How to Create an Effective Venture Capitalist–Entrepreneur Relationship: An Entrepreneur’s Perspective

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Abstract
This study investigated the relationship between venture capitalists and entrepreneurs from an entrepreneur’s perspective. Its goal was to examine how perceived justice affects psychological contract breach (PCB) and how PCB evokes reactions in the venture capitalist–entrepreneur relationship. The study was performed according to the grounded theory method. After a literature review, six entrepreneurs were interviewed who had founded a venture that received venture capital investment. Results indicate that distributive justice, formal procedures, informational justice, and interpersonal justice, among others, are important factors that can influence responses to the breach. This article discusses implications for both venture capitalists and entrepreneurs to make better decisions concerning ways to manage an effective relationship. In addition, a conceptual model is presented as a suggestion for future research.

Keywords
perceived justice, psychological contract breach, venture capitalist–entrepreneur relationship, grounded theory, psychological contract

Venture capital is becoming increasingly important as equity capital for start-up ventures; venture capital investments lead directly to the creation of new businesses and contribute to economic growth, employment, and innovation, and this is why they are of major importance to the economic system (Bertoni, Colombo, & Grilli, 2011; Samila & Sorenson, 2011; Vanacker, Collewaert, & Paeleman, 2013).

Research suggests that venture capitalists (VCs) may make valuable financial and nonfinancial contributions to a start-up venture’s success (Barney, Busenitz, Fiet, & Moesel, 1996; Busenitz, Moesel, & Fiet, 1998; Sapienza, 1992). An effective VC–entrepreneur relationship is one that promotes low-cost exchanges of information and contributes to a venture’s efficiency, productivity, and effectiveness (Busenitz et al., 1998; Morgan & Hunt, 1994; Zacharakis, Erikson, & George, 2010). In addition, Timmons and Bygrave (1986) stress that the cooperative relationship between a VC and an entrepreneur is in fact more important to the success of the business than the capital itself. Hence, a good relationship between the VC and the entrepreneur will affect the returns of venture capital.

A prerequisite for the value-added services provided by the VCs to their portfolio companies is the existence of an ongoing cooperative relationship between the VC and the entrepreneur—a relationship characterized by open and frequent communication (Parhankangas & Landström, 2004; Sapienza et al., 1996). Prior research indicates that cooperation between VCs and entrepreneurs is far from frictionless (Sahlman, 1990). Earlier studies have investigated how self-interested behavior on the part of either the VC or the entrepreneur can cause conflict within the relationship (Cable & Shane, 1997; Sahlman, 1990; Sapienza & Korsgaard, 1996) and therefore impede a venture’s efficiency, productivity, and effectiveness (Higashide & Birley, 2002).

Most studies focusing on legal contract breach in the VC–entrepreneur relationship view contractual covenants as a key to prevent and resolve problems emanating from this relationship (Kaplan & Stromberg, 2003; Sahlman, 1990). However, not all problems between a VC and an entrepreneur meet the criteria defining the breach of a legal contract. Relationships are multifaceted, or multiplex, and thus they enable parties to simultaneously hold mutually different views: views that may be accurate but, nonetheless, mutually

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inconsistent (Lewicki, McAllister, & Bies, 1998). In highly uncertain environments, such as those categorized around new venture funding, the possibility of conflict increases, especially as ventures face unexpected difficulties (Sapienza & Gupta, 1994). As such, conflict within the VC–entrepreneur dyad is to be expected (Higashide & Birley, 2002; Parhankangas & Landström, 2004). As no legal contract between an entrepreneur and a VC can anticipate every possible disagreement or every potential conflict (Sahlman, 1990), an interesting question to examine would be how both parties will respond to this disagreement in their relationship.

An interesting perspective to help us determine how the social relationship between VC and entrepreneur develops is the perspective of Psychological Contract Breach (PCB), with perceived justice as an important predictor (Collewaert, 2012). PCB is referred to as a conflict situation that can lead to several reactions or conflict outcomes, which are categorized as either constructive or destructive. In contrast to constructive reactions, destructive reactions such as entrepreneurial exit may lead to a decrease in morale and venture performance (cf. Collewaert, 2012). Research has indicated that investigating the nature and the social characteristics of exchange relationships, including investor–entrepreneur relationships (De Clercq & Sapienza, 2006; Lockett, Ucbasaran, & Butler, 2006), is crucial to gain a better understanding of their effectiveness (Collewaert, 2012; Granovetter, 1985).

The VC–entrepreneur relationship is a principal–agent relationship as well as an employer–employee relationship (Sahlman, 1990). Although most studies employing justice theories have been conducted in the context of the employer–employee relationship (Sheppard, Lewicki, & Minton, 1992), these theories seem to be applicable to the VC–entrepreneur context as well. Here, the most important argument is that the entrepreneur is generally dependent on the VC (Sapienza & Korsgaard, 1996). According to Gomez-Mejia, Balkin, and Welbourne (1990), in the VC–entrepreneur context, dependence is a function of the importance of the resource being provided, of availability of substitutes to that resource, and of the existence of alternative suppliers. Entrepreneurs need capital to fuel their growth and typically have limited avenues to raise this capital, because they are generally private firms with a high risk of failure. On the other hand, the VC is generally less dependent on the entrepreneur because VCs manage a portfolio of entrepreneurial investments, thereby diluting the impact of any one entrepreneur, even if the amount of invested capital is substantial. As such, VCs wield power over entrepreneurs, and this power imbalance has an impact on behavior (Gomez-Mejia et al., 1990; Zacharakis et al., 2010). Hence, we argue that theories that have been examined in the employer–employee context might also be applicable to the VC–entrepreneur context.

The aim of this study is to examine how perceived justice affects PCB and how PCB evokes reactions among entrepreneurs in the VC–entrepreneur relationship. Research specifically related to the VC–entrepreneur relationship from a PCB perspective is scarce; most studies focus on conflict, its causes, and consequences (Collewaert, 2012; Collewaert & Fassin, 2011; Higashide & Birley, 2002; Parhankangas & Landström, 2006; Zacharakis et al., 2010). With our research, we hope to contribute to a better understanding of ways to mitigate the negative effects of PCB and to gain a better understanding of the VC–entrepreneur relationship.

