



## Entrepreneur-venture capitalist relationships

*mitigating post-investment dyadic tensions*

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## Entrepreneur-Venture Capitalist Relationships: Mitigating Post-Investment Dyadic Tensions

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**ABSTRACT** This paper addresses the notion of goal alignment in venture-backed firms. Aligning the goals of entrepreneurs to VCs' goals, and vice versa, may be the first step towards building strong mutual relationships between the two. Yet, little is known about the long-term outcomes of the aspects of these relationships as the literature to date has considered to a great extent the relationship between VC and entrepreneur as a 'black box'. This paper makes an attempt to *half-open* this 'black box' by exploring the dyadic tensions between VCs and entrepreneurs in the course of de-internationalisation that is perceived as a negative deviation from what is normal or expected. The data emerged from a case study research that used critical incident technique to data collection, analysis, and interpretation. Grounded in data, the paper proposes the typology of goal alignment that was generated by cross-tabulating entrepreneurs' and VCs' agendas. Four types of alignment emerged: *life changing opportunity*, *enslavement*, *no marriage*, and *illusive alignment*. The concept of goal alignment is unidirectional; it is geared towards the VCs' agenda of a quick exit.

*Keywords:* venture capital, international new ventures, goal alignment, critical incident technique

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## Introduction

The information and communication technology sector has played and will continue playing a pivotal role in transforming the economy by boosting more rapid growth and productivity gains (OECD, 2001; 2004). In this context, small high-technology firms are seen as engines of economic growth, trying to derive their profits from international activities right from their inception (Oviatt and McDougall, 2005). At the same time, these high-growth high-technology ventures resemble the firms usually venture capitalists (VCs) will back: they are small, young, and in industries characterised by high risk and uncertainty (Bloodgood *et al.*, 1996).

The burst of the dot.com bubble demonstrated once more that businesses built around high-technology product innovations are dramatically unstable (Slywotzky and Wise 2002). It also supported earlier assertions that stable growth continues to be both very rare and poorly understood (Vinnell and Hamilton, 1999), and that substantial growth is seemingly a rather exceptional process (Storey, 2002; Carter *et al.*, 2004). For example, as Carter *et al.* (2004) found, with years in business, growth objectives of small firms decrease incrementally, while ambitions for closure, sale, succession or remaining the same size increase incrementally.

In venture-backed firms the growth objectives of VCs on one hand and entrepreneurs on the other may become the source of tensions between the two (Cable and Shane, 1997; De Clercq and Sapienza, 2006). For example, driven by 'dominant logic' (Bettis and Prahalad, 1995), VC's are attracted to high-growth ventures because of the potential for very high gains in combination with the availability of early exit strategies (Petty, 1997). On the other hand, entrepreneurs might want to focus on profitability via a long-term growth. The dilemma then for entrepreneurs is whether to agree with VCs' strategy that is focused on early exit or insist on the strategy that is long-term and profitability oriented. These divergent objectives may lead to disagreements over the direction of the development of the firm (Sorenson and Stuart, 2001).

The degree to which exchange partners' goals and values converge is referred to as goal congruence (Nahapiet and Ghoshal, 1998). The importance of goal congruence to the success

of a venture has been widely acknowledged (Cable and Shane, 1997; Shepherd and Zacharakis, 2001; De Clercq and Sapienza, 2006; Parhankangas *et al.*, 2005). The literature to date however has considered to a great extent the relationship between VC and entrepreneur as a ‘black box’ (De Clercq and Manigart, 2007), and little is known about the long-term outcomes of the aspects of these relationships (Busenitz *et al.*, 2004).

This paper makes an attempt to *half-open* this ‘black box’ by exploring the dyadic tensions between VCs and entrepreneurs that emerge post-investment with a specific focus on critical events in the course of de-internationalisation of small software companies. Grounded in data, the paper will propose a *typology of goal alignment* to explain the issues of congruence over ends and means in venture-backed firms. The data emerged from an exploratory case study research that used critical incident technique to data collection, analysis, and interpretation. Directions for future research will be provided.

### **Entrepreneur-VC relationship**

Two broad streams of research form the current enquiry into the post-investment relationship between entrepreneur and VC: research with focus on *value added* and *monitoring* activities by venture capitalists (for review, see De Clercq and Manigart, 2007). De Clercq and Manigart (2007) maintain that although these two types of activities overlap, their underlying assumptions are quite different. The research on *value added* focuses primarily on VCs’ non-financial efforts (social capital, business and legal knowledge, active participation, strategic information) to increase the value of their investment after the investment decision has been made (Manigart *et al.*, 2002; Busenitz *et al.*, 2004; Florin, 2005; Makela and Maula, 2005; Wiltbank, 2005; Berglund *et al.*, 2007). The research on value added by VCs beyond their financial involvement is in its early stage (Busenitz, 2007), and its findings so far are somehow inconsistent (DeClercq and Manigart, 2007) and mixed (see for example, Busenitz *et al.*, 2004; Florin, 2005; Mäkelä and Maula, 2005). The sampling bias towards more success stories built in the research design is seen as one of the reasons for the inconsistency of the findings (Manigart *et al.*, 2002; De Clercq and Manigart, 2007). The present research fills in this gap by exploring longitudinally the relationships between VCs and entrepreneurs in

critical situations that deviate negatively<sup>1</sup> from what is normal or expected (Edvardsson, 1992).

The research on *monitoring* focuses on VCs' attempts to pre-empt and correct potential harmful behaviour by entrepreneurs (Sapienza and Korsgaard, 1996; Bruton *et al.*, 2000; Shepherd and Zacharakis, 2001; Parhankangas *et al.*, 2005). Trust and control, as Shepherd and Zacharakis (2001) maintain, are interrelated antecedents of confidence. VCs as well as entrepreneurs can build trust by engaging in frequent and open communication, signalling commitment and consistency, being fair and just and aligning the goals of the company (Shepherd and Zacharakis, 2001; see also Sapienza and Korsgaard, 1996; De Clercq and Sapienza, 2006). Contractual control rights are the primary means through which VCs address the potential for opportunism and disagreements (Barney *et al.*, 1994; Parhankangas *et al.*, 2005). Some of other common governance means of VCs include: serving on a new venture's board of directors (Gabrielsson and Huse, 2002; Berglund *et al.*, 2007); frequency of face-to-face communication with entrepreneurs (Sapienza *et al.*, 1996; De Clercq and Fried, 2005; Makela and Maula, 2005), and dismissal (Fiet *et al.*, 1997; Bruton *et al.*, 2000).

In venture-backed firms the growth objectives of VCs and entrepreneurs may become the source of potential disagreement between the two. For example, VC's are attracted to high-growth ventures because of the potential for very high gains in combination with the availability of early exit strategies (Petty, 1997). Pursuing quick exit, VCs may pressure the entrepreneur to seek short-term profits even to the detriment of long-term profitability. They are inclined to take companies public near market peaks, even if this is not necessarily the optimal timing for the new venture (Lerner, 1994). On the other hand, entrepreneurs might want to focus on profitability via a long-term growth. The dilemma then for entrepreneurs is whether to agree with VCs' strategy that is focused on early exit or insist on the strategy that is long-term and profitability oriented.

The research also shows that VCs may seek a premature initial public offering (IPO) in their portfolio investments in order to gain reputation (Gompers, 1996). The research also suggests that VCs may refrain an entrepreneur from bringing the new venture to a next growth stage by under-investing in it (De Clercq and Manigart, 2007). Such allocation of capital may be

more detrimental for the entrepreneur than for the VC since the latter can spread the investment risk across multiple portfolio companies; this might lead to conflicts with the interests of individual portfolio firms (Mäkelä and Maula, 2005).

