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The Venture Capital – Startup Relationship:

A study of the relationship in the context of asymmetric information and value creation

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Abstract: A natural concern related to venture capital financing is the risk of information asymmetry. Traditional stewardship and agency theory provide somewhat inconsistent perspectives on a relationship, derived from different assumptions. However, previous research suggests a pragmatic approach to explaining the relationship in the context of an organization, where elements from both theories could coexist. Hence, the purpose of this study is to examine the characteristics of the venture capital – startup relationship and analyse the value of the relationship from the perspective of the founders as well as its impact on information asymmetry. By conducting a qualitative study as research method our findings indicate that the venture capital – startup relationship is primarily defined by stewardship theory, which is regarded as the most valuable for the entrepreneurs. Furthermore, we find that a constructive screening process is beneficial to create a foundation for a prosperous relationship, whereas contracts and personal power are crucial in order to sustain the relationship over time in a changing environment. We do not find evidence to support that any particular kind of relationship is superior in mitigating information asymmetry. However, we can observe a destructive impact on the relationship by risk mitigating strategies with agency characteristics.

Key Words: venture capital, information asymmetry, relationship risk, agency theory, stewardship theory

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1. Introduction

1.1. Background

In the prevailing market economy, venture capital (VC) has come to perform a crucial role in the creation of new companies. The venture capital industry has grown rapidly in size and sophistication in the last few decades and it has grown into an increasingly important source of financing for entrepreneurs with new business ideas. Thus, venture capital financing has become an interesting subject of research for a number of reasons. First of all, VC professionals have raised an enormous amount of capital in recent years. In 1978, $424 million was invested in venture capital globally, while in 2013 this number had grown to $48.5 billion (Gompers & Lerner 2001; Ernst & Young Report 2014).

Furthermore, VC firms have been extremely successful over the years and many of the most prominent and prosperous companies in the world such as Google, HP and Apple have all been backed by VC firms in their early development and the Swedish market is not an exception with successful VC backed start-ups like Klarna, Skype, Spotify and Truecaller. Lastly, VC firms have been able to generate an astonishing average return of 25% for their investors according to previous research (John H. Cochrane 2005).

One of the major challenges an entrepreneur encounters when starting a new business is raising the necessary funding, as traditional capital providers are reluctant to invest in early stage start-ups. Often times the startup is characterized by a great deal of uncertainty, due to limited operating history. The venture is not able to secure public capital or bank financing without any collateral and this is where venture capital is paramount. VC firms provides financing to early stage, high growth potential startups. In addition to capital VC professionals may also add value in the form of “smart money” through active involvement, support and advice. Hence, VC financing is a complex endeavour and it is associated with a high degree of risk. According to Fiet (1995) and Sørheim and Landström (2001), this risk could be divided in two parts: business risk and information risk. Business risk is derived from the uncertainty in future profitability since the startup is at a novel stage, whereas information risk is a result of asymmetric information. The purpose of this study is to focus on this second type of risk and examine the VC – startup relationship conformation and its effect on value and asymmetric information.

1.2. Problem Discussion

The risk with information asymmetry becomes apparent when the entrepreneur is in a position of information advantage: the entrepreneur possesses more information about the development of the venture and may not be willing to reveal the information to the venture capitalist depending on situational incentives and motivations. Information asymmetry could manifest in the form of adverse selection and moral hazard. Adverse selection relates to hidden information and the risk of making a poor investment, and moral hazard refers the danger of the entrepreneur not acting in the best interest of the principal.

An investor can address the relationship risk resulting from information asymmetry in a number of ways (Jensen and Meckling, 1976). Typically, investors engage in a comprehensive screening process prior to an investment as well as extensive contractual arrangements that allow the investors to control and monitor the behaviour, actions and output of the entrepreneur, consistent with principal agent theory. These activities can be seen as risk mitigating strategies. According to Van Osnabrugge (2000), pre-investment activities in the screening and contracting process are referred to as an indirect approach, whereas more contemporary research advocates a more direct method. This approach contemplate active involvement in the management of the startup alongside the entrepreneur (Kelly and Hay, 2003; Wong et al., 2009; Van Osnabrugge, 2000). These activities could be viewed as fundamental for a typical VC – startup relationship characterized by principal agent theory. However, recent research also suggests another perspective on the VC – startup relationship, defined by mutual trust in accordance with the stewardship theory. Relying on mutual trust creates an interdependent relationship that precludes the necessity of controlling and monitoring mechanisms (Cable and Shane, 1997; Rousseau et al., 1998).