**PCB**

Psychological contract theory focuses on the ongoing exchange of obligations (Schein, 1980) that encompasses repeated cycles of each party fulfilling obligations to another (Dulac, Coyle-Shapiro, Henderson, & Wayne, 2008) and refers to an individual’s beliefs regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party (Levinson, Price, Munden, Mandl, & Solley, 1962; Rousseau, 1989; Schein, 1965). The theory of social exchange is connected to transactional and relational elements of psychological contract theory by separating the concept of exchange into economic and noneconomic categories (Jensen, Opland, & Ryan, 2009). Transactional contract promises are characterized by specific, economically oriented exchanges between the VC and the entrepreneur, for instance concerning competitive wages, which take place during a specific period of time (Jensen et al., 2009; Rousseau, 1990). Relational contract promises are characterized by open-ended noneconomic agreements focused on maintaining the long-term relationship between the VC and the entrepreneur (cf. Jensen et al., 2009; Rousseau, 1990). In the VC–entrepreneur relationship, we may perceive the psychological contract as a set of expectations about what each party is entitled to receive and obligated to give in exchange for another party’s contribution (Parhankangas & Landström, 2006). PCB is defined as the perception that the other party has failed to fulfill one or more of the obligations included in one’s psychological contract (Robinson & Rousseau, 1994; Robinson & Morrison, 1995; Rousseau & McLean Parks, 1993). PCB refers to the cognitive perception that an individual has not received all that he was promised (Morrison & Robinson, 1997).

**Fairness and Justice**

A basic tenet of social exchange theory (Blau, 1964) and equity theory (Adams, 1965) is that people’s work attitudes and behaviors are significantly determined by the outcomes that they obtain from their relationships and whether these outcomes are perceived as fair. PCB, in which the other party has failed to fulfill one or more of its obligations, is related to the perceived feelings of being treated unfairly (cf. Robinson et al., 1994; Robinson & Morrison, 1995; Rousseau & McLean Parks, 1993). Busenitz et al. (1998) examine how a
variety of conditions in place at the time of first-round funding can frame an entrepreneur’s perceptions of the fairness of his relationship with his VC. If entrepreneurs do not sense that they are being treated fairly by their VCs, it is unlikely that a frictionless exchange relationship will develop, which could ultimately cause both sides to lose (Busenitz et al., 1998; Williamson, 1975). The term used to describe the role of fairness is “justice” (cf. Folger & Greenberg, 1985). Two sources of justice are routinely cited: distributive justice, which describes the fairness of the outcomes a party receives (cf. Bierhoff, Cohen, & Greenberg, 1986; Folger & Greenberg, 1985), and procedural justice, which describes the fairness of the procedures used to determine those outcomes (cf. Gilliland, 1993; Lind & Tyler, 1988). These two sources of justice are elaborated below.

Authors of distributive justice theories propose that individuals will evaluate distributions of outcomes on the basis of certain distributive rules, the most common of which is equity (Cohen, 1987; Gilliland, 1993; Greenberg, 1987). Evaluations of inequitable distributions are thought to produce negative emotions, which, in turn, motivate individuals to change their behavior or distort the cognitions associated with perceptions of unfairness (Adams, 1965).

Greenberg (1990a) identified two components of procedural justice. The first component is fair formal procedures; fairness perceptions are influenced by the presence or absence of procedures believed to be fundamental to the fair distribution of rewards (Leventhal, 1980). Examples of such procedures are those designed to increase voice in decisions or to decrease bias and error in decisions. The second component of procedural justice is interactional justice; the term refers to the fairness of the treatment a party receives in the enactment of formal procedures or in the explanation of those procedures (Bies & Moag, 1986; Bies & Shapiro, 1988; Niehoff & Moorman, 1993; Tyler & Bies, 1990).

Although many different dimensions of procedural justice have been identified, Greenberg (1990b) and Gilliland (1993) conclude that procedural justice consists of three main dimensions: formal characteristics, explanation, and interpersonal treatment (Busenitz et al., 1998). According to Busenitz et al. (1998), the dimension of formal characteristics is consistent with what Gilliland (1993) refers to as representativeness. Representativeness examines whether the interests of the parties concerned have been addressed (Sheppard & Lewicki, 1987). The construct of formal characteristics fits in with the concept of formal procedures as the first component of procedural justice. The second component of procedural justice, interactional justice, has two dimensions: informational justice (based on justification, truthfulness, and providing adequate explanations for decisions) and interpersonal justice (based on dignity, respect, and propriety; Zhang & Jia, 2013). Informational justice can be conceptualized by the construct of explanation, and interpersonal justice can be conceptualized by the construct of interpersonal treatment. Explanation involves the provision of timely and informative feedback (Sheppard & Lewicki, 1987) as well as providing adequate justification for decisions (Bies & Shapiro, 1988). Adequate explanation has been consistently found to be positively associated with perceptions of fairness (Busenitz et al., 1998). Interpersonal treatment seems to be a measure of respect (Busenitz et al., 1998), which may actually be a prerequisite condition for the existence of procedural justice (Kim & Mauborgne, 1991). Researchers have explained procedural justice effects (both formal procedures and interactional justice) on people’s attitudes and behavior using an exchange framework (Lind & Earley, 1991). According to this framework, the value of fair procedures and fair treatment lies in the fact that these make it more likely that the ultimate distribution of outcomes will also be fair. Therefore, the role of procedural justice is to enhance distributive justice (Niehoff & Moorman, 1993).

**PCB Responses**

Responses to PCB include behavioral strategies as a result of one party’s perception of unfair treatment and the lack of justice (cf. Hagedoorn, Van Yperen, Van de Vliert, & Buunk, 1999). Psychological contract literature defines five responses to breach: exit, loyalty, neglect, aggressive voice, and considerate voice (Hagedoorn et al., 1999; Hirschman, 1970). Exit is a voluntary termination of the relationship (Rousseau, 1995). Exit is impersonal and indirect, and it avoids a face-to-face confrontation with the other party (Parhankangas & Landström, 2004). It may take the form of replacing the VC or exiting the venture altogether. Loyalty or silence is a form of nonresponse. It involves passivity combined with a feeling of optimism—patiently believing that things will improve without intervention (Parhankangas & Landström, 2004). Neglect involves the omission of one’s duties to the detriment of the interests of the other party (Rousseau, 1995). Voice refers to the actions of the victim to remedy, rather than to escape from or live with, an objectionable state of affairs. Voice has been divided into aggressive voice, which consists of efforts to win, without consideration for the concerns of the organization, and considerate voice, which consists of attempts to solve the problem while considering one’s own concerns as well as those of the organization (Hagedoorn et al., 1999; Parhankangas & Landström, 2006).