The research on procedural justice may shed some light on goal alignment between VCs and entrepreneurs. Procedural justice theory is concerned with individuals' reactions to decisions in which they are personally invested but that they cannot directly or fully control (Sapienza and Korsgaard, 1996). That is, when a direct control over a decision is not possible, individuals value just procedures because they provide a means to indirect control over that decision. Tyler (1989) put forward three factors that determine procedural justice judgements: standing, neutrality, and trust. Standing denotes one's status in a relationship that provides an opportunity to speak forthrightly. The opportunity to refute someone's comments and defend one's point of view may indeed be beneficial for aligning each other's goals. Neutrality implies an impartial treatment with respect to other ventures in a VC's portfolio. VCs will seek best information from entrepreneurs to make decisions that affect the respective venture. And trust reflects an assurance of the predictability of someone else's actions. Research in this area suggests that procedural justice is an important determinant of investors' attitudes and behaviours (Sapienza and Korsgaard, 1996), and that it is positively associated with long-term venture performance, which suggests that the relationship between VCs and entrepreneur may be well served by establishing procedures to ensure fairness and efficient information exchange (Busenitz *et al.*, 2004).

In the case of high-technology new ventures, in the early stages of the rollout of a new technology the market signals are not reliable (Coltman *et al.*, 2001; OECD, 2001). The need for strategic goal alignment becomes even more critical and more difficult to attain in such situations when an industry is not clearly established and lacks legitimacy (Mäkelä and Maula, 2005). Questions of relevant performance benchmarks arise (Lovallo and Kahnemann, 2003). Both entrepreneurs and VCs are learning and adjusting their behaviour as the industry emerges (Valliere and Peterson, 2005). As argued by Fredrickson (1984), a more complex or turbulent environment requires less rationality.

The question then is whether it is possible to establish in such uncertain environments procedures that ensure fairness and efficient information exchange. Can VCs for example stay neutral? If based on the best information available from entrepreneurs, VCs decide not to continue investing in production or further innovation of the product, how may entrepreneurs perceive such decision: just or unjust? Is it because VCs lost interest in the venture (unjust) or because VCs misread the signals from the market (just)? Will entrepreneurs provide VCs with best available information since it may be used against their venture and VCs can not verify it in such an uncertain environment?

One might expect to observe higher tensions in entrepreneur-VC relationships in critical situations when there is a negative deviation from what is believed to be normal or expected. These high-technology companies, using venture capital, are internationalising at or right after their inception, and are expecting to deliver high returns to their backers. These expectations were not always met however. Companies for example would de-internationalise as a result of critical incidents that were emanating either from outside or inside the firm. The decision over the course of action at such critical points might effect higher tensions between VCs and entrepreneurs. For instance, the entrepreneur would consider the choice between completely or partial withdrawal from a foreign market, whereas the VC would consider the option between further committing resources or closing the company down. As maintained by De Clercq and Manigart (2007), this type of goal congruence in terms of how autonomous the entrepreneur can be in making decisions over the strategic direction of the company is of a very different nature and calls for different action, which in turn presents a further route for fruitful research.

The importance of goal congruence to the success of a venture has been widely acknowledged (Bruton *et al.*, 2000; Shepherd and Zacharakis, 2001; de Clercq and Sapienza, 2006; Parhankangas *et al.*, 2005), yet the literature todate has considered to a great extent the relationship between VC and entrepreneur as a ‘black box’ (De Clercq and Manigart, 2007), and little is know about the long-term outcomes of the aspects of these relationships (Shepherd and Zacharakis, 2001; Busenitz *et al.*, 2004). This paper makes an attempt to *half-open* this ‘black box’ by exploring the dyadic tensions between VCs and entrepreneurs that

emerge post-investment with a specific focus on critical events in the course of de-internationalisation<sup>2</sup> of small software companies.

### **Research methodology**

For the purpose of this study, the critical incident technique (CIT) methodology was employed. The traditional CIT has its origins in the research undertaken by Flanagan (1954). On the assumption of a positivist approach to social science, he defined incident as any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act. To be critical, Flanagan argues that an incident must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effects. The definition of CIT has somewhat changed over the years to take into account changes in assumptions about ontology, methodology, and human nature. Taking into account the above changes, Chell (1998: 56) defined CIT as a qualitative interview procedure that facilitates the investigation of significant occurrences (events, incidents, processes or issues) identified by respondent, the way they are managed, and the outcomes in terms of perceived effects.<sup>3</sup>

One of the challenges when studying critical events is to minimize the attribution errors – when people tend to misattribute the cause of the events (Lovallo and Kahneman, 2003). According to Lovallo and Kahneman (2003), the typical pattern of such attribution errors is for people to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause. Several sampling strategies were employed to minimise the effect of such attribution errors, hence to increase the construct validity of the research. One strategy was to control for the effect of the external environment (e.g. legislation, market size, market structure across industries and countries, effect of time) on selected cases. The firms were selected from the same location and observed during the same time period. The other strategy was to minimize the potential effect of resource bias; small being defined as a company having less than 100 employees (Storey, 1994). And the third was to ensure that the critical event(s) were transparently observable in all cases. E.g., for the purpose of the present research the firms (i) had de-internationalised, either partly or

completely, and (ii) were either in business or ceased trading. Four case companies were purposefully selected on the above identified criteria. The case companies were *small*, were operating in *software sector* in *Scotland*, received *venture capital*, and *de-internationalised* during *1999-2001*.<sup>4</sup> A fifth case was added to the research that matched all the above selection criteria but one: it did not raise venture capital in order to internationalise. Table 1 provides a brief summary of the cases. For confidentiality reasons, interviewees' and companies' names are disguised throughout the paper.

Table 1 about here

### ***Data collection and triangulation***

Data triangulation also helped minimize the attribution errors by corroborating the data collected from entrepreneurs via the data collected from their stakeholders and other sources (figure 1). The information about the critical incidents that led to de-internationalisation was collected primarily from three data sources: (i) secondary sources; (ii) in-depth interviews with companies' directors; and (iii) in-depth interviews with companies' stakeholders. Twenty-four interviews, including follow-ups, were conducted with company directors and their stakeholders, yielding approximately 150 pages of interview data.

Figure 1 about here

### ***Secondary sources of data***

Thorough preparations before entering the field work are pivotal especially when studying critical events. An opportunity to get access to an entrepreneur with such experience might be unique, and therefore as much as possible shall be learned about the entrepreneur and the company before the interview. The use of secondary data was seen then to satisfy four key aims. First was to detect potential cases on the bases of selection criteria. Second, to learn as much as possible about a company and its history prior to the actual interview with its director. Third, to compare and cross-check written and published evidence with what interview respondents reported. And fourth, to identify potential stakeholders who could

corroborate the consistency of information reported by interviewees. Databases were created for each case to organize and document data collected, thus contributing to the enhancement of the reliability of the research. As the research unfolded, primary data was added to the databases as well.

