interaction venture capitalists have is formal through the board meetings, but informal as well. The board of directors is more “static” and in between meetings, various actions are performed. Venture capitalists are hands-on investors, involved at any time. Their involvement is case by case based and varies from one company to another. The investors and the managers work on avenues and issues, which are either positive or negative. If a firm has a smooth development and if investors trust the management team, they do not give much oversight to this type of company. A firm, which requires more attention, could have either a positive or a negative performance. On one hand, venture capitalists contribute to the

development of new activities. On the other hand, quite naturally, if the company has a poor performance, the venture capitalist will be more implicated, in order to try to restore profitability. At the end of the day, an informal relationship is created and adapted to the needs of the venture capital backed companies. If there are no human, financial, technical or strategic problems, it does not mean that both parties can sit at rest. Both parties always have to think about the strategy as thunderstorms are on the horizon. The portfolio companies evolve and operate in an uncertain and rapidly changing external environment. Hence, anticipation is important and this is the role of the board as the directors deal with the strategy. Consequently, investors' activeness is not especially correlated to performance. However, it is important to separate the different roles and to be cautious from a legal point of view, in order not to mix the interests.

- *Investors- management team relationship*

Both the entrepreneurs and the venture capitalists describe the investment as a partnership and do not like the word "conflict", but prefer the terms "discussion" or "negotiation". According to them, the latter does not have a negative connotation and enhances collaboration. An interest alignment is sought by the venture capitalists at the beginning of the relationship in order to prevent future conflict, confirming previous research by Arthurs and Busenitz (2003). However, the expectations both parties have might differ. Either the company evolves as planned, or investors receive negative news about its performance or misalignments rise up. Venture capitalists distinguish between two types of conflict and are thus consistent with the literature (eg. Simons & Peterson, 2000; Higashide & Birley, 1999; Pearson et al., 2002). The first type of conflict refers to different elements that could lead to an issue. Firstly, there might be disagreements on the strategy of the company, as venture capitalists might think managers are destroying value. Secondly, they might not be satisfied with the management and the way the managers run the business. Thirdly, the manner in which the company is organised might also be a contentious issue. Then, the last important source of conflict is the exit or the liquidity of the investment. The second type of

conflict refers to personal or human conflict. People have different personalities and some entrepreneurs might not like the control power investors have. Consistent with Simons and Peterson (2000) and Higashide and Birley (1999), if the perceptions are different, there is a risk that it goes from a rational to an emotional problem.

During the lifetime of the investment, some factors are key to facilitate the collaboration between both parties, solid communication, trust and transparency. This has also been suggested by authors such as Jehn (1997).

Conflict is beneficial before the closing of the deal and should not be avoided in that phase. It is extremely important for both parties to know each other very well, their expectations, the company, the products and the market as well.

- *Conflict management*

In most cases, you avoid conflict because it is time consuming, it might disturb the management and it can destroy value. It might also impact negatively the relationship between both parties. However, it is sometimes useful as it is the only way to bring issues to the forefront and to make a team conscious that a change is needed. Conflict is required in some cases. In addition to this, it is also beneficial when it concerns business challenges. Nevertheless, it is imperative to make sure that conflict does not stay unresolved and to reach a consensus quickly in order to avoid deadlock situations, which are the worst for a company. Psychological and negotiation skills are useful. Both parties have to settle amicably any disputes and then, negotiate. The shareholders' agreement and veto rights are important tools in order to intervene if the management does not act as agreed.

- *Impact on performance*

Conflict has either a positive or a negative impact on performance, depending on the situation. On one hand, if it is not properly managed and there is an absence of resolution, it has a negative effect. Conflict related to personal issues has a harmful impact on performance. Moreover, losing time on an issue, which is not in the core business, is detrimental. On the

other hand, if a company has a culture that accepts conflict and knows how to handle it in order to take the best out of it, in this case, it might have a positive impact on performance. Mutual challenge and rational discussions are positive, both parties push each other to get broader insights. In this sense, it is beneficial. However, it is essential to take certain factors into account when considering the impact on performance. Firstly, the size of the venture and the way it is organised. The quality and the level of information differ in small and large organisations. The structure differs as well. The larger the company, the less it will have an impact on performance. Secondly, the life cycle also matters. Preoccupations and organisation vary in the different stages of development. Conflict might destabilise a young company. Thirdly, the size of equity has to be taken into consideration as well. The relationship and conflict resolution change between majority and minority investors. Hence, the control power plays an important role. Consequently the impact conflict has on performance, differs from one company to another, depending on the situation of the company, its external environment and the factors aforementioned.

5. Limitations

There are several questions arising, which need further research in order to get more insights. Firstly, entrepreneurs should probably assess in advance the lead investor they are going to choose and his reputation before the contractual agreement, as the partnership is long and may face highs and lows. Moreover, there could be further research on the contractual agreements. Why do such contracts give more power and control rights to venture capitalists, while entrepreneurs are perhaps not protected enough? We can perhaps suggest that the entrepreneur really needs funds and has no other choice than accepting these arrangements and terms. They do not have a minimum of bargaining power, especially if there is more than one venture capitalist?

Secondly, it would be interesting to shed light on the risk aversion of both parties. One might be more risk averse than the other and this might impact the relationship between the investor and the entrepreneur. Their risk-bearing behaviours might be different. Hence, the investor is wealthier and might be ready to bear more risks, while the entrepreneur is wealth constraint. On the contrary, this might make the entrepreneur more eager to earn additional money. Age, experience and education also play a role in determining risk tolerance. However, investors are assumed to be rational and utility-maximising individuals. In order to facilitate the partnership, the risk-bearing behaviours and the degree of risk aversion of both parties should be similar.