**Present Study**

In the VC–entrepreneur relationship, the VC must structure and execute deals with the entrepreneur, monitor the investment, and ultimately achieve return on investment. The contracts between the VCs and the entrepreneurs they invest in are similar in many ways (Sahlman, 1990). The standard participation shareholders agreement has a number of features that control the process by which both parties are rewarded. Examples include specific terms concerning convertible preferred stock, such as conversion price, liquidation preference, and voting rights (Sahlman, 1990). In the Dutch VC
industry, these features are governance structure, information rights, voting rights, anti-dilution, conversion rights, right of first refusal, lock-up, liquidation (and exit) preference, good and bad leaver clauses, drag along and tag along rights, and rights concerning divestment (Cross, 2013). Convertible stock gives the VC the right to convert a loan into an equity stake (Metrick & Yasuda, 2011). Conversion price may vary according to the performance of the company, resulting in a larger percentage of shares owned by the investor in case of underperformance. Liquidation preference entitles the investor to an amount of money equal, in most cases, to what is required to face the amount of the convertible preferred issue and all accrued but unpaid dividends (Sahlman, 1990). Voting rights give the VC the right to obtain more than the usual one vote per share (Cross, 2013). Altogether, the VC usually gains substantial influence over the entrepreneurial firm (Sahlman, 1990; Wijbenga, Postma, & Stratling, 2007) and therefore over the distribution of rewards.

Evaluations of inequitable distributions are thought to produce negative emotions, which, in turn, motivate individuals to change their behavior or distort the cognitions associated with perceptions of unfairness (Adams, 1965; Gilliland, 1993). If the entrepreneur expects that rewards are allocated in an equitable manner, then evaluations of inequitable distribution can lead to PCB. If inequitable distribution can lead to PCB, it is therefore likely (but not yet indicated) that distributive justice will influence the reaction to PCB. This leads to the following research question:

**Research Question 1:** Does distributive justice influence the response to breach in the venture capitalist–entrepreneur relationship?

Among the two facets of procedural justice that were examined in the literature section above, namely, formal procedures and interactional justice, formal procedures refer to the presence or absence of procedures believed to be fundamental to the fair distribution of rewards (Leventhal, 1980; Niehoff & Moorman, 1993). In contrast to equity theory, which emphasizes the outcome of decisions, procedural justice theory examines the impact of the process of decision making on the quality of exchange relationships (Lind & Tyler, 1988; Sapienza & Korsgaard, 1996). In line with Busenitz & Barney (1997), formal procedures are defined as the extent to which procedures in the VC–entrepreneur relationship are judged to be fair by both parties. Individuals’ responses to unfavorable actions are less severe when they perceive the decision-making process to be procedurally just (Brockner, Dewitt, Grover, & Reed, 1990). Procedural justice moderates the relationship between breach and exit (Kickul, Neuman, Parker, & Finkl, 2002; Turnley & Feldman, 1999). Restubog, Bordia, and Bordia (2009) found that fair treatment can mitigate the negative responses of parties who have experienced a contract breach. Procedural justice, therefore, can control the negative effects of breach and makes its impact on the entrepreneur’s outcomes less harmful (Restubog et al., 2009). This leads to the following research question:

**Research Question 2:** Do formal procedures influence the response to breach in the venture capitalist–entrepreneur relationship?

Among the two facets of procedural justice examined in the literature section above, namely, formal procedures and interactional justice, interactional justice consists of informational justice and interpersonal justice. To create informational justice, which is based on justification, truthfulness, and providing adequate explanations for decisions, VCs should provide detailed explanations about the enactment of formal procedures (Zhang & Jia, 2013). Thibaut and Walker (1975) found that work attitudes and behaviors also depend on the fairness of the methods used to plan and implement decisions. Informational justice is expected to enhance perceived fairness as it sends a strong signal to the entrepreneur indicating that the VC respects entrepreneurs well enough to provide adequate explanations for specific decisions (Greenberg, 1993; Zhang & Jia, 2013). Therefore, informational justice should decrease relationship conflicts and correspondingly reduce negative responses to breach (Zhang & Jia, 2013). This leads to the following research question:

**Research Question 3:** Does informational justice influence the response to breach in the venture capitalist–entrepreneur relationship?

The more parties perceive the other party to be procedurally fair, the more likely they will trust the other party (Brockner, Chen, Mannix, Leung, & Skarlicki, 2000; Konovsky & Pugh, 1994). Lind and Tyler (1988) proposed a group-value theory suggesting that several noncontrol issues, including trust in the third party, influence both procedural preferences and judgments of procedural justice. Tyler (1989) confirmed that judgments about trust have an independent impact on judgments about procedural justice. In social exchanges in which the level of trust is relatively high, people concern themselves not only with the short-term outcomes of the social exchange but also with the longer term outcomes. When the level of trust is relatively high, people may be willing to accept a less-than-hoped-for outcome in the short term because the presence of trust makes them more likely to believe that they will receive their share of desired outcomes over time (Brockner et al., 2000). Furthermore, Zhang and Jia (2013) suggest that perceived interpersonal justice helps relieve the disruptive effects of relationship conflicts. Interpersonal justice should mitigate the relationship conflict, thereby relieving negative-affective responses (Rupp, McCance, Spencer, & Sonntag, 2008;
Zhang & Jia, 2013). Therefore, it is suggested that interpersonal justice diminishes the negative consequences of PCB. It is therefore likely that interpersonal justice will influence the response to breach. This leads to the following research question:

**Research Question 4:** Does interpersonal justice influence the response to breach in the venture capitalist–entrepreneur relationship?

The present study focuses on the questions why and how distributive justice, formal procedures, informational justice, and interpersonal justice influence the response to breach. In the current literature, no consensus has been reached on the effect of these constructs on the response to breach in the VC–entrepreneur relationship (cf. Parhankangas & Landström, 2004), in contrast with the employee–employer relationship where these constructs have been studied extensively. Due to the current level of research in the field of the VC–entrepreneur relationship, the present study has an explorative nature. Consequently, the constructs found in the literature review might not be exhaustive. Therefore, the present study also aims to shed light on other factors that could not be identified by conducting literature research but which may nevertheless influence the response to breach in the VC–entrepreneur relationship. This leads to the following research question:

**Research Question 5:** What other factors influence the response to breach in the venture capitalist–entrepreneur relationship?