The stewardship theory stipulates, unlike the agency theory, that the agent is not self-serving and does not pursue his own agenda and motivations. Thus acting as a steward instead of an agent and creating a principal steward relationship. Consequently, we have two conflicting perspectives on the relationship that both address the problem of information asymmetry. Depending on the procedure and prevalence of the risk mitigating strategies, a relationship characterized by either stewardship or agency features could be established. According to Bender (2011), what determines the relationship is outlined by the degree of control and the extent to which the parties are willing to trust and empower each other. In addition, Davis et al., (1997) expand and elaborate further on these ideas and describe eight criteria to distinguish a stewardship relationship from an agency ditto. Ultimately, this discussion results in two possible relationships with diverse approaches to addressing the information asymmetry in VC – startup relations with potentially different consequences on the relationship risk and the prerequisites for creating a prosperous venture.

1.3. Aim of the Study

In academic literature, information asymmetry in the VC – startup relationship has been subject to previous research (e.g. Bender, 2011; Strätling et al. 2011; Sapienza and Korsgaard, 1996). However, the vast majority of the research has focused on the venture capital perspective on the relationship with little attention on the perspective of the entrepreneur. Since the principal, the VC firm, may be the victim of information asymmetry and the reduction of this risk is dependent on the behaviour of the entrepreneur, we believe it would be meaningful to investigate the entrepreneur´s perspective further as well in order to get a comprehensive understanding of the relationship. Stewardship and agency theory suggest somewhat contradicting perspectives on the relationship based on different assumptions.

However, with the practical perspective developed by Davis et al. (1997) it would be possible to apply this framework so as to understand the dynamics on the VC – startup relationship with both theories. Hence, the aim of this study is first to assess the kind of relationship through the framework and the connection the investment process, then how the entrepreneur perceive the value and lastly if either a steward or agency relation is better at reducing information risk. The main contribution is envisioned to shed light on the nature of the most valuable, effective and constructive relationship between the founders and their investors: how it is reconstructed and sustained over time as well as the impact on information asymmetry. This would offer guidance in mitigation of relationship risk and how both VC professionals and entrepreneurs can work together to form the best possible mutual collaboration, a prerequisite for creating a prosperous venture in the long-run.

1.4. Research Questions

- What theory is prevailing in defining the VC – startup relationship?
- What kind of relationship is most constructive and valuable for the entrepreneur in the context of creating prerequisites for a successful venture?
- What effect does the nature of the relationship have on information asymmetry?

1.5. Scope and Limitations

This study is limited to the entrepreneurs´ perspective. As explained above, the most frequent research objects have been the VC firms and consequently we rely on secondary data to connect the view entrepreneurs with VC firms´. Furthermore, the intention is not to go into depth and explain the long-term success of the venture and correlation with the relationship. The reason is that in many cases there is no financial progress available for observation. For instance, some of the startups do not have any revenues yet and the key performance indicators are non-financial and it could be difficult to assess the correlation between a strong relationship and these performance indicators. Hence, we analyse the relationships based on the experience and recollection of the entrepreneurs´ and what they perceive as a constructive and valuable relation. Rather, we go into depth on what a valuable relationship is characterized by according to the founders and simply acknowledge that a constructive relationship would be beneficial to the long-term performance of the startup.

1.6. Disposition

The thesis is presented in eight sections. The first and the second section are supposed to provide a background and a context. The third section relates to the theoretical framework, where the traditional stewardship and agency theories are discussed in relation to venture capital. Additionally, we present previous research that reconcile the theories from a practical perspective. In the fourth section we outline the methodology used in the research, the data collection as well as the criteria for determining the research sample. At the end we elaborate on reliability and validity. Further on, the empirical findings are described in the fifth section, which is analysed in light of the theoretical framework in the sixth section. The analysis is categorized and structured by the determinants of the relationship, after which they are connected to the investment process in the following subsection to understand how the determinants are related to time and space. Finally, in section seven we present a conclusion of the main findings in the study and end the thesis with a discussion of the methodology and suggestions for further research in section eight.