In addition to this, it might be beneficial for the performance of the organisation to have venture capitalists who are highly involved, but there should be more research on the quality of the involvement. Does a venture capitalist's involvement necessarily mean he adds value to the firm and improves performance? Investors, who are poorly qualified, might hurt the venture and its performance, instead of improving it. Or, should investors only be complementary to the management? Quality often matters more than quantity. It is likely that the investors' effectiveness and experience, and the competencies of the management are influential to the level of performance. However, poor performance or when venture capitalists are not satisfied might be the reasons why they increase their involvement. They might thus perceive themselves as being very effective.

Thirdly, a theme that could be for further research is the antecedents of conflict. There are few possibilities that can be mentioned, such as the level of communication in the group and the interaction between the entrepreneur and the venture capitalist. Interaction is a type of communication, which is more likely to provoke task conflict. In addition to this, there is the quality of the information exchanged between parties and the level of co-operation and commitment.

Then, it would be interesting to assess more deeply several important factors found in the practical analysis separately and their various impacts. Firstly, the ownership the venture capitalist has in the venture. If he owns a minority or majority stake, this will not have the same effect on conflict, its resolution and its impact on the company performance. Secondly, it would be useful to check if the size of the firm matters. The impact of a conflict and the way it is handled will be different depending on how large the organisation is. It might be more disruptive for smaller companies. Moreover, entrepreneurs of larger firms have more management experience than entrepreneurs of smaller firms. Thirdly, the life cycle of the project is also important. A conflict will not have the same impact on a young company as on an older one.

Finally, conflict does not especially affect negatively a team and the firms performance. Perhaps leaders should impart their wisdom on how to deal and manage constructively conflict, and which strategies to employ to minimise negative impacts, to team members.

6. Conclusion

Entrepreneurial success is being talked about with great recognition. However, the relationship between the entrepreneur and their investors during the development of the venture capital backed company is often sidelined. This accord might be more secret given that these interactions are private. It is essential to point out the importance of this relationship, which can impact on the success of a firm. At the end, it is a partnership, which could almost be considered as an alliance, where both parties have to respect each other. In order to do so, trust, communication, comprehension, transparency and the respect of the different roles and contractual obligations are essential. Consequently, the created confidence is key to the relationship, as also suggested by Shepherd and Zacharakis (2001).

However, as in every relationship, conflict arises from time to time. It is interesting to understand how the entrepreneur and the venture capitalist consider each other and the manner in which they collaborate. Both are human beings, who ally for a common purpose, which is the performance of the venture capital backed company. Nevertheless, their personalities and their expectations differ. The mission of this paper is to shed light on this particular issue.

Entrepreneurs are supported by venture capitalists who invest capital and resources, in order to build the next generation of innovative companies. Diversity is critical to the competitiveness of the entrepreneurial ecosystem. As Amason,(1996) suggested, leveraging the potential of a diversity of investors and entrepreneurs is key to the advancement of innovation.

Venture capitalists can earn impressive returns and a portion of the equity, as well as the ability to influence the direction of the company. These investors are more than financial intermediaries as they deal with moral hazard, adverse selection or agency theory problems. Investors, who are closely involved in their portfolio companies, have an impact on the development of these firms. They clearly provide services adding value to the organisation, professionalise the firms in which they invest and help them establish themselves on the market. The venture capitalists- management team relationship influences the performance of the venture-backed firm. The relationship affects the firm's ability to deal with internal and external complexities, and consequently impacts its success. The management of the business risk as well as the competences and skills of the management team influence the venture performance. Moreover, a skilled venture capitalist is able to manage conflict in his portfolio companies and to use it in a way to gain and attain a sustainable competitive advantage. In order to do so, it is essential to identify the situations in which conflict is beneficial, and those in which it is destructive and harmful. The factors, which affect the positive and negative effects, also have to be taken into consideration. A poor performance might lead to conflict and this conflict might influence the performance.

Consequently, this paper highlights the impact conflict has on performance, which differs from one company to another. It depends on the activity of the company, its external environment and the factors aforementioned; the size of the company, its development stage and the equity the investor owns. Conflict resolution is key. Moreover, before the closing of the deal, it is importance to conduct an appropriate due diligence. Investors must know the company inside out, its products and the market, as well the management team. Conflict is beneficial in this preparation phase and should not be avoided. In addition to this, during the lifetime of the investment, psychological and negotiation skills are essential.

References

- Afzalur Rahim, M. (2002). Toward a theory of managing organizational conflict. *International journal of conflict management*, 13(3), 206-235.
- Allen, S. A., & Hevert, K. T. (2007). Venture capital investing by information technology companies: Did it pay?. *Journal of Business Venturing*, 22(2), 262-282.
- Alper, S., Tjosvold, D., & Law, K. S. (2000). Conflict management, efficacy, and performance in organizational teams. *Personnel Psychology*, 53(3), 625-642.
- Amason, A. C. (1996). Distinguishing the effects of functional and dysfunctional conflict on strategic decision making: Resolving a paradox for top management teams. *Academy of management journal*, 39(1), 123-148.
- Amason, A. C., & Schweiger, D. M. (1994). Resolving the paradox of conflict, strategic decision making, and organizational performance. *International Journal of conflict management*, 5(3), 239-253.
- Amason, A. C., & Schweiger, D. (1997). The effect of conflict on strategic decision making effectiveness and organizational performance. In C. K. W. De Dreu & E. Van de Vliert (Eds.), *Using conflict in organizations* (pp. 101–115). London: Sage.
- Amit, R., Glosten, L., & Muller, E. (1990). Does venture capital foster the most promising entrepreneurial firms?. *California Management Review*, 32(3), 102-111.
- Ante, S. E. (2008). *Creative capital: Georges Doriot and the birth of venture capital*. Harvard Business Press.
- Arthurs, J. D., & Busenitz, L. W. (2003). The boundaries and limitations of agency theory and stewardship theory in the venture capitalist/entrepreneur relationship. *Entrepreneurship Theory and Practice*, 28(2), 145-162.