**Method**

**Setting**

The sample we concentrated upon was relatively small, mainly because this study aimed to gain empirical insights into the question how perceived justice affects PCB and what responses are caused by PCB in the VC–entrepreneur relationship. We selected our sample on the basis of two criteria. The first criterion concerned the requirement that the respondents had experienced an entrepreneur’s perspective in their relationship with a VC. We therefore selected a sample based on data issued by the Dutch Venture Capital Association (Nederlandse Vereniging van Participatiemaatschappijen, 2013). This list consists of 3,179 Dutch ventures that were financed by a VC between 1989 and 2013. Our second criterion concerned venture capital introduced as a tool in a venture’s financing stage. This was done because ventures which have outgrown the financing stage tend to lean less on the entrepreneur’s experience and guidance (Metrick & Yasuda, 2011). As venture capital investments generally concern an investment stage that specifically relates to Micro-, Small-, and Medium-sized Enterprises (MSME), the MSME definition mentioned in the International Accounting Standards was adopted to make a selection based on venture capital investment stage. The ventures concerned were selected from this list, resulting in 437 ventures being classified within this category. From this list, participants were then contacted for interviews.

As a result of the selection procedure, the current research study was conducted among six entrepreneurs who had founded a venture that had received venture capital investment. These new ventures were characterized by the design, development, and production of high-tech equipment for a diversity of markets. The panel had founded six ventures that were VC backed by six different VCs. In four cases, informal investors had invested in the venture before the VC entered as a shareholder. Four out of six entrepreneurs reported having an ongoing relationship with their VC, and in two cases, the relationship had ended: in one case through the sale of the investors’ shares and in the other case through the liquidation of the venture.

**Data Collection**

The semi-structured design of the interviews was based on the constructs influencing the responses to breach in the VC–entrepreneur relationship. Focus points during the interviews concerned perceived situations of breach, factors that could have caused this breach, as well as factors that may have prevented breach. All respondents were asked to answer from their own perspectives and experiences as openly and honestly as possible.

The interview topics served as guidelines for relevant problems and other issues to be dealt with. Questions were therefore also formulated in response to the respondent and the situation. New factors discussed in the interviews were selected for use in further interviews after examining relevant literature. Data appeared saturated after six interviews. The interviews took between 75 and 90 min each and were recorded on audiotape. Afterward, the interviews were transcribed for further analysis. If needed, additional field notes were used as a guideline during the meeting so that we could address the next question.

**Data Analysis**

Qualitative data were analyzed with the help of grounded theory procedures (Bryant & Charmaz, 2007; Glaser & Strauss, 1967; Strauss & Corbin, 1990). In the first step of data analysis, all relevant parts of the text were marked. Initial coding methods were used according to grounded theory instructions. At this point, no selections were made on the basis of frequency or importance. In this way, all important empirical data were categorized, even if these did not fit into the constructs found in the literature research stage.

In the second step, the data were categorized into more significant and/or frequently used codes by applying a
focused coding procedure. PCB was coded as the failure of the other party to fulfill one or more of its obligations. Codes for PCB responses were derived from the literature review including “exit,” “loyalty,” “neglect,” “aggressive voice,” and “considerate voice.” Also, some of the codes for influencing factors were derived from the literature review, such as the codes for “distributive justice,” “formal procedures,” “informational justice,” “interpersonal justice.” In addition, codes were created directly from the transcribed text, such as the codes “use of power,” “conflict of interest,” or “personality traits.” As a result, the interview text was reduced to contain only relevant passages of the text, which were grouped around the codes.

The third step of data analysis concentrated on the above codes and the related interview paragraphs. The set of paragraphs for each code was cross-checked to review whether or not it was related to the code. Subsequently, nonmatching paragraphs were related to other codes or canceled. This analysis led to a more detailed description of each code.

In the fourth step of data analysis, relationships between codes were identified to develop a system of codes with a certain classification. During this step of our analysis, groups of newly found factors were formed. The identification of links between the codes led to a system of interrelated categories and thus to a coherent understanding of the research topic.

As the data analysis steps overlapped, the analysis process was an iterative and recursive one allowing us to develop a comprehensive understanding of the topic and to check and clarify the interpretations of the texts. MAXQDA, a computer program for text analysis, was used for our data analysis and coding, and served as a pool of relevant interview citations for further interpretation.

Results

The aim of the qualitative analysis was to test how and why the constructs found in the literature study influence the response to breach in the VC–entrepreneur relationship. PCB was recognized in all the interviews, as were the five responses to breach and the influencing constructs found in the literature review. All these constructs were found as expected on the basis of the assumptions expressed by the researchers. In line with grounded theory, not only the researchers’ theoretical assumptions concerning influencing constructs were confirmed, but also new influencing factors were recognized. These can be divided into “conflict of interest,” “psychological ownership,” “use of power,” “available alternatives,” and “personality traits.” The frequency with which each code was identified is summarized in Table 1.

Following initial coding and listed among the codes as summarized in Table 1, two other codes were found, namely, “input in kind” and “trust.” As a result of focused coding, only relevant codes were kept. In the data-focused coding analysis, the relationships between codes were sorted and grouped. For instance, sorting the relationships between codes suggested that “input in kind” should be considered to be part of distributive justice. “Input in kind” was considered to be nonfinancial input, either by the entrepreneur or the VC.

Tyler (1989) confirmed that judgments about trust have an independent impact on judgments of procedural justice. Interpersonal justice is defined as the extent to which each party is treated with dignity, respect, and trust, and therefore trust is considered to be part of interpersonal justice. The newly found influencing factors, that is, those that were not identified during the literature review, are briefly explained below.

Conflict of Interest

Separation of financial ownership and management is a characteristic of today’s modern corporations. Wherever and whenever contracts defining financial ownership and control are incomplete and cannot specify all possible contingencies, agency conflicts arise (Jensen & Meckling, 1976) due to the fact that different stakeholders may have different objectives (Zhang & Jia, 2013). This is coded as “conflict of interest.”

Psychological Ownership

Entrepreneurs have a strong sense of psychological ownership over and emotional attachment to their ventures (Pierce, Kostova, & Dirks, 2001), even after receiving external equity funding (Arthurs & Busenitz, 2003). Situations where the respondent spoke about the absence, increase, or decrease of this phenomenon were coded as “psychological ownership.”
Use of Power

Rather than maximizing the expected shareholder value, managers may tend to maximize the expected private utility of their control benefits at the expense of outside shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976). As outside shareholders, VCs are often able to protect their interests through the use of power, which is assigned to them by term sheets and shareholders agreements. Examples of the use of power include investors insisting upon unbalanced contracts or eliminating minority shareholders through questionable methods, for instance by forcing them to sell their shares at reduced prices or, the opposite, by blocking their investment (Collewaert & Fassin, 2011). Situations in which the VC has used this form of power are coded as the “use of power.”