2. Research Context

2.1. Venture Capital Investors

In order to understand the full picture of the VC – startup relationship it is important to have a clear understanding of what VC is comprised of. As the VC industry has evolved and grown in size, so has the definition and the spectrum of different venture capital participants.

Traditionally, venture capital has been referred to as a temporary equity investment by an individual investor in young, early-stage and entrepreneur driven startups (Seppä, 2000). However, in the current market the definition has expanded to include a much greater variety of investors. The investment portfolio could be comprised of everything from early seed ventures to established multinational corporations led by hired executives. The time horizon of the investment could vary substantially and range from a few months into several years and the type of investment could also differ in the form of warrants, common stock or convertible securities etc.

The European Private Equity and Venture Capital Association explains the term venture capitalist as the manager of a venture capital fund with the responsibility of managing the investment in a portfolio company of the fund. However a more fastidious description is that the manager is in many cases only a hired manager and not a direct owner. In this situation the owner of the VC firm is to be seen as the venture capitalist. According to Seppä (2000) venture capitalists are legal persons, owned either by physical persons or legal persons whose decision making authority is bestowed in physical persons acting as board members, meaning that the entity that owns the control is thought of as the venture capitalist.

Furthermore, despite recent years of institutionalization of the VC structure, individual investors are still a large part of the VC field. Often they are referred to as business angels or as informal venture capital. As outlined in figure 1, the actual VC firm only serves as a vehicle for venture capitalists and from a legal stand point, the company is set up as a limited partnership (LP) during a predetermined lifetime of the fund (typically ten years). Outside investors, which could range from wealthy individuals, private organizations or governments, participate as limited partners where they provide capital to the fund, whereas the VC professionals managing the investment serve as general partners (GP).

2.2. Investment Process

The overall goal for the Venture Capitalists is to generate return on the investors' invested capital. Venture Capitalists may do so by investing in growing and/or promising companies in need of growth capital in the hope of being able to in a foreseeable future sell the shares at a higher valuation. Investments in early stage companies come with a high risk. According to Tyebjee & Bruno (1984) this process can be divided into 5 sequential steps; (1) Deal origination, (2) Deal screening, (3) Deal Evaluation, (4) Deal structuring, (5) Post investment activities. When the focus of this research is the relationship between the investor and the startup, from a startup's point of view, this is not a satisfying distinction. A more relevant sectioning would be; (A) Screening Activities, including (1)-(3); (B) Contracts, the outcome of the deal structuring; and (C) Post Investment Activities, which is the same as Kaplan, Strömberg (2001) mentions as monitoring activities and Davis et al. (1997) divides into either controlling or involving.

3. Theoretical Framework

3.1. Principal Agent Theory

The principal agent theory or also called agency theory examines relationships between a principal and an agent. The principal is an individual that in some way hires another person, the agent, to execute according to the principal´s objectives. The research field tries to explain how to assure that the agent will act in the best interest of the principal, as it is an underlying assumption is that everyone will act in a self-serving way in order to maximize their own utility. Therefor the agent does not necessarily act in the interest of the principal, (Bender, 2011). The agent has the possibility to act opportunistic because the principal, by delegating decision making, will have less information about every given situation. This phenomena is called information asymmetry. With information asymmetry the principal will not be able to know if the agent is actually serving the interests of the principal, or the agent's.

A common situation where agency theory is applied is between investor(s) and their representatives in the board, and/or the CEO of a company. The agency theory describes the risk related to information asymmetry, called agency costs, and the potential risk reduction activities related to such a relationship, (Jones, 2004). Agency theory suggest extrinsic motivation as the base for risk mitigating activities to align the interest of the agent with the principal's. These strategies could be related to incentives such as monetary compensations, self-actualization and less work, but also to controlling mechanisms like contracts and monitoring actions (Eisenhardt, 1989).

When the agent acts in its own interest, and not aligned with the principal's, it is referred to as moral hazard. Another potential agency cost is called adverse selection, for example when the principal is provided with wrong or insufficient information in the pre-contractual phase as described in figure 2. Therefore, it is important to find an equilibrium where the trade-off is balanced and the cost is minimized (Bender, 2011).