- Atanasov, V. (2010). Conflicts of Interest and Litigation in the Venture Capital Industry. *Venture Capital: Investment Strategies, Structures, and Policies*, 9, 365.
- Barkema, H. G., & Gomez-Mejia, L. R. (1998). Managerial compensation and firm performance: a general research framework. *Academy of Management Journal*, 41(2), 135-145.
- Barney, J. B., Busenitz, L., Fiet, J., & Moesel, D. (1994). The relationship between venture capitalists and managers in new firms: determinants of contractual covenants. *Managerial Finance*, 20(1), 19-30.
- Barney, J. B., Busenitz, L. W., Fiet, J. O., & Moesel, D. D. (1996). New venture teams' assessment of learning assistance from venture capital firms. *Journal of Business Venturing*, 11(4), 257-272.
- Barry, C. B. (1994). New directions in research on venture capital finance. *Financial Management*, 3-15.
- Bartlett, J. W. (1999). *Fundamentals of venture capital*. Madison Books.
- Belgian Venture Capital & Private Equity Association (2017). *The members*. <http://www.bva.be/the-members/> (retrieved on 29/03/17)
- Benson, D., & Ziedonis, R. H. (2009). Corporate venture capital as a window on new technologies: Implications for the performance of corporate investors when acquiring startups. *Organization Science*, 20(2), 329-351.
- Bergemann, D., Hege, U., & Peng, L. (2010). Venture capital and sequential investments.
- Berlin, M. (1998). That thing venture capitalists do. *Business Review*, 1, 15-26.
- Bienz, C., & Hirsch, J. (2012). The dynamics of venture capital contracts. *Review of Finance*, 16(1), 157-195.
- Bienz, C., & Walz, U. (2010). Venture capital exit rights. *Journal of Economics & Management Strategy*, 19(4), 1071-1116.
- Black, B. S., & Gilson, R. J. (1998). Venture capital and the structure of capital markets: banks versus stock markets. *Journal of Financial Economics*, 47(3), 243-277.
- British Venture Capital Association. (1998). *A guide to venture capital*. British Venture Capital Association.
- Bruton, G., Fried, V., & Hisrich, R. D. (1997). Venture capitalist and CEO dismissal. *Entrepreneurship: Theory and Practice*, 21(3), 41-55.
- Busenitz, L. W., Fiet, J. O., & Moesel, D. D. (2004). Reconsidering the venture capitalists' "value added" proposition: An interorganizational learning perspective. *Journal of Business Venturing*, 19(6), 787-807.
- Bygrave, W. D., & Timmons, J. A. (1992). *Venture capital at the crossroads*. Harvard Business Press.
- Casamatta, C., & Haritchabalet, C. (2007). Experience, screening and syndication in venture capital investments. *Journal of Financial Intermediation*, 16(3), 368-398.

- Caselli, S., Gatti, S., & Perrini, F. (2009). Are venture capitalists a catalyst for innovation?. *European Financial Management*, 15(1), 92-111.
- Chen, M. H. (2006). Understanding the benefits and detriments of conflict on team creativity process. *Creativity and innovation management*, 15(1), 105-116.
- Chuang, Y. T., Church, R., & Zikic, J. (2004). Organizational culture, group diversity and intra-group conflict. *Team Performance Management: An International Journal*, 10(1/2), 26-34.
- Cochrane, J. H. (2005). Financial markets and the real economy. *Foundations and Trends® in Finance*, 1(1), 1-101.
- Cochrane, J. H. (2005). The risk and return of venture capital. *Journal of financial economics*, 75(1), 3-52.
- Collewaert, V., & Fassin, Y. (2013). Conflicts between entrepreneurs and investors: the impact of perceived unethical behavior. *Small Business Economics*, 40(3), 635-649.
- Collewaert, V., & Sapienza, H. J. (2016). How does angel investor–entrepreneur conflict affect venture innovation? It depends. *Entrepreneurship Theory and Practice*, 40(3), 573-597.
- Cosier, R. A., & Rose, G. L. (1977). Cognitive conflict and goal conflict effects on task performance. *Organizational behavior and human performance*, 19(2), 378-391.
- Cumming, D., Fleming, G., & Suchard, J. A. (2005). Venture capitalist value-added activities, fundraising and drawdowns. *Journal of Banking & Finance*, 29(2), 295-331.
- Dahiya, S., & Ray, K. (2012). Staged investments in entrepreneurial financing. *Journal of Corporate Finance*, 18(5), 1193-1216.
- De Clercq, D., Fried, V. H., Lehtonen, O., & Sapienza, H. J. (2006). An entrepreneur's guide to the venture capital galaxy. *The Academy of Management Perspectives*, 20(3), 90-112.
- De Dreu, C. K. (1997). Productive conflict: The importance of conflict management and conflict issue. *Using conflict in organizations*, 9-22.
- De Dreu, C. K., & Beersma, B. (2005). Conflict in organizations: Beyond effectiveness and performance. *European Journal of Work and Organizational Psychology*, 14(2), 105-117.
- De Dreu, C. K., Evers, A., Beersma, B., Kluwer, E. S., & Nauta, A. (2001). A theory-based measure of conflict management strategies in the workplace. *Journal of Organizational Behavior*, 22(6), 645-668.
- De Dreu, C. K. W., Harinck, F., & Van Vianen, A. E. M. (1999). Conflict and performance in groups and organizations. In C. L. Cooper & I. T. Robertson (Eds.), *International review of industrial and organizational psychology* (Vol. 14, pp. 369–414). Chichester, United Kingdom: Wiley.
- De Dreu, C. K., Van Dierendonck, D., & Dijkstra, M. T. (2004). Conflict at work and individual well-being. *International journal of conflict management*, 15(1), 6-26.