Available Alternatives

While VCs often have several firms in which they invest, entrepreneurs concentrate all their efforts and resources into one firm. In this way, the number of alternative sources of income decreases. Furthermore, in the case of PCB, the entrepreneur sometimes seems to perceive a lack of available alternatives to the VC–entrepreneur relationship. This situation is coded as “available alternatives.”

Personality Traits

Not only situational and psychological codes were found, but also “personality traits” could be identified as a factor affecting the entrepreneurs’ response to breach. Personality traits refer to individual differences that are relatively stable and that can explain differences in individuals’ cognitions and behaviors (DeYoung & Gray, 2009). For example, “belief in a just world” refers to an individual’s general belief that people get the rewards and punishments they deserve (Lerner, 1980).

Research Question 1: Does Distributive Justice Influence the Response to Breach in the VC–Entrepreneur Relationship?

Results show that, in most cases, the distribution of rewards is not equitably divided among the VC and the entrepreneur. In the six VC–entrepreneur relationships studied here, mechanisms that influence the distribution of rewards, such as exit preferences, drag along clauses, claw-backs, or convertibles, were present in at least four cases. Furthermore, inequitable distributions could be caused by “input in kind” from the entrepreneur, for example, in the form of working weeks of more than 40 hr or a lack of pension facilities.

Part of this investment is not proportionally reflected in the subsequent growth of one’s capital stock, but it does in fact benefit the investor. In this sense, what is ploughed back does not generate returns in the form of profit… One thing we have given up on in our company, for instance, is pension building. (Entrepreneur 6)

The perception of fairness concerning the distribution of rewards is affected by the allocation of rewards with respect to each party’s contribution to the venture. One of the respondents noted that the investor and the entrepreneur may have different perceptions of fairness:

I have had this discussion before: what is fair? Suppose that we invest 30 million and manage to build a firm that’s worth 300 million, just to mention a figure. How should the surplus value be divided among those who actually did the job and those who invested the money? Well, I can tell you that 99% goes to the investors. I then ask him: is this really fair? To which he usually answers “no, but it is exactly how this world works.” (Entrepreneur 2)

In several cases examined in the present study, perceived unfairness due to the distribution of rewards led to PCB, for example, when an entrepreneur expressed his doubts about the balance between the amount of time he spent on the venture in proportion to his share of the rewards.

In following investments, I would also be more critical with respect to this exit preference. At the time, we thought “no worries, this is still a long way off,” and of course we envisaged massive growth figures, and this always takes much longer than you would like. Which means that you have to step up your efforts yet again and make additional private investments without any clearly visible returns. Let me put it this way: it is something that starts bugging you. You start wondering whether the balance is still right. (Entrepreneur 6)

In this case, the entrepreneur did not follow up these feelings by bringing up the issue: a form of response to breach that we categorized as “loyalty.”

Have you brought this up for discussion? . . . No, not yet. (Entrepreneur 6)

We can conclude that distributive justice does in fact influence the response to breach in the VC–entrepreneur relationship. Responses to breach are influenced by inequitable distributions of rewards, which can lead to perceived unfairness and PCB.

Research Question 2: Do Formal Procedures Influence the Response to Breach in the VC–Entrepreneur Relationship?

In the Dutch venture capital industry, protection of the investor is accomplished by means of formal procedures. Most frequently negotiated are governance structure, information
rights, voting rights, anti-dilution, conversion rights, right of first refusal, lock-up, liquidation (and exit) preference, good and bad leaver clauses, drag along and tag along rights, and rights concerning divestment (Cross, 2013). In this study, several of these protection mechanisms were found. None of the entrepreneurs mentioned specific rights to be unfair; however, the balance of rights that each party is entitled to use seems to influence the perception of fairness.

It must be said that what investors do... they want maximum protection when it comes to their own interests. This is done in the form of articles, and shareholder agreements, and drag along, tag along, and so forth. I must admit that these people mainly look after themselves. (Entrepreneur 5)

In the exchange relationship, the expectations of what each party is entitled to receive and obliged to give in return is associated with the perception of fairness (Blau, 1964; Parhankangas & Landström, 2004). Most entrepreneurs in the present study perceived balanced rights as fair.

... to make sure in any case that, contractually speaking, everything would be legally checked so that nothing could happen that would make me blow my top, should any hypothetical issue actually materialize. In effect, I had already managed the risk through the legal contracts. (Entrepreneur 2)

In contrast to Entrepreneur 2, all other respondents did not report having any experience with these types of legal contracts at the beginning of the initial investment phase. The entrepreneurs who had agreed on an unbalanced allocation of rights showed negative emotions concerning the topic.

I am the first to understand that you need a few securities when you cough up large amounts of money, but I had the feeling that an almost endless set of requirements had to be met. All these details: if this happens, if that happens, and if then something else should happen... At a certain point, this discussion becomes so hypothetical that you start thinking “well... In my opinion, this discussion was out of balance.” (Entrepreneur 4)

Several entrepreneurs noticed unbalanced formal procedures and perceived PCB as a result, and most of them showed responses to breach that were coded as loyalty.

The battle is then fought with the combatants constantly at loggerheads... And you simply join the fray. Apparently, this type of game is fully accepted. (Entrepreneur 5)

In conclusion, we suggest that formal procedures may influence the response to breach in the VC–entrepreneur relationship. Responses to breach are influenced by the unbalanced allocation of rights, which can lead to perceived unfairness and PCB.

Research Question 3: Does Informational Justice Influence the Response to Breach in the VC–Entrepreneur Relationship?

Informational justice is defined as the perception of fairness on the part of the entrepreneur regarding the enactment of formal procedures and the explanation of these procedures. VCs are familiar with contracts comprising formal procedures and usually have a dominant position regarding their execution.

Of course, these investors are terrible, at least from a legal perspective... and when you become involved with an investor for the first time... three days before the deal, my VC01 sent me loads of e-mails mentioning shareholder agreements, articles and who knows what else... and when you print them, they form a daunting pile of paper, and then there you are: a layman asking himself what to do with it all. (Entrepreneur 5)

Five out of six entrepreneurs did not have any experience with these types of contracts and needed explanation about certain points. Most entrepreneurs realized that the interests of the two parties involved during the negotiations were not aligned. Nevertheless, they had expected to receive at least some explanation, for example, regarding contract provisions that affected their fully diluted share size.