### *Interviews with entrepreneurs*

To explore critical incidents in the case companies, CIT guidelines for in-depth interviewing were followed, namely, (i) indicate to the interviewee the authority on which the interview is being held; (ii) make a statement about the purpose of the study; (iii) explain why the interviewee has been chosen to comment; (iv) convince the interviewee of the anonymity of the data; (v) the main question should state that an incident or actual behaviour is desired; (vi) allow the interviewee to do most of the talking and avoid asking leading questions; (vii) control the interview, by probing the incidents and clarifying one's understanding; (viii) ask follow-up questions to ensure that a comprehensive and detailed account has been given; (ix) conclude the interview; and (x) take care of ethical issues (Chell, 1998; Flanagan, 1954).

The interviews were conducted with entrepreneurs who were responsible for and implemented de-internationalisation decisions. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission, and transcribed verbatim immediately after. The interviews were semi-structured in the form of guided conversations. Critical incident technique method guidelines were followed; namely, the interviewee was allowed to do most of the talking, leading questions were avoided, and open ended questions, followed by appropriately worded probing questions, were employed. To ensure some comparativeness between the responses, and allow sufficient control over the interview to ensure that the research objectives were met, an interview guide was designed.

### *Interviews with company stakeholders*

The aim of interviewing companies' stakeholders was threefold. First, to corroborate data derived from the interviews with entrepreneurs. Second, to capture their own experience and understanding in relation to critical events such as de-internationalisation, including their

attitudes towards failed companies. And third, to request their help in identifying potential companies for the study. Chiefly, companies' stakeholders were represented by their investors, liquidators, strategic advisors, policy makers, and business correspondents. The average interview lasted approximately sixty minutes. All interviews were recorded with interviewee's permission and transcribed verbatim. The same approach and principles to design the interview guide with entrepreneurs were used to design the interview guide with stakeholders, including the negotiation of the getting back option of returning for further follow-up research.

### ***Data analysis***

Once an interview was transcribed, it was transferred to QSR NVivo programme that handles qualitative data analysis research projects. The interview transcripts and secondary data pertinent to each case were coded in an iterative manner, working back and forth between theory, emerging patterns and data. Within- and cross-case analyses were employed to analyse the data. Within-case analysis was the basis for developing early constructs surrounding the critical events in the process of de-internationalisation, like for example *agility* and *hype*. The exploration and description of each case was centred on critical events and started from the inception of the company. A time line of critical events, an international path, and a time line of revenue and employment (actual and projected) were generated for each case. Quotes from interviews were used extensively to illustrate the events, incidents, processes and issues that had, to various degrees, an impact on the entrepreneurs' decisions to de-internationalise. According to Dubin (1969), the very essence of description is to name the properties of things, and the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building.<sup>5</sup>

The 'de-internationalisation project' in NVivo was structured around a matrix format that represents the list of events for each case (Miles and Huberman, 1994). According to Miles and Huberman (1994), this approach to within-data analysis allows a good look at what led to what, when and why. The content of the 'event listing' matrix emerged after the initial 'free coding' or open coding (Glaser, 1978) for each case was completed, and each case was explored and described in detail using the event listing matrix. The matrix mapped the

historical chronological flow of critical events in the course of de-internationalisation process starting from the inception of a new venture or new business idea, and finishing beyond unthinkable, a hindsight reflection of entrepreneurs' de-internationalisation experiences. A total of four distinct time periods emerged while free coding the data; these were *emergence of international new business idea*, *international expansion*, *at a critical juncture*, and *beyond it*. A set of categories that dealt with the locale of events (Miles and Huberman, 1994) was defined for different levels: *entrepreneur*, *firm*, *home market*, and *international market*. The summary of critical events in the case companies is presented in table 2. Appendixes 1 and 2 illustrate the matrix concept adopted in the process of data analysis; with open coding being freely observable in appendix 2.

Table 2 about here

Next step was to undertake a cross-case analysis by focusing on similarities and differences between the cases. For example, as shown in Table 1, negative deviation from what is expected, in this case de-internationalisation, is transparently observable. In terms of success of de-internationalisation efforts, Finance-Software and Tool-Software together, and Mobile-Software and Data-Software together represent polar types.<sup>6</sup> Project-Software, as a Phoenix company, represents a case of failure and success at the same time. In Finance-Software and Tool-Software, the process of *entrepreneurial* de-internationalisation is observable. Middle-range theorising helped to manage the complexity of the emergent process of de-internationalisation, and related critical incidents by moving from open to selective coding. According to Weick (1989: 521), middle-range theories are solutions to problems that contain a limited number of assumptions and considerable accuracy and detail in the problem specification. The method of constructing typologies by reduction (Glaser, 1978) was employed to advance middle-range theory of dyadic tensions between entrepreneur and VCs. Grounded in data, figure 2 presents the typology of goal alignment that was generated by cross-tabulating entrepreneurs' agenda and VCs' agenda. Four types of alignment emerged: *life changing opportunity* (quadrant I); *enslavement* (quadrant II); *no marriage* (quadrant III); and *illusive alignment* (IV). The concept of goal alignment is unidirectional; it is geared towards the VCs' agenda of a quick exit. Next section will discuss the typology in detail.

Figure 2 about here

## **Typology of goal alignment**

### ***Dyadic tensions at inception***

Regardless of what business model and growth path a firm adopts in its efforts to develop and market its product, it faces three generic questions with regards to internationalisation: how fast to internationalise, what entry mode to adopt, and what market to target. To the above, VC backed firms, before addressing the above strategic issues, have to alleviate the tensions that might appear as the result of differences in the entrepreneurs' and the VCs' goals. For example, on one side, entrepreneurs want to achieve profitability via long-term growth, whereas VCs' goals are to exit quickly. The dilemma then is whether to focus on long-term growth or early exit strategy. As several interviewees explained:

*'VCs' nature is that they need an exit point. This is how they make their money – only on the exits. Therefore it is not good to them to have a management team that wants to build a perfect company over 20 years' – the liquidator;*

*'VCs want out as fast as they can. The minute they buy your share, their only concern is whom they are going to sell their shares to. Short-term profit is not a priority item. It does not matter at all. These are the dippiest, darkest secrets of the VC world' – the business strategy consultant.*

The data further suggests that VCs agenda is driven by the life cycle of their investment portfolio. By and large, VCs will raise a ten year fund. By year three VCs will invest the money, by year seven they would be looking to get the returns, and by year ten they would have exited from all the portfolios, and returned funds to their investors. That imposes pressure on entrepreneurs to conform to that sort of cycle.

This dominant logic (Bettis and Prahalad, 1995) shapes VCs behaviour in that they can refrain an entrepreneur from bringing the company to a next growth stage for example by under-investing and redirecting their efforts to the 'absolute stars' (see also, Mäkelä and

Maula, 2005). The success rate of the portfolio also plays a crucial role in setting up VCs agenda. As one VC explained:

*'We have a target to invest from 15 to 20 million pounds a year. ...The success rate on average is three out of ten are absolute stars: you give the business plan, and they completely deliver that. Then, we would see one or two out of ten would go bust; and the balance is somewhere in the middle' – the venture capitalist.*

Hence, as venture capital comes in, it pushes the growth forward, and it starts to climb the value curve. The ideal time for VCs to exit is when the internal rate of return that measures the investment retirement is at its highest value; usually within three or five years after the investment was made. It follows therefore that within a maximum of three to five years from an investment, VCs will look to exit.