- De Dreu, C. K., & Van de Vliert, E. (Eds.). (1997). *Using conflict in organizations*. Sage.
- De Dreu, C. K., & Van Vianen, A. E. (2001). Managing relationship conflict and the effectiveness of organizational teams. *Journal of Organizational Behavior*, 22(3), 309-328.
- De Dreu, C. K., & Weingart, L. R. (2003). A contingency theory of task conflict and performance in groups and organizational teams. *International handbook of organizational teamwork and cooperative working*, 88(4), 151-166.
- De Dreu, C. K., & Weingart, L. R. (2003). Task versus relationship conflict, team performance, and team member satisfaction: a meta-analysis. *Journal of Applied Psychology*, 88(4), 741.
- De Dreu, C. K., & West, M. A. (2001). Minority dissent and team innovation: the importance of participation in decision making. *Journal of Applied Psychology*, 86(6), 1191.
- Dolvin, S. (2005). Venture capitalist certification of IPOs. *Venture Capital*, 7(2), 131-148.
- Dubocage, E., Reidis, J. H., & Rivaud-Danset, D. (2012). Success or Failure of French New Technology-Based and Venture-Backed Firms: An Empirical Approach.
- Duffy, M. K., Shaw, J. D., & Stark, E. M. (2000). Performance and satisfaction in conflicted interdependent groups: When and how does self-esteem make a difference?. *Academy of Management Journal*, 43(4), 772-782.
- Dushnitsky, G., & Shaver, J. M. (2009). Limitations to interorganizational knowledge acquisition: the paradox of corporate venture capital. *Strategic Management Journal*, 30(10), 1045-1064.
- Earlybird (2011): Turning Venture Capital Data into Wisdom: Why Deal Performance in Europe is now Outpacing the US?
- Edmond de Rothschild (2017). *Fund centre*. http://funds.edram.com/fr/trouver-un-fonds?_ga=2.101765506.225389291.1494666552-915517396.1494666498 (retrieved on 29/04/17)
- Ehrlich, S. B., De Noble, A. F., Moore, T., & Weaver, R. R. (1994). After the cash arrives: A comparative study of venture capital and private investor involvement in entrepreneurial firms. *Journal of Business Venturing*, 9(1), 67-82.
- Eisenhardt, K. M., & Zbaracki, M. J. (1992). Strategic decision making. *Strategic management journal*, 13(S2), 17-37.
- European Economic and Social Committee (n.a.). *European Private Equity and Venture Capital Association (EVCA)*. <http://www.eesc.europa.eu/?i=portal.en.smo-database.27657> (retrieved on 15/04/2017)
- Asymmetry in information provided to clients of investors in venture capital/private equity; Insider dealing.
- Farh, J. L., Lee, C., & Farh, C. I. (2010). Task conflict and team creativity: a question of how much and when. *Journal of Applied Psychology*, 95(6), 1173.
- Filatotchev, I. (2006). Effects of executive characteristics and venture capital involvement on board composition and share ownership in IPO firms. *British Journal of Management*, 17(1), 75-92.

- Fluck, Z. (2010). Optimal financial contracting: Control rights, incentives, and entrepreneurship. *Strategic Change*, 19(1-2), 77-90.
- Flynn, D. M. (1991). The critical relationship between venture capitalists and entrepreneurs: planning, decision-making, and control. *Small Business Economics*, 3(3), 185-196.
- Forbes, D. P., Korsgaard, M. A., & Sapienza, H. J. (2010). Financing decisions as a source of conflict in venture boards. *Journal of Business Venturing*, 25(6), 579-592.
- Fredriksen, Ö., Olofsson, C., & Wahlbin, C. (1997). Are venture capitalists firefighters? A study of the influence and impact of venture capital firms. *Technovation*, 17(9), 503-532.
- Fried, V. H., Bruton, G. D., & Hisrich, R. D. (1998). Strategy and the board of directors in venture capital-backed firms. *Journal of business venturing*, 13(6), 493-503.
- Fried, V. H., & Hisrich, R. D. (1995). The venture capitalist: A relationship investor. *California Management Review*, 37(2), 101-113.
- Gabrielsson, J., & Huse, M. (2002). The venture capitalist and the board of directors in SMEs: roles and processes. *Venture Capital: An International Journal of Entrepreneurial Finance*, 4(2), 125-146.
- Garg, S. (2013). Venture boards: Distinctive monitoring and implications for firm performance. *Academy of Management Review*, 38(1), 90-108.
- Gomez-Mejia, L. R., Balkin, D. B., & Welbourne, T. M. (1990). Influence of venture capitalists on high tech management. *The Journal of High Technology Management Research*, 1(1), 103-118.
- Gompers, P. A. (1995). Optimal investment, monitoring, and the staging of venture capital. *The journal of finance*, 50(5), 1461-1489.
- Gompers, P. A., & Lerner, J. (1999). *What drives venture capital fundraising?* (No. w6906). National bureau of economic research.
- Gompers, P., & Lerner, J. (2000). The determinants of corporate venture capital success: Organizational structure, incentives, and complementarities. In *Concentrated corporate ownership* (pp. 17-54). University of Chicago Press.
- Gorman, M., & Sahlman, W. A. (1989). What do venture capitalists do?. *Journal of business venturing*, 4(4), 231-248.
- Guéry-Stévenot, A. (2006). Conflits entre investisseurs et dirigeants. *Revue française de gestion*, (5), 157-180.
- Harrison, R., & Mason, C. (1992). *The role of investors in entrepreneurial companies: a comparison of informal investors and venture capitalists*. University of Southampton, Urban Policy Research Unit.
- Hassan, A. E., & Leece, D. (2007). Agency and information problems in venture capital markets: an empirical study of the information needs of UK investors and the demand for accounting information. *The Journal of Private Equity*, 10(2), 93.