Of course, you could argue that considering this is all up to you, but it concerns wise lessons learnt only with hindsight. Your first investment is never your last investment... And then you don’t always get the necessary transparency or the right balance in terms of arguments required to make the right decisions. (Entrepreneur 1)

A lack of informational justice did not prove to lead to PCB; however, several entrepreneurs emphasized the importance of open and frequent communications and mentioned feelings of obstinacy.

I understand their reluctance to show their hand, and I very often think that it was probably not driven by unwillingness and that they did not consciously try to hide things from me, but I did experience it as such, at least that’s what I feel is the bottom line of things. (Entrepreneur 3)

As a result of a lack of effective communication, as perceived by the entrepreneur, the quality of the relationship was negatively affected.

Communication was an immensely important issue, and communications were not effective, or perhaps they were in one-to-one situations, but definitely not when three or four people got together... As a result of this, my ideas about the quality of the relationship have definitely suffered some damage. (Entrepreneur 3)
To conclude, we did not find evidence that informational justice influences the response to breach in the VC–entrepreneur relationship. However, informational justice does influence the quality of the VC–entrepreneur relationship.

**Research Question 4: Does Interpersonal Justice Influence the Response to Breach in the VC–Entrepreneur Relationship?**

The interview findings suggest that entrepreneurs generally value a relationship with their VC that is based on trust. Most entrepreneurs view their VC as an inanimate firm, but trust proved to be related to specific individuals.

This is why he is important, for me personally and as a person. VC01 understands the entrepreneur’s perspective, too: He used to be one himself, and this is what breeds trust. (Entrepreneur 4)

Triggered by the effects of control mechanisms and risk shifting from the VC to the entrepreneur, the entrepreneur is inclined to perceive a lack of trust. In cases where trust was demolished by a single person, the entrepreneur generalized this lack of trust to the industry as a whole.

These investors . . . it’s all premeditated of course, their little plans and schemes. All of them have ulterior motives; they work with hidden agendas. (Entrepreneur 5)

In comparison with other elements of justice, all entrepreneurs indicated that fairness and trust is far more important than procedures or outcomes.

This whole thing is not about mere contracts; it’s about people and how you deal with them . . . Because of these games that are played with money and power and trust . . . I simply feel that’s been damaged! (Entrepreneur 1)

In the VC–entrepreneur relationship, a lack of interpersonal justice may lead to PCB.

What’s much more important is that I’m treated fairly. An honest and potentially interesting longer-term investment would make me want to spend time on it . . . But thinking about my time, to tell you the truth, I often wonder whether it still is an interesting investment. (Entrepreneur 3)

According to Zacharakis, Erikson and George (2010), good faith conflicts tend to lead to more constructive responses. When PCB occurred and interpersonal justice was perceived as low, the responses to breach proved more severe, for example, when the intentions to exit were mentioned.

Personally, it nearly killed me. I couldn’t cope with the way things went. This is not at all how I wish to operate, and so I asked them whether we should do it, and if not, that they should try and find someone else to do it for them. I didn’t say it quite like this, but that was how I felt it, it was definitely the gist. (Entrepreneur 3)

In sum, we cannot firmly conclude that interpersonal justice diminishes the negative consequences of PCB, as proposed in the literature review, but we can suggest that a lack of interpersonal justice negatively affects the response to breach. Responses to breach are negatively affected by a lack of trust; this lack can lead to perceived unfairness and PCB.

**Research Question 5: What Other Factors Influence the Response to Breach in the VC–Entrepreneur Relationship?**

In addition to the constructs that were identified in the literature review, namely distributive justice, formal procedures, informational justice, and interpersonal justice, several other important factors were found. These factors, conflict of interest, psychological ownership, use of power, available alternatives, and personality traits, are specified in the sections below. Collectively, they form the answer to our fifth research question.

**Conflict of interest.** On one hand, the VC–entrepreneur relationship is governed by collective or shared objectives and rules but, on the other hand, also by individual and often conflicting goals and interests. This is how conflicts may arise within the relationship, and it explains why the resolution of such conflicts would require more or less permanent balancing activities by the members involved. All entrepreneurs emphasize the importance of aligned goals. In most cases, all shareholders agree on value creation as their shared objective and main long-term goal; however, entrepreneurs also anticipate on the misalignment of goals, for example, regarding the moment of exiting their investment in the venture.

This was definitely no serious approach towards a particular topic or a discussion; it was in actual fact an exit preparation without showing our cards too clearly—“what we really want is to get out” . . . Other players would have different feelings and considerations, but that was something we managed to deal with, too. (Entrepreneur 4)

PCB seems to be more easily avoided when the VC is satisfied about the performance of the venture. For example, the venture led by Entrepreneur 4 grew from 15 to almost 50 employees after the investment made by the VC. In the venture set up by Entrepreneur 1, the number of employees was reduced from 14 to 3 after the investment of the VC.

But I think that, ultimately, it is not the wonderful products or the market or the people that form the decisive factors in making a final decision, but rather that it’s just the plain and ordinary
combination of money and power which proves to be much more dominant than you would expect. (Entrepreneur 1)

Furthermore, it is not the misaligned interests themselves but communication and distinctness that seem to be important factors determining the outcome in a situation of conflicting interests.

... that at a certain point you clearly see: “well, this is what we have, this is what we agree on, and this is where our interests differ.” (Entrepreneur 2)

The entrepreneur can anticipate on the situation in which the VC’s interests are known and the VC may be expected to act accordingly. In conclusion, aligned interests and clear communication about each party’s individual interests might mitigate the occurrence of PCB and its potential negative impact.

Psychological ownership. In most cases, the VC is a minority shareholder; to protect the interest of its minority stake, the VC has more rights than it should have, based on the percentage of common shares. Therefore, the VC is in a position to make decisions that the entrepreneur can consider to be a responsibility of management.

You see, the problem is that an investor frequently sees himself as a kind of manager working in the company. But in actual fact, and most of the time, he is much less well informed about the company. (Entrepreneur 2)

Due to the relatively large decision-making power on the part of the VC, the entrepreneur may perceive ownership of the venture to be taken away from him, which leads to PCB. Most entrepreneurs indicate being motivated by a feeling of ownership. When this feeling diminishes, the response to breach is likely to be destructive.