3.1.1. Application

When a startup is in the process of receiving capital from a VC firm there will be a situation of information asymmetry, which further creates a risk of agency costs (Kaplan and Stromberg, 2004). There are many names for the agency related activities that the VC firm can engage in so as to mitigate the risk of the agency costs, mentioned in the previous paragraph. Kaplan, Stromberg (2001, 2004) have grouped them into screening, contracting and monitoring. According to Kaplan and Strömberg (2001) and Bender (2011), the screening process is an important strategy in order to manage relationship risk and more specifically, adverse selection. Contracting should, according to the agency theory, focus on rights regarding cash-flow, different kinds of voting and veto rights, and last a widespread of noncompeting and similar agreements. All to ensure the entrepreneur's loyalty and maximize the potential for a successful monitoring by the VC. The goal of the monitoring is both to increase the possibility of success and to minimize the risk of agency cost. Thus, it is suggested that the VC firm is active where it is needed, all the way from strategic work to shaping the management team (Kaplan and Stromberg, 2001).

3.2. Principal Stewardship Theory

Contrary to agency theory, one of the underlying assumption of the stewardship theory is that a relationship between one individual and another, can and should be built on goal congruence. "Why should there otherwise be an agreement in the first place?" is the argument from advocates of the stewardship theory. This is the most important deviating factor from the agency theory and also the reason why the "hired" person is called steward and not agent, (Arthur and Busenitz, 2003). The steward is organizational centred and achieve his own interest by working towards the goal of the organization. The human is perceived to be less self-centred and the personal utility is assumed to be maximized when the goals of the steward are aligned with the ones of the principal (Bender, 2011). The stewardship theory seeks to identify and describe relations where interests between the principal and the steward are aligned, therefore the theory has problems in explaining behaviour before the goals have been agreed upon. Although stewardship theory differs a lot from, and neglect parts of the agency theory, it is still possible for a steward to be opportunistic. The relationship is characterized by empowerment from the principal and autonomy for the steward. If the relation lacks those ingredients there are severe risks for lack of motivation, loss of productivity and an increase of opportunistic behaviour, which will transform the relationship to an agent-principal relationship, based on minimizing agency cost and not maximizing potential, (Davis et al., 1997).

3.2.1. Application

The main argument why the stewardship theory would be applicable, in a relation between a VC and the startup, is the mutual interest from both parties; that the start-up succeeds. With that said, the entrepreneur will act in the best interest of the principal, according to Bender (2011). He further argues that for a stewardship relation to occur it takes a mutual desire and commitment, otherwise it will likely end up in an agency relation. Hence, the relation can evolve both towards, and away from, a stewardship relation and some potential triggers as deviation from the investor's expectations are mentioned by Bender (2011). An aspect that the applied stewardship theory introduce to the startup-investor relationship is the possibility for reversed roles, i.e. the investor can be seen as the steward and the entrepreneur as principal, Bender (2011). This shows how equal stewardship theory sees the entrepreneur and VC. The possibility for both entrepreneur and principal being partly principal, partly stewards is explained by the mutual view on success. (Bender, 2011).

3.3. Reconciliation of Theories

As outlined above, the agency and stewardship theory offer somewhat contradictory explanations to the relationship between a principal and a manager, in this case the entrepreneur. Specifically, many of the differences are derived from the assumptions where agency theory postulates the manager to be self-serving and motivated by opportunities for their own benefit. The stewardship theory on the other hand assumes no conflict of interest and that the manager is not self-centred but has integrity and whose motivations converge with objectives of the principal. The problem with these assumptions is that they are mutually exclusive and imply that the other theory is wrong. As such, an exclusive conviction in agency would exaggerate the assumption of opportunistic behaviour out of proportions since self-serving motivations might not always be the case in reality (Hirsch, Michaels, and Friedman, 1987; Perrow, 1986). Simultaneously, stewardship theory is a limited paradigm as well since it does not address the pre-investment phase in the VC – startup relationship as it already assumes goal alignment in the first place (Donaldson and Davis, 1989, 1991, 1994; Fox and Hamilton, 1994). Hence, solely relying on either theory would be to ignore the complexity of reality. Accordingly, research by Davis (1997) offers a solution to bridge and reconcile the differences and explain how the theories fit together, coexist and interplay rather than deny each other. As put forward by Davis (1997) there are eight criteria, divided into a psychological and situational dimension, that determine and differentiate a stewardship relationship from an agency relationship. Thus, a VC – startup relationship might in reality be characterized by elements from both theories.