- Hege, U., Palomino, F., & Schwienbacher, A. (2003). *Determinants of venture capital performance: Europe and the United States*. LSE Ricafé Working Paper 1.
- Hege, U., Palomino, F., & Schwienbacher, A. (2009). Venture capital performance: the disparity between Europe and the United States. *Finance*, 30(1), 7-50.
- Hellmann, T. (1998). The allocation of control rights in venture capital contracts. *The Rand Journal of Economics*, 57-76.
- Higashide, H. (2000). *Antecedents and Consequences of Conflict in the Venture Capitalist-Entrepreneur Team Relationship in the United Kingdom* (Doctoral dissertation, Management School, Imperial College).
- Higashide, H., & Birley, S. (1999). WHEN CAN CONFLICT BE CONSTRUCTIVE AND/OR HARMFUL BETWEEN THE VENTURE CAPITALIST AND ENTREPRENEURIAL TEAM IN THE UK?. In *Babson-Kauffman Entrepreneurship Research Conference, South Carolina*.
- Higashide, H., & Birley, S. (2000). Value created through the socially complex relationship between the venture capitalist and the entrepreneurial team. *Frontiers of entrepreneurship research*.
- Higashide, H., & Birley, S. (2002). The consequences of conflict between the venture capitalist and the entrepreneurial team in the United Kingdom from the perspective of the venture capitalist. *Journal of Business Venturing*, 17(1), 59-81.
- Hirsch, J., & Walz, U. (2013). Why do contracts differ between venture capital types?. *Small Business Economics*, 40(3), 511-525.
- Hofer, C. W., & Sandberg, W. R. (1987). Improving new venture performance: Some guidelines for success. *American journal of small business*, 12(1), 11-25.
- Horwitz, S. K., & Horwitz, I. B. (2007). The effects of team diversity on team outcomes: A meta-analytic review of team demography. *Journal of management*, 33(6), 987-1015.
- Invest Europe (2015). *The voice of private capital*. <https://www.investeurope.eu/news-opinion/publications/#i> (retrieved on 04/04/2017)
- Investopedia (2017). *Buyout*. <http://www.investopedia.com/terms/b/buyout.asp?ad=dirN&qo=serpSearchTopBox&qsrc=1&o=40186> (retrieved on 03/05/17)
- Investopedia (2017). *Peter Principle*. <http://www.investopedia.com/terms/p/peter-principle.asp> (retrieved on 03/05/17)
- Investopedia (2017). *Series A, B, C: What it all means and how it works*. <http://www.investopedia.com/articles/personal-finance/102015/series-b-c-funding-what-it-all-means-and-how-it-works.asp?ad=dirN&qo=investopediaSiteSearch&qsrc=0&o=40186> (retrieved on 03/05/17)
- Investopedia (2017). *Spinoff*. <http://www.investopedia.com/terms/s/spinoff.asp?ad=dirN&qo=investopediaSiteSearch&qsrc=0&o=40186> (retrieved on 03/05/17)