I believe I have come to view this company as my own flesh and blood. This is what I depend on... The moment this feeling diminishes, you run the chance of finding the investor taking over your seat, and this is where it would stop for me. (Entrepreneur 2)

Use of power. In the VC–entrepreneur relationship, term sheets and shareholder agreements are especially designed to protect the VC’s interests, resulting in formal procedures that give the VC substantial influence over the entrepreneurial firm. Although entrepreneurs agree on these contracts prior to first financing round, they experience PCB when the VC actually uses this power.

One of the investors is authoritarian in terms of what he believes should be done. He’s a bit blind, if you ask me, and he lacks a sense of reality. “Do this,” he says, “do that,” and then I say “well, this means that I cannot do all these other things and would that be OK with you” and then he says “no, you need to do all of them.” Do you get the point here? I felt pressurized. It also felt like blackmail: it concerned a bridging loan, and he had included all kinds of extra terms stating what he wanted to be done. In a sense, it felt as if he wanted to say “I haven’t got enough power and you don’t do exactly what I want you to do, so I’ll add a few extra conditions.” (Entrepreneur 3)

The fact that the VC is legally authorized to use power does not seem to reduce PCB. Most entrepreneurs look back after the closing of the deal and perceive fairness in the context of the outcome. For example, Entrepreneur 1, who perceived the outcome of a convertible loan as unfair, stated the following:

You accept something, you can cough up 5% if you fail to pay back in time... so that’s a fair deal. But later... the balance and the interests simply start to shift. (Entrepreneur 1)

Use of power seems to increase the severity of PCB, and the response to breach seems to be more destructive when the VC uses its power to defend its own interests.

If you continue to be obstructive, the value of your shares will evaporate because then I will abandon the whole thing. So, during the shareholders meeting, exit threats were made. (Entrepreneur 2)

In conclusion, use of power by the VC—especially when it consists of efforts to achieve its own goals—easily results in PCB and a destructive response to breach.

Available alternatives. A destructive response to breach, illustrated, for example, by the entrepreneurs’ intention to exit the venture after perceived PCB caused by the use of power, does not necessarily lead to the actual execution of this intention. The entrepreneur is often more dependent on the venture than the VC.

... the investor does not simply invest in one single party, but in many more. Suppose I am one of ten. Does this make me a major player or a minor party? I’m a small actor, but this has serious consequences in terms of what is at stake. (Entrepreneur 1)

VCs use portfolio investment strategies to spread the risk across several investments (Sahlman, 1990). The entrepreneur, on the other hand, has invested all his resources in one single venture.

Because if you say “I’m out of here,” you are out of a job. I can’t quite put my finger on it... but I know that I can’t quit. (Entrepreneur 1)

Therefore, in practice, the entrepreneurs’ intention to exit does not necessarily lead to an actual exit, thanks to the availability of alternatives for the entrepreneur.
... that I considered exiting. If I should hit the jackpot tomorrow, then one small phone call is all that it takes. (Entrepreneur 1)

**Personality traits.** In addition to the above-mentioned factors influencing PCB and the response to breach, individual differences may explain the variation in individuals’ cognitions and behaviors (DeYoung & Gray, 2009).

I like taking the moral high ground. It is something that the people I work with realize after a while. And my investors know it, too. (Entrepreneur 2)

Burnett, Williamson, and Bartol (2009) challenge the implicit assumption mentioned in prior research on employer–employee relationships stating that employees view procedural fairness and outcome favorability as equally salient cues when attempting to make sense of their work environment. Burnett and colleagues found that personality traits, and particularly consciousness and extraversion, influence the perception of fairness. These findings also seem to hold for the VC–entrepreneur relationship.

Very important, and this is a personal thing, I believe that many entrepreneurs find this very important, and a lack of it irritates the hell out of me. To me, integrity and honesty are vital concerns. I find it almost impossible to sell things if I’m only told half of the story, but this may be my own personal thing. Still, I expect a similar attitude from the people I work with. (Entrepreneur 3)

An entrepreneur’s personality traits influence to what extent PCB is perceived and thus influence the response to breach, but the interaction between the VC and the entrepreneur should not be underestimated. We may conclude that the personality of both parties is an important influencing factor on PCB and the response to breach.

Without personal and mutual respect, nothing much happens, so there should be some chemistry in the combination of characters. Irrespective of whether the venture concerned is large or small, there will be a handful of people who will have to carry out the job. And if you don’t feel like getting together and joining forces, you will not generate any results. I think this is essential, and that it applies in any situation, with any investor and any other partners. (Entrepreneur 6)

To a greater or smaller degree, all participants emphasize personality traits as an important factor in the VC–entrepreneur relationship. This is supported by Restubog et al. (2009), who found that individual differences play a role in predicting responses to breach in the employer–employee relationship.

Get to know the person and the venture you invest in! This would be my main piece of advice. (Entrepreneur 1)

**Discussion**

This explorative study aimed to provide a conceptual framework that can be used in future research to investigate the factors that influence the effectiveness of the relationship between VCs and entrepreneurs after PCB has occurred. The conceptual model offers the answer to our main research question asking what constructs influence entrepreneurs’ responses to PCB. Answering this question is important for VCs as it gives them directions to develop an effective relationship with the entrepreneurs of the ventures they invest in.

To achieve and maintain the success of the venture, it is essential that the relationship between the VC and the entrepreneur be an effective one (Zacharakis et al., 2010). A better understanding of the factors involved will benefit both the VC and the entrepreneur. It will also contribute to a better understanding of the field of venture capital in general, which is of practical relevance as the field is considered to be of major importance for economic growth, employment, and innovation (Bertoni et al., 2011; Samila & Sorenson, 2011; Vanacker et al., 2013).

Several constructs appeared to influence the response to PCB on the part of entrepreneurs. The first construct that influences the response to breach is distributive justice; inequitable distributions of rewards influence perceptions of fairness. In several cases included in the present study, perceived unfairness due to the distribution of rewards led to PCB.

The second construct concerns formal procedures. In the employer–employee relationship, fair treatment can mitigate the negative responses demonstrated by employees who have experienced a contract breach (Restubog et al., 2009). The present study revealed a slightly different outcome in the VC–entrepreneur relationship. Not formal procedures themselves were found to be an influencing factor on responses to breach, but instead it was the allocation of rights to use formal procedures that was found to be an important factor possibly leading to perceived unfairness and PCB. The difference might be explained by the fact that the employer–employee relationship is a superior–subordinate relationship, while the VC–entrepreneur relationship is a nonhierarchical relationship.