The ideal situation for VCs and entrepreneurs is when their agendas are aligned, and this creates a life changing opportunity attitude so that entrepreneurs share the VCs' desire for a quick exit (quadrant I, figure 2). These days, when according to one VC '*...the number of deals are low, and doing deals becomes harder*', it is even more crucial to create that life changing opportunity attitude so that management teams share VCs' desire for exit. As several interviewees explained:

*'An interesting perspective emerges whereby VCs want management's objectives aligned in terms of exits. It is critical to them that the management team has a life changing opportunity for themselves, because VCs absolutely have to go in and to go out. That is something that VCs currently think about. But I believe this tension will always be there – human nature' – the liquidator.*

*'It really occurred to us: when we said to the investors that we were thinking of setting up in the US, the fact of the matter was that their perception immediately changed. A lot of perceived problems disappeared' – the CEO of Tool-Software.*

As expected, some entrepreneurs just do not want to sell their company, or accept VCs' agenda. And if, as a result, no compromise is reached, then there will be no marriage between the two (quadrant III, figure 2). As one VC explained:

*'When companies are coming to us with a wrong model, we may question them, query them, they may change it. But if they have different view from ours, we probably will not invest' – the venture capitalist.*

The data analysis further suggests that entrepreneurs however might be kept in the dark with regard to the VCs' true agenda (quadrant IV, figure 2). That is, VCs do not have to even insist on their objective of quick exit as entrepreneurs unknowingly and maybe reflexively, "share" VCs' exit agenda; for example, driven by hype that is exaggerated expectations about future sales and profits. According to the CEO of Data-Software:

*'There was no question of not going ahead as fast as we possibly could. We made commitments of what we need to achieve. And in order to do that, we had to use the money in the way that we said that we would. That leads to pressure to do things, rather not to do things. Sometimes the right thing is to wait. But when you made commitment, it is very difficult to turn it around' – the CEO of Data-Software.*

When asked about the possible effect of VCs desire of quick exit on the performance of the company, the CEO of Data-Software was surprised to hear that VCs might even have this agenda:

*'Do VCs want to exit quickly? I do not think that is true. We did not have any VC that was pressurising for a short-term exit. They wanted us to grab the opportunity and maximise the value of the investment. Maybe some naïve entrepreneurs who are new comers to the game may believe in this' – the CEO of Data-Software.*

Interestingly though, two years after the start-up, the CEO of Data-Software mentioned with regard to exit: *'I expect to float the company at the right time. But I am in no rush'*. It is not clear however, whether he had this vision at the initial round of funding, or if it emerged two years after as a result of successful growth; over time entrepreneurs' views, beliefs, and values might change and converge with those of VCs. In the same vein, VCs were trying to learn and adjust their behaviours as the new industries were emerging. As one of the venture capitalist explained:

*'Businesses that we typically backed were businesses which needed to sell internationally. It turned out that the world market was a lot smaller than entrepreneurs forecasted. If you go back to late nineties, the market was extremely bullish, and investors were willing to take very large risks, and also had an inflated idea of what companies might be worth. The big thing that we've been working on quite hard to improve for the last years was to get real views on the size and trends of the markets' – the venture capitalist.*

In this situation of illusive alignment of goals (quadrant IV, figure 2), for VCs it is easier to mitigate the effect of getting an investment, which is when entrepreneurs ‘lose control’ having actually retained the majority of the shares, by making entrepreneurs believe they are in control of the situation as long as they unknowingly and reflexively advocate VCs’ agenda. As several interviewees noted:

*‘The day entrepreneurs get venture capital, they lose control, because VCs are using shareholders agreement/contract that goes outside share earnings to have rights to do things and to stop things firmly in the house. They have rights to positive and negative control, i.e. to do anything serious they have to do in spite of the board’* – the business strategy consultant;

*‘There is a side effect of taking VC money. In my experience VCs do want control. They want to exert control over the things that are not working. Typically VCs will invest in the business and the management team that is there. By and large they will leave it alone, if it works’* – the liquidator.

Entrepreneurs find themselves enslaved (quadrant II, figure 2) when they are trying to sell to the VCs their own vision of strategic growth, but VCs disagree and impose their own growth strategy. As entrepreneurs explained:

*‘Our original pitch was to stay in the UK, get sufficient knowledge of the sales process, and then go to the US. At the very first meeting with our investors they said that this was a daft strategy; the vast majority of the IT sales is in the US, therefore you should be in the US straight away. Change your plan. So, we changed the plan, otherwise we would not get the investment’* – the CEO of Project-Software.

*‘We had to construct the business plan so that it would give VCs the rates of return to buy them into. So, we had to construct something that would say that we could do it for £9 million, although we needed £18 million. In the end we received £6 million only...and all this backfired. At the board meeting we raised the issue whether our ambitious plans should be cut in line with the reduced funds, to which investors said that the plan should be executed as stated in the business plan’* – the CEO of Mobile-Software.

To the above differences in the views over the foreign market entry strategies, the marketing non-executive director, whom Project-Software hired, insisted on selling the product into Europe via a master distributor – a strategy that was never supported by co-founders, but that

was eventually adopted by them to avoid the conflict with the investors. The CEO of Project-Software clarified the situation:

*'Ok, ultimately we felt it was sensible to go to the US, but we felt it was not sensible at all to go to Europe so early. VCs, unfortunately, sided very much with our non-executive's suggestions. I remember us feeling an intense pressure to agree to do this, although our personal intuition was that this was wrong thing to do. ...It is very hard to stand up and say no, that is not sensible, we are going to do the opposite. Because, then you are in conflict with your investors' – the CEO of Project-Software.*

For entrepreneurs this is a catch-22 situation: they can not or do not want to say 'no' as they for example (i) are desperate to get funding in order to develop and/or market their product, or (ii) lack sufficient knowledge and experience to argue their case, or (iii) are trying to avoid the situation when they could be blamed for the firm's failure when things go wrong. As the CEO of Project-Software explained:

*'If we did not carry the strategy through, it could backfire and looked like it was our fault and we did not achieve the sales that we hoped we would. And of course we could then have had a difficult argument to make because it would be hard to justify that our decision was right when every one else felt it was wrong' – the CEO of Project-Software.*

By saying 'yes' to something they do not agree with, i.e. by enslavement (quadrant II, figure 2), entrepreneurs force themselves into a conflict situation, which they have to live with for the remainder of their marriage with VCs. As the CEO of Project-Software noted:

*'We felt incredibly frustrated, stressful. This conflict gives you a sense that you've lost control of something that you used to view as yours. We lost control of the pace, as the investors dictated the pace of the growth... I think they were stifling the growth of our company, rather than helping it grow' – the CEO of Project-Software.*

If a consensus is not found to alleviate these dyadic tensions as quickly as possible, dissatisfaction with the deal will continue amplifying, and will inevitably lead to a divorce. In the case of internationalised firms, the enslavement may lead to de-internationalisation or any other critical events.

### ***Dyadic tensions at critical juncture***

Once internationalised, the questions that most need to be addressed by entrepreneurs are: to what extent is the chosen internationalisation strategy continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets (Turcan, 2003). In VC backed firms the ability to make the change happen in the light of negative feedback depends on how agile entrepreneurs are in their decision making process. Agility was a recurrent pattern throughout the data analysis (table 3). Grounded in data, agility is about flexible decision making and a flexible cost base structure that allow decision makers (entrepreneurs and VCs) to scale up and more importantly to scale down according to the activity level that the firm is experiencing. The data analysis suggests that the degree of goal alignment would determine the extent of agility.