- Investopedia (2017). *The stages venture capital investing*. <http://www.investopedia.com/exam-guide/cfa-level-1/alternative-investments/venture-capital-investing-stages.asp> (retrieved on 03/05/17)
- Jackson, S. E., Joshi, A., & Erhardt, N. L. (2003). Recent research on team and organizational diversity: SWOT analysis and implications. *Journal of management*, 29(6), 801-830.
- Janssen, O., Van De Vliert, E., & Veenstra, C. (1999). How task and person conflict shape the role of positive interdependence in management teams. *Journal of management*, 25(2), 117-141.
- Jehn, K. A. (1994). Enhancing effectiveness: An investigation of advantages and disadvantages of value-based intragroup conflict. *International journal of conflict management*, 5(3), 223-238.
- Jehn, K. A. (1995). A multimethod examination of the benefits and detriments of intragroup conflict. *Administrative science quarterly*, 256-282.
- Jehn, K. A. (1997). Affective and cognitive conflict in work groups: Increasing performance through value-based intragroup conflict. *Using conflict in organizations*, 87-100.
- Jehn, K. A. (1997). A qualitative analysis of conflict types and dimensions in organizational groups. *Administrative science quarterly*, 530-557.
- Jehn, K. A., & Bendersky, C. (2003). Intragroup conflict in organizations: A contingency perspective on the conflict-outcome relationship. *Research in organizational behavior*, 25, 187-242.
- Jehn, K. A., Chadwick, C., & Thatcher, S. M. (1997). To agree or not to agree: The effects of value congruence, individual demographic dissimilarity, and conflict on workgroup outcomes. *International journal of conflict management*, 8(4), 287-305.
- Jehn, K. A., & Chatman, J. A. (2000). The influence of proportional and perceptual conflict composition on team performance. *International Journal of Conflict Management*, 11(1), 56-73.
- Jehn, K. A., Greer, L., Levine, S., & Szulanski, G. (2008). The effects of conflict types, dimensions, and emergent states on group outcomes. *Group Decision and Negotiation*, 17(6), 465-495.
- Jehn, K. A., & Mannix, E. A. (2001). The dynamic nature of conflict: A longitudinal study of intragroup conflict and group performance. *Academy of management journal*, 44(2), 238-251.
- Jehn, K. A., Northcraft, G. B., & Neale, M. A. (1999). Why differences make a difference: A field study of diversity, conflict and performance in workgroups. *Administrative science quarterly*, 44(4), 741-763.
- Jehn, K. A., & Shah, P. P. (1997). Interpersonal relationships and task performance: An examination of mediation processes in friendship and acquaintance groups. *Journal of Personality and Social Psychology*, 72(4), 775.
- Joly, V. (2010). *Investor Affiliation, Experience and Venture Capital Financial Contracts* (No. urn: hdl: 123456789/4429). Université Paris-Dauphine.
- Kanniainen, V., & Keuschnigg, C. (2003). The optimal portfolio of start-up firms in venture capital finance. *Journal of Corporate Finance*, 9(5), 521-534.

- Kaplan, S. N., & Strömberg, P. E. (2004). Characteristics, contracts, and actions: Evidence from venture capitalist analyses. *The Journal of Finance*, 59(5), 2177-2210.
- Kaplan, S. N., & Strömberg, P. E. (2001). *Venture capitalists as principals: Contracting, screening, and monitoring* (No. w8202). National Bureau of Economic Research.
- Kaplan, S. N., & Strömberg, P. E. (2004). Characteristics, contracts, and actions: Evidence from venture capitalist analyses. *The Journal of Finance*, 59(5), 2177-2210.
- Kenney, M., Han, K., & Tanaka, S. (2004). Venture Capital Industries. *Global change and East Asian policy initiatives*, 391-427.
- Khanna, P., Jones, C. D., & Boivie, S. (2014). Director human capital, information processing demands, and board effectiveness. *Journal of Management*, 40(2), 557-585.
- Knyphausen-Aufsess, D. (2005). Corporate venture capital: Who adds value?. *Venture Capital: An International Journal of Entrepreneurial Finance*, 7(1), 23-49.
- Kochan, T., Bezrukova, K., Ely, R., Jackson, S., Joshi, A., Jehn, K., ... & Thomas, D. (2003). The effects of diversity on business performance: Report of the diversity research network. *Human resource management*, 42(1), 3-21.
- Korsgaard, M. A., Soyoung Jeong, S., Mahony, D. M., & Pitariu, A. H. (2008). A multilevel view of intragroup conflict. *Journal of Management*, 34(6), 1222-1252.
- Landström, H. (Ed.). (2007). *Handbook of research on venture capital*. Edward Elgar Publishing.
- Large, D., & Muegge, S. (2008). Venture capitalists' non-financial value-added: an evaluation of the evidence and implications for research. *Venture Capital*, 10(1), 21-53.
- Lehmann-Willenbrock, N., Grohmann, A., & Kauffeld, S. (2011). Task and relationship conflict at work. *European Journal of Psychological Assessment*.
- Leisen, D. P. (2012). Staged venture capital contracting with ratchets and liquidation rights. *Review of Financial Economics*, 21(1), 21-30.
- Lerner, J. (1995). Venture capitalists and the oversight of private firms. *The Journal of Finance*, 50(1), 301-318.
- Lerner, J. (2009). *Boulevard of broken dreams: why public efforts to boost entrepreneurship and venture capital have failed-and what to do about it*. Princeton University Press.
- MacMillan, I. C., Kulow, D. M., & Khoylian, R. (1989). Venture capitalists' involvement in their investments: Extent and performance. *Journal of business venturing*, 4(1), 27-47.
- McNally, K. (2002). *Corporate Venture Capital: Bridging the equity gap in the small business sector*. Routledge.
- Manigart, S., Baeyens, K., & Van Hyfte, W. (2002). The survival of venture capital backed companies. *Venture Capital: An International Journal of Entrepreneurial Finance*, 4(2), 103-124.