In the VC–entrepreneurial context, the design of formal procedures is an outcome of a negotiation process. As both parties contribute to this process, it seems intuitively right that each party is satisfied with the allocation of rights. However, the present study reveals that this is not self-evident. In the present study, rights to use formal procedures were not equally distributed between the VC and the entrepreneur, while most entrepreneurs perceived balanced rights as fair. Therefore, formal procedures may in fact have an indirect effect on PCB and responses to breach.

With respect to the third construct, informational justice, the research outcomes were not in line with our expectations. In the present study, most entrepreneurs expected to receive explanations to some degree; however, a lack of informational justice did not lead to PCB. The supposed effect of
informational justice on PCB might be mitigated by the cognitions of the entrepreneur who realizes that the interests of both parties addressed during negotiations are not aligned. On the other hand, due to a lack of effective communication and in the perception of the entrepreneur, the quality of the relationship was negatively affected. Although the reduction of relationship quality might be an aftereffect of a particular response to breach, it is nevertheless beyond the scope of this study to formulate conclusions on this topic.

Concerning the fourth construct, interpersonal justice, it was concluded that a lack of interpersonal justice negatively affects the response to breach. In the employer–employee relationship, interpersonal justice mitigates the relationship conflict, thereby relieving negative-affective responses of employees on PCB (Zhang & Jia, 2013). The present study could not confirm these findings in the VC–entrepreneur relationship. The presence of interpersonal justice was not found to mitigate PCB, but it was the absence of interpersonal justice that was found to affect PCB. A lack of interpersonal justice can lead to a lack of trust, which in its turn can lead to perceived unfairness, PCB, and responses to breach. It can therefore be concluded that a lack of interpersonal justice affects the response to breach by its negative effect on trust.

In addition to the above constructs, five other important factors were identified that influence the response to breach in the VC–entrepreneur relationship: conflict of interest, psychological ownership, use of power, available alternatives, and personality traits. Conflict of interest arises in situations where different stakeholders have different objectives. Aligning interests in combination with clear communication about each party’s interests might mitigate the occurrence of PCB and its potential negative impact. PCB is likely to occur when the performance of the venture fails to satisfy, as the risk of losing their investments increases for both parties and conflicts of interest become more likely. This can happen, for example, if the allocation of profits is perceived as unequal. In contrast, when the performance of the venture is extremely profitable, the allocation of profits might still be unequal, although this becomes relatively unimportant as the total return on investment increases for both parties. This might explain the effect of conflict of interest on PCB and on the response to breach.

Psychological ownership on the part of the entrepreneur diminishes due to the relatively large decision-making power of the VC. Entrepreneurs are likely to be motivated by a high level of psychological ownership; therefore, a lack of ownership can lead to PCB. When PCB occurs due to a lack of psychological ownership, the response to breach is likely to be destructive. These findings suggest that ownership is an important influencing factor on PCB and on the response to breach. Although it is beyond the scope of the present study, ownership may be perceived differently in other cultures.

Use of power by the VC, especially when it consists of efforts to achieve the VC’s own goals, easily results in PCB and a destructive response to breach. The outcome of a situation is evaluated by the entrepreneur based on the principle of fairness, even if the VC uses power that the entrepreneur has granted the VC prior to closing the deal. This result suggests that, prior to closing a deal, an entrepreneur might accept conditions that he judges to be unfair. A possible explanation is that the entrepreneur feels forced to accept more than he can justify, due to the pressure of a declining cash flow prior to the financing round. Another explanation of this result might be that the entrepreneur expects the VC not to make use of its power, an expectation based on interpersonal justice.

The availability of alternatives affects the response to breach on the part of the entrepreneur, who will usually face a lack of risk diversification. An entrepreneur normally invests in one venture, which limits the number of alternatives available for him and which creates a dependency of the entrepreneur on the venture. In the case of PCB, the entrepreneur is not always aware of available alternatives, and he is therefore often held back in producing a destructive response. However, the findings of the present study did not indicate that the availability of alternatives also affects PCB.

Personality traits were found to be an influencing factor on PCB and responses to breach. An entrepreneur’s personality traits influence the perception of fairness, which is an important influencing factor on the severity of PCB, and therefore on the response to breach. Furthermore, the personality traits of the VC seem to be important in the interaction with the entrepreneur, and therefore seem to be an influencing factor, too.

In sum, with the exception of informational justice, all forms of justice that were identified in the literature review are relevant in the VC–entrepreneur relationship. Furthermore, five other influencing factors were identified.

Limitations

There are some limitations inherent in the study, mainly with regard to Trochim’s (2005) criteria for qualitative validity. In line with these criteria, the results of the present study could be examined for their credibility and transferability. For increased credibility, feedback given by the participants has to be incorporated in the results. The researchers have asked the respondents for feedback, but credibility could have been enhanced even more if the interview transcripts had been sent to the respondents for feedback, too.

As data appeared saturated after only six interviews, the influence of individual respondents might be high, which negatively affects the transferability of the findings. Furthermore, the present study was performed in the Netherlands. As cultural implementation rules are essential for the realization of any model in practice (Fiske, 1992), the findings should not be transferred to other countries or cultures.
Future Research

To further our investigations, future research could focus on the VC’s perspective, as the exploratory interviews indicated that entrepreneurs and VCs value different elements of their relationship. In addition, the conceptual model designed in this study could be used as the basis for an extensive quantitative study examining the interrelatedness of the different constructs that influence PCB and the response to breach in the VC–entrepreneur relationship. It should also be investigated whether and to what extent these constructs have a moderating or mediating effect on the relationship between PCB and responses to breach. Finally, the present study focused on the situation after PCB had occurred. This does not capture the complete picture of an effective VC–entrepreneur relationship. Future research should analyze how the results of the present study can be used to prevent PCB.

Managerial Implications

Our research enables the VC as well as the entrepreneur to expand their knowledge and gain new insights into the VC–entrepreneur relationship. It also enables them to determine how the relationship can be managed to make it more effective—and thus more beneficial. Especially during the first investment round, participants would be wise to realize that negotiating the best terms may influence not only the short-term financial benefits but also the relationship itself. If a venture is not carefully managed from an early stage onward, this may negatively affect the venture’s results.

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