3.4. Psychological Dimension

A key distinction between the theories is found in the perspective on human behaviour. Traditional agency theory traces its foundation in the confirmation of economic rationality (Simon, 1957), whereas a more nuanced reasoning posed by Argyris (1973) asserts this view as too simplistic and suggests that human behaviour is characterized by self-actualization in accordance with the work of McGregor (1960) and Maslow (1970). They argue that humans have a desire to evolve beyond a basic level of external ambitions in order to reach fulfilment. To reach higher aspirations, humans are motivated by internal factors left unexplained by economic rationality. Davis (1997) put this reasoning into the context of agency and stewardship theory by the eight criteria as per below and explain how human behaviour is dynamic in practice as opposed to static. The manager is not self-serving nor self-actualizing by default. Rather, it is determined by individual characteristics and environment (Davis, 1997).

3.4.1. Motivation

The fundamental difference between the agency and stewardship perspective with regards to motivation is the view on the response to extrinsic or intrinsic incentives. Agency theory suggests that we are motivated by extrinsic factors such as monetary compensation and that we react to tangible reward and punishment systems designed to align objectives with the principal´s. All of these control mechanisms have an observable feature that can be quantified and recognized by both parties. In contrast, a steward relationship is defined by intrinsic motivation like higher order needs (Maslow, 1970), a desire for learning, personal growth and development (Alderfer, 1972) as well as a need for affiliation and accomplishment (McClelland, 1975; McGregor, 1966).Hence, managers that are incentivized by intrinsic opportunities are more likely to perform in alignment with the objectives of the organization. In addition to these intrinsic factors, the characteristics of the labour also has a great importance to motivation (Hackman and Oldham, 1975, 1976, 1980).

These authors suggest that a high degree of experienced meaningfulness, responsibility as well as the awareness of the results create a strong internal motivation. In order to achieve this, the authors propose a redesign of the work description to enhance the learning curve, autonomy, task identity, variety and significance and to avoid monotonous task oriented labour. Moreover, in research on self-leadership by Manz (1986, 1990), he elaborates further on these ideas and argues that crucial determinants of intrinsic motivation are the perceptions of purpose, self-determination and self-efficacy, which is all in line with the motivational assumptions of the stewardship theory. According to Manz (1990), self-leadership refers to the ability to guide oneself toward engaging in what is perceived as naturally motivating labour.

Criteria 1: *“People who are motivated by higher order needs are more likely to become stewards in principal-steward relationships than are people who are not motivated by higher order needs.” (Davis et al., 1997).*
Criteria 2: *“People who are motivated by intrinsic factors are more likely to become stewards in principal-steward relationships than are people who are motivated by extrinsic factors.” (Davis et al., 1997).*

3.4.2. Identification

Identification referrers to the situation when managers identify themselves as part of the organization by embracing the vision, mission and objectives set forth by the organization (Kelman, 1958; Mael and Ashforth, 1992). According to Brown (1969) the organization becomes an extension of the manager´s own psychological construction through identification and the manager is personally attached to experiences of the organization. For instance, many authors have found that identifying managers accredit the success or failure of the organization to themselves, which affects their self-image (Salancik and Meindl, 1984; Staw, McKechnie, and Puffer, 1983). When managers identify with the organization, they are more inclined to perform towards the collective goals and act in an altruistic and collaborative behaviour (Mowday, Porter, and Steers, 1982). Hence, the managers are motivated to promote the success of their organizations (Davis, 1997). This perspective is in line with stewardship theory. However, in a situation of organizational problems, the manager has a tendency to shy away from the situation in order to avoid blame. Hence, reducing the sense of identification (D'Aveni and MacMillan, 1990; Staw et al. 1983).

Furthermore, a self-serving manager would be reluctant to accept responsibility and resolve the situation in an attempt to conceal evidence and avoid blame, making the problem even worse (D'Aveni and MacMillan, 1990). This circumstance is more consistent with agency theory. Lastly, Porter, Steers, Mowday, and Boulian (1974) discuss a related theory about organizational commitment, which refers to the strength of an individual´s identification, engagement and enthusiasm. Subsequent research divided commitment into continuance and value commitment, where the former is the will to remain within the organization and the latter emphasize the conviction in the objectives of the organization (Mayer and Schoorman, 1992).