Table 3 about here

For example, the co-founders of Project-Software, who were enslaved (quadrant II, figure 2,) and who were in conflict with their investors (who imposed a lot of decisions upon them, and with which co-founders did not agree), had the perception that they not only lost control of the company and their agility in decision making, but also that ‘*VCs were stifling the growth of the company, rather than helping it to grow*’. It all started when VCs conditioned their participation in the venture by asking the co-founders to change their business plan that, as one of the co-founders put it, ‘*... did not look ambitious enough*’. Continuous commitments of resources to that ambitious plan during the downturn in the IT market, as well as the cumbersome decision making process, had the same effect on co-founders’ perceptions of VCs’ and their role to the company performance. As the CEO of Project-Software recalled:

*‘Our sales projections were too ambitious... otherwise we would not get the investment in the first place. When our sales stopped, we were still making trips to the US, which... was mad. ...we took the investment we lost control of the company and our ability to proactively track the reality of the situation and make quick decisions. The decisions we had to make had run passed various people and convince them that this was the right one. Sometimes it is useful to justify things, but we felt we were not as responsive as we had been prior to that, and as we are now’* – the CEO of Project-Software.

In the case of Data-Software, although there was an elusive alignment of co-founders' goals to VCs' goals, it did not prevent the VCs letting the lead entrepreneur go, when he suggested a growth path, which was different from the VCs' one. As he explained:

*'The VCs did let us manage the company. No complaints about that whatsoever. They supported the company. The chairman's job was to make sure that we delivered to VCs our promises, and VCs had a confidence in the chairman. We developed and changed the plans... you learn as you go. VCs always said yes, until we suggested going down a different route... they brought in another CEO' – the CEO of Data-Software.*

According to a business strategy consultant, '*more often than not VCs are not agile*'. Failure to scale down however may lead to escalating situations that are the effects of repeated decision making in the face of negative feedback about prior resource allocations, uncertainty, surrounding the likelihood of goal attainment, and choice about whether to continue (Brockner, 1992). Entrepreneurs who had VC backing exhibited this kind of behaviour, escalated their commitment to the failing course of action. Despite the fact that in the second half of 2000 the IT market in the US started to collapse and that the same started happening in the UK one year later, the entrepreneurs got trapped in, what in hindsight was to become, a failing course of action and kept committing resources.

For example, co-founders of Project-Software, being in a conflict with their investors continued investing organisational resources trying to boost sales in the diminishing US market in order to meet the projected targets. Co-founders of Data-Software having their growth strategy *aligned* to VCs' strategy, i.e. to develop the company as fast as possible (albeit without being aware of VCs' ultimate exit objectives) continued this strategy and opened another two overseas offices, and were making plans to double the workforce over the next year. As co-founders of these firms stated:

*'When in 2000 things started to go wrong in the US, our sales stopped, but we were still making trips, because we invested a lot of money to go there, and time and effort... We were becoming increasingly desperate to get sales from there, and we were under a lot of pressure as we were not meeting the sales targets' – the CEO of Project-Software;*

*'To raise money we had to make commitments of what we would need to achieve. Once we got the money we had to use them in the way we said we would. That leads to pressure to do things, rather than not to do things... the*

*pressure was to invest to build the company as fast as we planned. Sometimes the right thing is to wait. But when you made commitment, it is very difficult to turn it around'* – the CEO of Data-Software.

As in the case of Project-Software, co-founders of Data-Software and their investors agreed on the strategy. However, they could not agree on the implementation side of it. The stumbling-block was their strategic partner, one of the largest software companies, who had announced earlier that they would develop, on their own, a similar product. The co-founders suggested a continued focus on product development, but a switch to direct selling, as the lead entrepreneur recalled:

*'I would have focused on the higher value added product that [our strategic partner] would not develop; and in order to deal with economic external factors, pull out, retract, maybe trying to keep foot in US on a smaller basis, because this is where the lead market is for that technology'* – the CEO of Data-Software.

The investors, however, '*...spooked by the intentions of the strategic partner'* – as the lead entrepreneur described the situation, disagreed and decided to pull completely out of the US and focus on applications instead. The lead entrepreneur left and a new CEO was brought in to implement the VCs' survival strategy. The new CEO failed, however, to save the company either through a refinancing or sale, and Data-Software was put up for voluntary liquidation. In autumn of 2001, Data-Software ceased trading. In the same vein, Busenitz et al. (2004) found that a dismissal of an entrepreneur or the entire team by a VC is negatively related to the performance of the venture exits. Had the passion and knowledge of the lead entrepreneur been preserved (Cusumano (2004), things might have been different as their then strategic partner had not fulfilled its hyped intentions.

## **Conclusion**

According to a business strategy consultant, '*...the strongest company is the one which forms the best relationships with its investors'*. In the same vein, Bygrave and Timmons (1991) argue that the ongoing cooperative relationship between entrepreneurs and VCs is more important to the performance of ventures than the provision of venture capital itself. Cable and Shane (1997) ten years later demonstrated that the cooperation between entrepreneurs

and VCs is a necessary (though not sufficient) condition for the successful post-investment performance of VC backed start-ups. Therefore, aligning the goals of entrepreneurs to VCs' goals, and vice versa, may be the first step towards building those strong mutual relationships. To understand these dyadic relationships between entrepreneurs' and VCs' goals, the typology of goal alignment was introduced that is unidirectional and geared towards the VCs' agenda of quick exit. Four types of goal alignment emerged (see figure 2): (i) *life changing opportunity*; (ii) *enslavement*; (iii) *no marriage*; and (iv) *illusive alignment*.

The ideal situation for VCs and entrepreneurs is when their agendas are aligned, and this creates a life changing opportunity attitude so that entrepreneurs share the VCs' desire for a quick exit. This life changing opportunity attitude is based on the assumption that what is good for VC is good for entrepreneur; an assumption that shall be treated with cautiousness and from time to time questioned. For example, Florin (2005) studied the effects of venture capital on founders' returns beyond an IPO. He found that entrepreneurs who share VCs vision of taking their ventures into high-growth path through an IPO will be better rewarded in terms of personal wealth if they avoid high levels of VCs involvement. Also, with high level of VC involvement, the likelihood of remaining as CEOs after IPO is low. This difference in expectations over future rewards and career may create tensions down the line between VCs and entrepreneurs.

The goal congruence over the growth objectives of the venture at the start-up is not enough, as the data further suggests, to ensure life changing opportunity behaviour from entrepreneurs and to avoid tensions with their backers. For example, there might be a consensus over the goals of the portfolio company. However, VCs and entrepreneurs may disagree on the ways and directions of the efforts of achieving them. Sapienza and Gupta (1994) termed this type of agency problem as good faith disagreements. They argue that in emerging industries the signals from the markets regarding the best course of action are generally weak and VCs tend to question CEO's efforts to prioritise the operating goals. Hence not only an agreement over the goals of the venture is critical, but also over the ways of getting there.

Over time, as learning curve improves, VCs' and entrepreneurs' goals might converge (Sheppard and Sherman, 1998) and dominant logic (re-)established (Bettis and Prahalad,

1995). Bettis and Prahalad (1995) warn however, that the dominant logic changes slowly and rarely in the absence of a crisis; in case of a crisis it tends to depart. As the case of Data-Software suggests, the dominant logic changed in the moment of crisis ‘... *VCs always said yes, until we suggested going down a different route*’ that led to dismissal of the founder CEO and eventual liquidation of the company.