- Mason, C. M. (2006). The Informal Venture Capital Market in the United Kingdom. *Venture capital and the changing world of entrepreneurship*. Greenwich, CT: Information Age Publishing, 137-171.
- Mason, C. M., & Harrison, R. T. (1999). Venture capital: Rationale, aims and scope. *Venture Capital, 1*, 1-46.
- Masters, B., & Thiel, P. (2014). *Zero to one: notes on start ups, or how to build the future*. Random House.
- Mataf (2017). *Definition EVCA*. <https://www.mataf.net/fr/edu/glossaire/evca> (retrieved on 15/04/2017)
- Maula, M., Autio, E., & Murray, G. (2003). Prerequisites for the creation of social capital and subsequent knowledge acquisition in corporate venture capital. *Venture Capital: An International Journal of Entrepreneurial Finance, 5*(2), 117-134.
- Maula, M. V., Autio, E., & Murray, G. C. (2009). Corporate venture capital and the balance of risks and rewards for portfolio companies. *Journal of Business Venturing, 24*(3), 274-286.
- Medina, F. J., Munduate, L., Dorado, M. A., Martínez, I., & Guerra, J. M. (2005). Types of intragroup conflict and affective reactions. *Journal of managerial psychology, 20*(3/4), 219-230.
- Morrill, C., & Thomas, C. K. (1992). Organizational conflict management as disputing process the problem of social escalation. *Human Communication Research, 18*(3), 400-428.
- Mougenot, G. (2014). *Tout savoir sur le Capital Investissement: Capital Risque-Capital Développement-LBO*. Gualino éditeur.
- Murray, A. I. (1989). Top management group heterogeneity and firm performance. *Strategic Management Journal, 10*(S1), 125-141.
- Murray, G. (1996). A synthesis of six exploratory, European case studies of successfully exited, venture capital-financed, new technology-based firms. *Entrepreneurship: Theory and practice, 20*(4), 41-61.
- Murray, G. (1996). Management's search for venture capital in smaller buy-outs: the role of intermediaries and industry marketing implications. *International Journal of Bank Marketing, 14*(2), 14-25.
- National Venture Capital Association (n.a.). *NVCA-Deloitte Human capital survey*. <http://nvca.org/research/human-capital-survey/> (retrieved on 16/04/2017)
Diversity is critical to the competitiveness of the U.S. entrepreneurial ecosystem.
- National Venture Capital Association (n.a.). *NVCA-Deloitte Human capital survey*. <http://nvca.org/diversity-dashboard/home.html> (retrieved on 16/04/2017)
Diversity is critical to the competitiveness of the U.S. entrepreneurial ecosystem
- Oanda (2017). *Currency converter*. <https://www.oanda.com/currency/converter/> (retrieved on 16/04/2017)

- Onwuegbuzie, A. J., & Byers, V. T. (2014). An exemplar for combining the collection, analysis, and interpretations of verbal and nonverbal data in qualitative research. *International Journal of Education*, 6(1), 183.
- Pearson, A. W., Ensley, M. D., & Amason, A. C. (2002). An assessment and refinement of Jehn's intragroup conflict scale. *International Journal of Conflict Management*, 13(2), 110-126.
- Pelled, L. H. (1996). Demographic diversity, conflict, and work group outcomes: An intervening process theory. *Organization science*, 7(6), 615-631.
- Pelled, L. H. (1996). Relational demography and perceptions of group conflict and performance: A field investigation. *International Journal of Conflict Management*, 7, 230-246.
- Pelled, L. H., Eisenhardt, K. M., & Xin, K. R. (1999). Exploring the black box: An analysis of work group diversity, conflict and performance. *Administrative science quarterly*, 44(1), 1-28.
- Pepin, J. (2005). Venture capitalists and entrepreneurs become venture philanthropists. *International Journal of Nonprofit and Voluntary Sector Marketing*, 10(3), 165-173.
- Perry, L. T. (1988). The capital connection: How relationships between founders and venture capitalists affect innovation in new ventures. *The Academy of Management Executive*, 2(3), 205-212.
- Phalippou, L., & Gottschalg, O. (2009). The performance of private equity funds. *Review of Financial Studies*, 22(4), 1747-1776.
- PitchBook: M&A, Private Equity & Venture Capital Database (2017). *European Venture Report 2017 IQ*. https://files.pitchbook.com/pdf/PitchBook_1Q_2017_European_Venture_Report.pdf (retrieved on 14/05/2017)
- Porter, T. W., & Lilly, B. S. (1996). The effects of conflict, trust, and task commitment on project team performance. *International Journal of Conflict Management*, 7(4), 361-376.
- Reid, G. (2002). *Venture Capital Investment: An Agency Analysis of UK Practice*. Routledge.
- Robbins, S. P. (2000). *Managing organizational conflict: A nontraditional approach* (9th ed.). Englewood Cliffs, NJ: Prentice Hall.
- Rosenstein, J., Bruno, A. V., Bygrave, W. D., & Taylor, N. T. (1993). The CEO, venture capitalists, and the board. *Journal of Business Venturing*, 8(2), 99-113.
- Ross Jr, W. T., Anderson, E., & Weitz, B. (1997). Performance in principal-agent dyads: the causes and consequences of perceived asymmetry of commitment to the relationship. *Management Science*, 43(5), 680-704.
- Ruhnka, J. C., Feldman, H. D., & Dean, T. J. (1992). The "living dead" phenomenon in venture capital investments. *Journal of Business Venturing*, 7(2), 137-155.
- Sahlman, W. A. (1990). The structure and governance of venture-capital organizations. *Journal of financial economics*, 27(2), 473-521.