Criteria 3: "*People who have high identification with the organization are more likely to become stewards in principal-steward relationships than are people who have low identification with the organization." (Davis, 1997)*
Criteria 4: "*People who are high in value commitment are more likely to become stewards in principal-steward relationships than are people who are low in value commitment." (Davis et al., 1997)*

3.4.3. Use of Power

Power is an important aspect of the relationship and studies have found that the use of power facilitates satisfaction and motivation (McClelland, 1970, 1975; McClelland and Burnham, 1976). The authors explained the power motive as a cognitive desire to sway other people towards the achievement of mutually accepted goals of the organization. Managers who have a need for power have a natural propensity to direct and influence other people, express their opinion with confidence and embrace the role of a leader (Steers and Black, 1994). The use of power can help to distinguish an agency from a stewardship relationship. According to Gibson, Ivancevich and Donnelly (1991), power could be divided into personal and institutional power. Institutional power is embedded in formality and structure. It can be characterized as coercive, legitimate and reward power as described by French and Raven (1959). The principal possesses institutional power inherited in the position in the organization.

In an agency relationship, the basic source of influence would be institutional power, where the principal exert control over the agent through legitimate and reward power in the form of introducing authority and incentives systems (Davis, 1997). Personal power on the other hand could be thought of as expert and referent power, where referent power is created through identification between members of the organization (Davis, 1997). Personal power is vested in the individual´s character and abilities in light of an interdependent relationship and not derived from a formal position. In the context of a stewardship relationship, personal power could manifest in the form of the principal and the steward´s ability to influence each other and impose their view through e.g. personality, knowledge and competency.

Criteria 5: *"People who are more likely to use personal power as a basis for influencing others are more likely to become stewards in principal-steward relationships than are people who use institutional power." (Davis, 1997)*

3.5. Situational Dimension

The second dimension of factors that mediate the relationship between stewardship and agency characteristics is related to time and space. As opposed to the psychological dimension, the situational dimension is not defined by internal factors, but by the management philosophy, the culture and the power distance as outlined below (Davis, 1997).

3.5.1. Management Philosophy

Given the assumption of economic rationality, Simon (1957, 1973) and Cyert and March (1963), proposed a descriptive organizational model in line with agency theory. On the contrary, Argyris (1973) argued that this connection was a result of the adoption of the descriptive model, and not a consequence of the assumptions. It was a self-fulfilling prophecy, where the formal management leadership created, reinforced and sustained the economic rationality assumption of individuals resulting in an agency relation. I.e. the conviction of the assumption served as the premise for the choice of management philosophy, which then created the very behaviour in reality that is consistent with the assumption. Hence Argyris (1973) suggested a normative approach, based on self-actualizing principles so as to facilitate and support the development of a relationship characterized by stewardship behaviour and features. Following this debate, Walton (1986) introduced a theory called high commitment management philosophy, which emphasized a high degree of participation, open communication, trust and empowerment.

Lawler (1986, 1992) extended this theory by comparing a control oriented management approach against an involvement oriented approach. In control oriented management the thinking and controlling aspect have to be separated from the active part of the work (Lawler, 1986, 1992). On the contrary, in an involvement oriented approach does not make any separation and highlight self-control and self-management, with the assumption that individuals will impose self-control of their behaviour if they are given challenges, responsibility and the opportunity to use creativity (Davis, 1997). An important aspect of involvement orientation is the necessity of trust in the relationship. Mayer, Davis and Shoorman (1995) described trust as the willingness to be vulnerable to the counterpart in the relationship. In control orientation however, there are control mechanisms in place, which are designed to avoid vulnerability, alleviating the need for trust (Davis, 1997). Finally, connecting to the discussion of power, the prevalence of trust is driven by personal power, whereas institutional power undermines trust (Davis, 1997). The implication of the rationale above is that nature of the relationship, agency or stewardship, is determined by the principal and the manager themselves. Pursuing a control oriented approach will create a foundation for an agency relationship whereas the choice of an involvement oriented management philosophy will produce the conditions for a stewardship relationship. (Davis, 1997).