Entrepreneurs may be however kept in the dark with regard to the VCs’ true agenda and will follow it believing their goals coincide with VCs goals; this is a situation of an illusive alignment. In this situation, VCs do not have to even insist on their objective of early exit as entrepreneurs unknowingly and maybe reflexively, for example, driven by hype, “share” VCs’ desire for quick exit. In this situation of illusive alignment of goals, for VCs it is easier to mitigate the effect of getting an investment, which is when entrepreneurs ‘lose control’ having actually retained the majority of the shares, by making entrepreneurs believe they are in control of the situation as long as they unknowingly and reflexively advocate the VCs’ agenda.

The construct of illusive alignment of goals addresses earlier criticism (Cable and Shane, 1997) and extends extant research in that it allows incorporating the possibility of opportunistic behaviour by VC, i.e. viewing VC as agent. In this regard, the findings by McKaskill *et al.* (2004) are quite interesting. In their quest to develop an exit readiness index, they found that nearly two-thirds of Australian investors and 60% of US investors do not clearly indicate their exit preferences. This, according to McKaskill *et al.* (2004), introduces inefficiencies and confusion on the part of the firms seeking equity.

When VCs and entrepreneurs do not reach a compromise over the goals and strategies of a portfolio company, then there will be no marriage between the two. However, entrepreneurs find themselves enslaved when they can not or do not want to say ‘no’ to VCs agenda as they for example are desperate to get funding in order to develop and/or market their product, or lack sufficient knowledge and experience to argue their case, or are trying to avoid the situation where they could be blamed for the firm’s failure when things go wrong.

Entrepreneurs may find themselves in a catch-22 situation. By saying ‘yes’ to something they

do not agree with, i.e. by enslavement, entrepreneurs force themselves into a conflict situation, which they then have to live with for the remainder of their marriage to VCs.

The enslavement construct is based on the assumption that there should be at least some sort of *good-faith agreement* between VCs and entrepreneurs; otherwise there will be no marriage. As the case of Project-Software indicates, founding entrepreneurs and VCs had similar views on the need to enter the US market; however, they held different views on when they should enter the EU market. VCs insisted on entering EU market at same time as entering the US market; founding entrepreneurs regarded the entry to the EU market as premature step and favoured more incremental approach to internationalisation. The effect of entering US and EU markets simultaneously proved to be fatal for the portfolio company. Similar findings could be found in Mäkelä and Maula (2005) who found that by exerting isomorphic pressure on entrepreneurs, VCs were driving the portfolio company to internationalise to ‘incorrect’ markets (Mäkelä and Maula, 2005; original emphasis, p. 240).

### **Future research directions**

The typology of goal alignment poses interesting questions for future research. For example, the importance of creating a *life changing opportunity* culture could be assessed by the value of the exit. That is, what would be the effect of the alignment of entrepreneurs’ objectives in terms of exit at the initial round of funding on the value of the exit? Or, what would be the value of exit when the entrepreneurs’ objectives converge gradually with VCs’ objectives during their marriage? Hence, the following proposition for future research:

*P1: Higher value at exit would be achieved in those firms where the entrepreneurs’ objectives were aligned, in terms of exit, from the initial round of funding.*

When entrepreneurs and VCs do not arrive at a consensus and as a result there is *no marriage*, researchers may delve into the effects of denial of funds. That is, what happens to the firms that were denied funding to pursue the identified new economic activities? Will they pursue other avenues for funding, give up and grow organically or fail? For example, Tool-Software was unsuccessful in raising capital just two years after a new business

opportunity was identified, and continued to pursue the organic growth path. Crucial in this process of pursuing other avenues for funding is the stigma associated with failure to secure first round funding (see for example Cope *et al.*, 2004). The issue of stigma of failure becomes even more acute in countries like Scotland, in which all the sample firms started their activities, where the VCs' community and the advisors' community are very small, and susceptible to collusion.

As the concept of goal alignment is unidirectional, that is, it is geared towards the VCs' agenda of quick exit, it might be expected that the ultimate bargaining power over decision making process will reside with the investors. Hence, the goal alignment gives scope to negotiated autonomy – a negotiated freedom to make and implement decisions. As De Clercq and Manigart (2007) posit, possible goal conflict between the VC and entrepreneur may pertain more to how autonomous the entrepreneur can be in terms of the strategic direction in which the portfolio company is going. Hence,

*P2: In firms that acquire venture capital the level of autonomy will depend on the degree of alignment of goals between VCs and entrepreneurs.*

When VCs' and entrepreneurs' agendas are aligned, it might be inferred that entrepreneurs will have a higher degree of negotiated autonomy, will be more entrepreneurially oriented, and thus achieve higher performance, relative to the situations when the alignment of entrepreneurs' goals to VCs' goals is not explicit (enslavement or illusive alignment). This leads to the following propositions:

*P3: Firms in which VCs' and entrepreneurs' agendas are aligned have a higher degree of negotiated autonomy relative to firms in which such alignment is not present or explicitly stated.*

*P4. Firms with a higher degree of negotiated autonomy will be more entrepreneurially oriented, and therefore will achieve higher performance.*

In companies with no venture capital and who opt for organic growth, one might expect that entrepreneurs will have a true autonomy – a complete freedom to make key decisions, and implement them. Finance-Software and Tool-Software are good examples of entrepreneurially oriented companies with true autonomy. For Finance-Software, de-internationalisation was not just a U-turn along organisational strategy, but a U-turn along the

dimension of searching for new opportunity to undertake a new entry. For Tool-Software, de-internationalisation was along a dimension searching for new opportunity and organisational strategy. And these entrepreneurial processes, in some instances even being radical departures from existing state of affairs, were possible only when entrepreneurs pursued new entries via organic growth, i.e. having true autonomy over their decision making process. Contrasting the performance of firms that adopt an organic growth with those that receive venture capital and in which VCs' and entrepreneurs' goals are aligned represents further route for fruitful research.

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## Notes

- <sup>1</sup> Sometimes this *negative* deviation could be a matter of perception. The perception of failure varies across cultures, and legal environments. For example, in the US, a buy out of a small firm by a large corporation is viewed as an exit strategy (Westphal, 1999), whereas in Germany a merger with another company is perceived as a failure (Achtenhagen, 2002).
- <sup>2</sup> De-internationalisation can take the form of either completely or partially withdrawing from a foreign market. In the latter scenario, a firm can either reduce foreign operations in that market, or switch to entry modes that entail a lesser commitment of resources. As regards the exit modes, a firm may decide to de-invest, de-franchise, or de-export. De-investment can be achieved through franchising, contracting-out, selling-out, leverage buy-out, spin-off, or asset-swap. From franchising a firm may switch, for example, to exporting; and from exporting to inward-activities, importing, licensing-in, or R&D contracting. For review of de-internationalisation literature, see Benito and Welch (1999), Turcan (2003).
- <sup>3</sup> Examples of employing critical incident technique could be found in organisational studies (see e.g., Butler, 1991) as well as in entrepreneurial studies (see e.g., Chell and Pittaway, 1998; Kaulio, 2003; Harrison and Mason, 2004).
- <sup>4</sup> The 1999 – 2001 time period is of greater interest because in those days one could witness a hyper growth of information and communication technology sector whose overall revenue growth peaked in 2000, then rapidly declined over the following year with the bursting of the dot.com bubble, and afterward remained essentially flat until 2003 (Coltman *et al.*, 2001). Software sector was chosen specifically for its pivotal role it played and continues to play in transforming the economy by boosting more rapid growth and productivity gains (OECD, 2004).
- <sup>5</sup> Due to space limitations, time lines of events for each case, as well as interview protocols, data meta-matrices and other non-confidential data are available upon request.
- <sup>6</sup> From the point of view of the researcher, the fact that half of the firms studied had ceased to exist as small independent firms was disappointing. However, drawing on Storey's estimates of small firm survival after three years (Storey, 1994), it is not surprising and highlights the challenge of continuity faced by longitudinal research design on small firms.