- Sapienza, H. J. (1992). When do venture capitalists add value?. *Journal of Business Venturing*, 7(1), 9-27.
- Sapienza, H. J., Amason, A. C., & Manigart, S. (1994). The level and nature of venture capitalist involvement in their portfolio companies: a study of three European countries. *Managerial Finance*, 20(1), 3-17.
- Sapienza, H. J., & De Clercq, D. (2000). Venture capitalist-entrepreneur relationships in technology-based ventures. *Enterprise and Innovation Management Studies*, 1(1), 57-71.
- Sapienza, H. J., Manigart, S., & Vermeir, W. (1996). Venture capitalist governance and value added in four countries. *Journal of Business Venturing*, 11(6), 439-469.
- Sapienza, H. J., & Timmons, J. A. (1989, August). The roles of venture capitalists in new ventures: What determines their importance?. In *Academy of Management Proceedings* (Vol. 1989, No. 1, pp. 74-78). Academy of Management.
- Schertler, A., & Tykiová, T. (2011). Venture capital and internationalization. *International Business Review*, 20(4), 423-439.
- Schulz-Hardt, S., Jochims, M., & Frey, D. (2002). Productive conflict in group decision making: Genuine and contrived dissent as strategies to counteract biased information seeking. *Organizational Behavior and Human Decision Processes*, 88(2), 563-586.
- Schwenk, C. R. (1995). Strategic decision making. *Journal of Management*, 21(3), 471-493.
- Shepherd, D. A., & Zacharakis, A. (2001). The venture capitalist-entrepreneur relationship: control, trust and confidence in co-operative behaviour. *Venture Capital: an international journal of entrepreneurial finance*, 3(2), 129-149.
- Simons, T. L., & Peterson, R. S. (2000). Task conflict and relationship conflict in top management teams: the pivotal role of intragroup trust. *Journal of applied psychology*, 85(1), 102.
- Steier, L., & Greenwood, R. (1995). Venture capitalist relationships in deal structuring and post-investment stages of new firm creation. *Journal of Management Studies*, 32(3), 337-357.
- Stokman, F. N., Van Assen, M. A., Van der Knoop, J., & Van Oosten, R. C. (2000). Strategic decision making. In *Advances in Group processes* (pp. 131-153). Emerald Group Publishing Limited.
- Sweeting, R. C., & Wong, C. F. (1997). A UK Hands-off Venture Capital Firm and the Handling of Post-investment Investor--Investee Relationships. *Journal of Management Studies*, 34(1), 125-152.
- Tekleab, A. G., Quigley, N. R., & Tesluk, P. E. (2009). A longitudinal study of team conflict, conflict management, cohesion, and team effectiveness. *Group & Organization Management*, 34(2), 170-205.
- Thatcher, S. M., Jehn, K. A., & Zanutto, E. (2003). Cracks in diversity research: The effects of diversity faultlines on conflict and performance. *Group Decision and Negotiation*, 12(3), 217-241.
- Thomas, K. W. (1992). Conflict and conflict management: Reflections and update. *Journal of organizational behavior*, 13(3), 265-274.

Thomas, K. W. (1992). Conflict and Negotiation Processes in Organizations in DUNNETTE MD & HOUGHT LM (Eds) Handbook of Industrial and Organizational Psychology, vol. 3.

Tidd, S. T., McIntyre, H. H., & Friedman, R. A. (2004). The importance of role ambiguity and trust in conflict perception: Unpacking the task conflict to relationship conflict linkage. *International Journal of Conflict Management*, 15(4), 364-380.

Timmons, J. A., & Bygrave, W. D. (1986). Venture capital's role in financing innovation for economic growth. *Journal of Business venturing*, 1(2), 161-176.

Turner, M., & Pratkanis, A. (1997). Mitigating groupthink by stimulating constructive conflict. In C. K. W. De Dreu & E. Van de Vliert (Eds.), *Using conflict in organizations* (pp. 39–52). London: Sage.

Tykvová, T., Borell, M., & Kroencke, T. A. (2012). Potential of Venture Capital in the European Union. European Parliament (Directorate-General for Internal Policies. Policy Department A, Economic and Scientific Policies. Policy Area Industry, Research and Energy).

Tykvová, T., & Schertler, A. (2011). Cross-border venture capital flows and local ties: Evidence from developed countries. *The Quarterly Review of Economics and Finance*, 51(1), 36-48.

Van de Vliert, E. (1998). Conflict and conflict management. *Handbook of work and organizational psychology*, 3, 351-76.

Van de Vliert, E., & De Dreu, C. K. (1994). Optimizing performance by conflict stimulation. *International Journal of Conflict Management*, 5(3), 211-222.

VICO (2011). *Venture capital: Policy lessons from the VICO project*. http://www.vicoproject.org/doc/policy/VICO_FinalPolicyBrief.pdf

Wall, J. A., & Callister, R. R. (1995). Conflict and its management. *Journal of management*, 21(3), 515-558.

Wall, V. D., & Nolan, L. L. (1986). Perceptions of inequity, satisfaction, and conflict in task-oriented groups. *Human Relations*, 39(11), 1033-1051.

Wijbenga, F., Postma, T., Van Witteloostuijn, A., & Zwart, P. (2003). Strategy and performance of new ventures: a contingency model of the role and influence of the venture capitalist. *Venture Capital: An International Journal of Entrepreneurial Finance*, 5(3), 231-250.

Willis, D. G., Sullivan-Bolyai, S., Knafl, K., & Cohen, M. Z. (2016). Distinguishing features and similarities between descriptive phenomenological and qualitative description research. *Western journal of nursing research*, 38(9), 1185-1204.

Xie, X. Y., Wang, W. L., & Luan, K. (2014). It is not what we have, but how we use it: Reexploring the relationship between task conflict and team innovation from the resource-based view. *Group Processes & Intergroup Relations*, 17(2), 240-251.

Zacharakis, A. L., Meyer, G. D., & DeCastro, J. (1999). Differing perceptions of new venture failure: a matched exploratory study of venture capitalists and entrepreneurs. *Journal of Small Business Management*, 37(3), 1.

Zacharakis, A. L., & Shepherd, D. A. (2001). The nature of information and overconfidence on venture capitalists' decision making. *Journal of Business Venturing*, 16(4), 311-332.