Criteria 6: *People who are in an involvement oriented situation are more likely to become stewards in principal-steward relationships than are people who are in a control-oriented situation." (Davis, 1997)*

3.5.2. Culture

The model of individualism-collectivism developed by Hofstede (1980, 1991) describes how cultural factors affect and influence the characteristics of a relationship. Individualism is defined as self-interest and the pursuit of personal goals over group goals, while collectivism direct people to put their own agenda aside in favour of group goals. Consequently, confrontation and conflict are not predominant in an organization based on collectivism.

Individuals view themselves as members of a group with mutually accepted objectives and success is credited to all the members of the organization. In contrast, individualistic behaviour promotes confrontation and view it as necessary to resolve conflicts and problems. Consistent with the assumptions of agency theory, a high degree of individualistic behaviour would lead to an agency relation, whereas collectivism put individuals in the direction to act as stewards in a relationship.

Criteria 7: "*People in a collectivist culture are more likely to develop principal-steward relationships than are people who are in an individualistic culture." (Davis, 1997)*

3.5.3. Power Distance

Power distance is another aspect developed by Hofstede (1980, 1991) and refers to the extent to which less powerful members of an organization accept and expect power to be distributed unequally (Davis, 1997). In an organizational context, high power distance is characterized by a control oriented management style, hierarchy, centralization, difference in authority and division of labour.

However, in a low power distance culture the opposite holds true. Low power distance is defined by decentralization and high degree of involvement and cooperation in decision making. Accordingly, an agency relationship is associated with a high power distance as a result of high level decision making and the introduction of hierarchy, control and supervision. In a stewardship relationship, the control mechanisms become redundant due to the existence of trust. Hence, a low power distance fosters a stewardship relationship (Davis, 1997).

Criteria 8: *"People in a low power distance culture are more likely to develop principal-steward relationships than are people who are in a high power distance culture". (Davis, 1997)*

4. Methodology and Data

4.1. Scientific Approach

The decision of how to conduct the research was preceded by looking at previous research on the subject as well as discussions with startup founders and experienced professionals with insight and extensive knowledge about the venture capital industry. According to Holme and Solvang (1997) a qualitative approach provides a complete picture of the situation, which offers a possibility to understand the interactions, processes and circumstances. According to Holme and Solvang (1997), behaviour and decision making are dynamic, change constantly and are not static, which makes a quantitative approach complicated and less suitable for this purpose.

Additionally, since the research is based on subjective perceptions of the entrepreneurs' it postulates judgement, which is more suited to be analysed and interpreted through reasoning rather than statistical analysis. Holme and Solvang, (1997) also argue that interpersonal relationships and behaviour is difficult to measure, quantify and translate into easily assessable numbers, which makes it a delicate endeavour to draw meaningful conclusions using a quantitative approach. A quantitative method would also have limit the possibility to obtain deeper knowledge of the entrepreneur´s perception and the many dimensions of information risk in VC-startup relations due to the lack of a personal and direct contact with the research object. Likewise it would obstruct the any opportunity to ask follow-up questions. Thus the qualitative method provides a greater flexibility during the research process and would allow the content in the study to change and evolve naturally as new knowledge and insights emerge.

Consequently, in light of the rationale mentioned above, we have chosen to use a qualitative method and conducted in-depth interviews with five startup entrepreneurs and a case study of the venture capital – startup relationship by analysing the entrepreneurs' view and perception against established theories. According to Eriksson and Kovalainen (2010) the majority of the research in social science engages both an inductive and deductive approach. Since we have compared and contrasted conventional theories and previous research against the entrepreneurs´ perception to evaluate if the theories hold up in reality or if there are discrepancies we have chosen a deductive approach. The empirical findings are mainly taken from primary sources, meaning that they are collected from the in-depth interviews (Andersen, 1998). The collection of the data has then been accomplished through a case study, which is suitable for analysing processes in organizations and how and why people act and behave in the way they do (Andersen, 1998; Yin, 2009). In our opinion, this is the proper approach since we need to comprehend the full VC process and the characteristics of the relationship in order to understand the effect on the perception of the entrepreneur.

Merriam (1994) discusses three different categories of case studies depending on the vision and intention of the research. The three types could either be descriptive, evaluative or interpretive and given that we will cast light on reality and either support or relinquish our theories, an interpretive case study is the most appropriate type of study for the purpose of this thesis. Furthermore, to some extent we have also relied upon secondary data in the form of previous research and other academic and non-academic VC literature, even though primary data has been the main sources of the empirical findings.