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Figure 1. Data triangulation

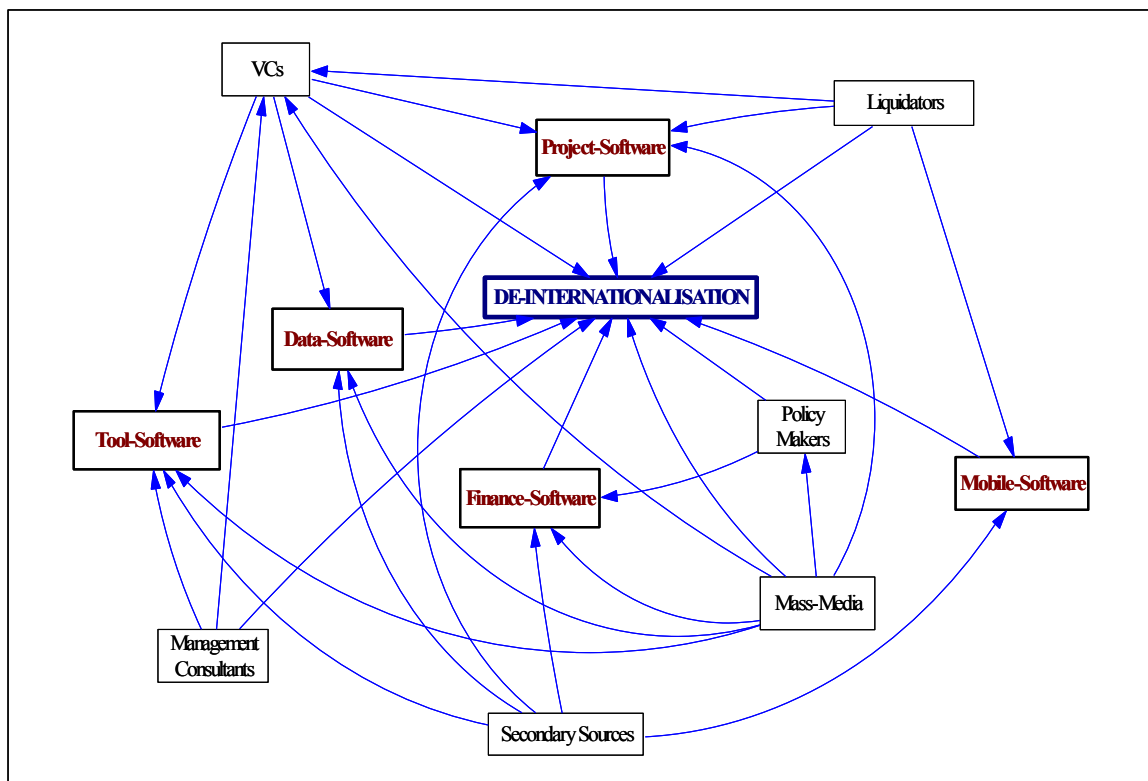
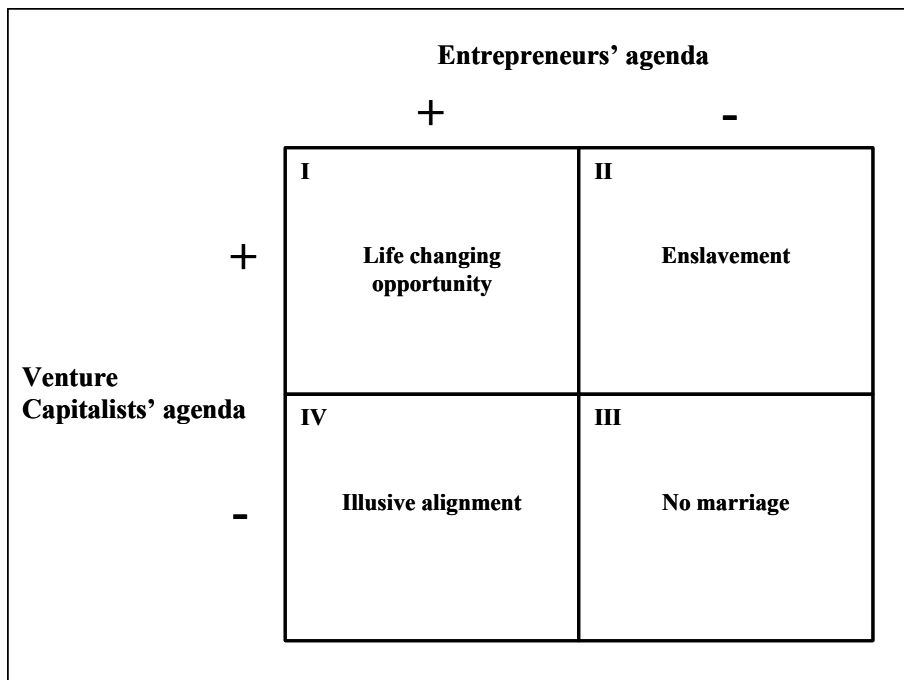


Figure 2. Typology of goal alignment



Note:

- The typology of goal alignment is unidirectional; it is geared towards the VCs' agenda of a quick exit.
- +:+ (QI) – indicates the situation when VCs and entrepreneurs goals are aligned and there is a goal congruence between the two
- +:- (QII) – represents a situation when entrepreneurs perceive the deal as being unfair or unjust, but accept it as they are desperate, for one reason or another, to get funding
- -:- (QIII) – there is a goal incongruence between VC and entrepreneur and the two depart
- -:+ (QIV) – it is when a VC acts as an agent and does not make her intentions explicit, but an entrepreneur, unknowingly or reflexively, believes her objectives are aligned to those of VC

Table 1. Summary of case companies

Case company	Area of activity	Founded (year)	Mode of foundation	Emergence of INVI (year)	Internationalisation gap (years) <sup>†</sup>	Raising venture capital (year)	De-internationalisation (year)	Degree of de-internationalisation
Finance-Software	B2B platforms for financial service industry	1996	MBO	1998	0		1999	Total withdrawal from international activities, and yet, in business: NVI development
Project-Software	Tools to estimate project costs	1992	Start-up	1995	2	1999 2000	2001	Phoenix company: was liquidated, and started all over again
Tool-Software	Tools to simulate and test smart-cards	1985	Start-up	1992	1	2000 2001 2002	2000	Partial withdrawal from international activities: NVI development
Mobile-Software	Platform to integrate mobile workforce data to the HQ	2000	Start-up	2000	0	2001	2002	Total withdrawal from international activities, but ceased trading at de-internationalisation
Data-Software	Data warehouse to convert data into information	1998	Spin-out	1998	0	2000 2001	2001	Total withdrawal from international activities, but ceased trading after de-internationalisation

<sup>†</sup> The reference point to calculate the internationalisation gap is the emergence of the international new venture idea (INVI): internationalisation gap of 0 years will denote an instant internationalisation.

Table 2. Summary of critical events in the case companies

Cases	Emergence of INVI	International expansion	At critical juncture	And beyond it
Finance-Software	While working for the parent company, we had a number of approaches from external organizations to see if we could do some work for them.	The opportunity we identified was not longer in demand	Employing bottom-up approach, we identified new market opportunities	We found that our product was at least 12 months too early
	The parent company announced that it wanted to reduce the overall headcount in its overseas R&D unit.	We realised that we were operating without any focus and started incurring losses	Key issues were whom to partner with and which vertical to go	We decided to reduce the costs of the company down to the point where we can keep it going forever, and in doing that we own the IP
	We bought-out the R&D lab and immediately went international	Services did not travel; we need a classic USP, a product	We focused entirely on the UK market and grew very rapidly	
Project-Software	Consulting on object technology, we realised that there were no automated mechanisms, and thought it would be really nice to have a product that did this	The OEM deal was short-lived	IT market stated to collapse, but we continued exporting	We developed a plan to cocoon and presented it to the investors
	We started R&D activities and launched the first version of the product via a deal with an OEM	We managed to gain control of the product, re-brand it, and started own sales	We received second round, and abandoned hopes for Europe	The plan was not accepted by one investor
		Pitched to VCs to raise funds to market the product in the UK, maybe to Europe	VCs appointed a non-exec specialised in crisis management	We approached the liquidator to surrender
		VCs said this was a daft strategy, asked to change the plan to reflect immediate international expansion to US because the vast majority of IT sales were in US	We signed a joint venture deal with a large UK MNE that had a large customer base	We bought over the IP from the liquidator, re-branded it, and launched its first version
Tool-Software	After wining a service project in smart-card technology and successfully delivering it, we were left with the software, and we decided to create a tool	We started exporting to US		
	We launched the first version of the tool via an OEM and took it to Europe	Smart-card technology started being adopted globally	The recession of the IT market started	We spotted new opportunity to develop a 3G smart-card platform for telecom and finance sectors
	We tried to raise venture capital, but with no success	We took our product to US, and opened our first office over there	Our strategic partner withdrew from the smart-card market, and from our strategic partnership	We received first round of funding to develop the platform, followed soon after by the second round of funding
		We moved to profitability	We realised that the opportunity we were pursuing was not realizing	We expanded to Japan where we opened our second overseas office
	We won a strategic contract with one of the largest software player in the world	We laid-off half of staff, and restructured the overseas offices, and decided to focus back on 2G tools and services business to generate tactical revenue	When we received third round of funding, the platform was already released	

Cases	Emergence of INVI	International expansion	At critical juncture	And beyond it
Mobile-Software	<p>By providing middleware and application that link stock management or manufacturing systems to hand-held devices, we realised that there might be a business there in creating a platform</p> <p>We decided to partner with no one – it was a trade-off</p> <p>In order to enter enterprise space we had to be perceived as European and not UK player</p>	<p>Backed by personal funding, we internationalized instantly via acquisitions; we acquired software vendors in Europe, UK, and Middle East</p> <p>Acquisition of existing customer base and products gave us some revenues</p> <p>However, acquired development, sales and marketing skills were not good at all</p> <p>We required additional funding to complete a phased design, development and release plan for the platform</p>	<p>IT market in the US started to collapse</p> <p>We hyped the business plan to buy the investors into</p> <p>We opened first offices in Europe, Middle East, and Far East</p> <p>Secured first round of funding, however we received only one third less than hyped</p> <p>We held the board meeting with the investors to re-evaluate the business plan: no changes were made</p> <p>IT market started to worsen in the UK</p>	<p>We were behind planned revenues and with the development of the platform</p> <p>We held next board meeting and decided to raise another £9 million</p> <p>One investor pulled-out from the deal, another was acquired by another, larger investor and also pulled-out</p> <p>We could not find another investors, and soon after the company ceased to trade</p>
Data-Software	<p>Through consulting services, we developed IP as to how to make the process of data mining rapid</p> <p>Backed-up by VCs we bought-out that IP and small R&amp;D team from a large software company</p> <p>International dimension was forced upon us from the very beginning, and we started exploring various routes to US market</p> <p>Failed to secure a strategic partnership with one of the leading companies in the field</p>	<p>Soon after the start-up, we achieved brake through in product development</p> <p>After another failure to secure a strategic partnership with a market leader in business intelligence, finally we managed to secure a strategic partnership with one of the largest software companies</p> <p>We received 2nd round of funding to build sales infrastructures in the US</p> <p>We opened first two overseas sales office in the US close to our strategic partner</p>	<p>IT market in the US started to collapse</p> <p>I refuted several offers from trade buyers</p> <p>Our strategic partner announced market development plans that overlapped with ours, and spooked by that event, VCs started thinking and talking as to what to do</p> <p>Meantime we opened another two sales offices in the US, and adhered to the strategy of fast, out-and-out growth</p> <p>IT market started to worsen in the UK</p>	<p>Decision was reached to focus on profitability rather than on out-and-out growth</p> <p>It was also decided to withdraw from the US, and focus on applications rather than products, and on direct selling in UK only</p> <p>I stepped down, and VCs brought in new CEO to effect new strategy</p> <p>New CEO could not attract new funding, and the company soon after ceased trading</p>

Table 3. Agility defined

Interviewee	
Co-founder, Finance-Software	<i>...ability to grow and shrink; ...have a flexible structure; have control of the business, always being able to define what we wanted to do.</i>
Co-founder, Project-Software	<i>...ability to make decisions very rapidly; ...ability to change directions as necessary; ...not having large overheads, and hierarchies.</i>
Co-founder, Tool-Software	<i>...being ready to adapt and change; ...being ready to act and take hard decisions; ...when you can take a bit of hiding, surviving, and coming back.</i>
Co-founder, Data-Software	<i>...ability to change directions quickly, and bring everybody with you.</i>
Strategy consultant	<i>Agility has to be at every level of the business.</i>
Liquidator	<i>...ability to scale up or more importantly to scale down quickly; ...keep the cost base flexible; ...being free to make decisions, not having to consult with VCs.</i>

## Appendix 1. Event list matrix: adjacent time periods and locale of events

The screenshot shows the Node Explorer interface. On the left, a tree view displays a hierarchy of nodes. The 'Entrepreneur level' node is expanded, showing sub-nodes: '@ critical juncture', 'beyond unthinkable', 'emergence of NBI', 'expansion', and 'inception'. On the right, a table titled 'Nodes in .Entrepreneur level' provides details for these nodes.

Title	Passages	Created	Modified
@ critical juncture	1	08/11/2004 - 13:16:35	17/01/2005 - 15:09:03
beyond unthinkable	0	08/11/2004 - 13:16:57	17/01/2005 - 15:09:03
emergence of NBI	0	08/11/2004 - 13:15:50	17/01/2005 - 15:09:03
expansion	0	08/11/2004 - 13:16:09	17/01/2005 - 15:09:03
inception	0	08/11/2004 - 13:15:19	17/01/2005 - 15:09:03

## Appendix 2. Event list matrix: en example of open coding

The screenshot shows the Node Explorer interface. The left pane displays a hierarchical tree of nodes under 'Entrepreneur level'. The right pane shows a table of nodes in the selected path: '.Entrepreneur level.@ critical juncture.dyadic consensus'.

**Nodes in .Entrepreneur level.@ critical juncture.dyadic consensus**

Title	Passages	Created	Modified
customer [+]	5	20/10/2004 - 19:36:19	19/02/2005 - 17:20:38
investors [-]	19	06/11/2004 - 20:23:06	18/01/2005 - 16:38:13
investors [+]	2	10/11/2004 - 12:59:47	17/01/2005 - 15:09:03
partners	4	20/11/2004 - 20:05:21	18/01/2005 - 16:38:13