4.1. Collection of Data

We have relied upon both primary and secondary data sources. The primary data has been originated from original sources, i.e. it is new data that has never been seen before collected through the in-depth interviews with the founding entrepreneurs. Moreover, the interview objects have been carefully selected against a predetermined set of criterions, which is suggested by Holme and Solvang (1997). It has been a conscious decision to select criterions that attempt to isolate the specific characteristics of the VC process and relationship. Some of these criterions have been the size and when the venture was founded. We have also isolated the industry and geography in which the venture operates to focus on cash trapped and scalable business models, which at inception, are rather cash flow negative before profitability is taking place. As such, there has been a similar demand for the venture capital financing among the startups. Additionally, all of the startups has at the point of the interviews, secured venture capital financing and experienced the fundraising process.

We have also chosen to interview the founding entrepreneurs who are active in the day to day management in the venture and hold a significant portion of the equity in the company and not a hired manager so as to avoid a situation in which the entrepreneur would be acting as an agent or steward in another relationship as well apart from the one with the venture capital principal. In addition, all of the founders are also of Swedish nationality whereas the venture capitalists have presence internationally. In accordance with Holme and Solvang (1997) we have selected the startups based on the knowledge we obtained ahead of commencing the research and not in advance through a conventional theoretical framework.

The empirical findings are based on an in-depth interview with each of the five different startup founders. The interviews have been performed in a semi-structured fashion and the same questions have been asked to all of the entrepreneurs. However, as pointed out by Holme and Solvang (1997) we have given the entrepreneurs the opportunity to elaborate and expand on their reasoning. This explains some differences in the progression of the discussions in the interviews. The interviews have been ranging from one to two hours in order to assure sufficient time to cover all of the topics. The interview was structured in three different parts and following a few introductory background questions the focus was put on the factors that determine the nature and the relationship. Lastly, the sessions were finalized by an open discussion around their perception on information asymmetry and their relationship with their venture capital partner.

4.2. Reliability and Validity

Eriksson and Kovalainen (2010) argue that the validity is defined as the precision in what has been measured and how it has been outlined with respect to the research questions, whereas in order to appraise the reliability of an academic text, the credibility, usefulness and trustworthiness has to be thoroughly analysed (Bryman and Bell, 2007). The reliability is regarded as accuracy in measurement and information extraction. The research questions were set in advance and the foundation of the applied theoretical framework had begun ahead of commencing the interviews, which reduces the danger of asking for irrelevant information for the purpose of the research. Additionally, recording has been done and follow-up questions have been inquired to reassure quality and all of the findings have been approved by entrepreneurs and the data did not have to be revised in retrospect.

The reliability is among other things affected by the possibility to replicate the study and the ability to arrive at the same conclusion (Andersen, 1998). Andersen (1998) also states that validity is about the generalizability of the results, which refers to whether the conclusions can be transferred and applied in a different setting and circumstance. This statement could potentially hurt the validity of the results since the research is based on subjective perceptions, which could vary individually. We have tried to mitigate this to the extent possible by objectively analyse the entrepreneurs´ actions and behaviours and not only taken their opinions for granted. We have also tried to interview as many entrepreneurs as possible that meet the criterions without compromising with depth and quality of the interviews given the timeframe we have had and the choice of a qualitative approach.

Furthermore we have tried to find an as representative group of entrepreneurs as possible in order to enhance replicability and generalizability. Lastly, Bryman (2002) speaks about internal validity, which is concerned with the trustworthiness of the findings. The trustworthiness could potentially be hit by the fact that even if the entrepreneurs describe their perception, it could be distorted by rationalizations after hand. However we rely on the same argument as before; since the entrepreneurs have elaborated and explained their view, we have had the opportunity to analyse their actions objectively and not taken their words for their true perception.

5. Empirical Findings

To give the reader a general view of each startup, founder and their investor the empirical findings are structured in a chronological order with an initial summary of the context. Due to our confidentially agreement with the founders we have omitted enough facts about every company to secure their anonymity. They are all growing companies, started between 2005 and 2012 and have all a different set of investors. The relationship we focus on is between each founder and one of their respective professional investor, which means that any information about other investors related to a specific relationship is meant to provide context.

5.1. Founder A

The company has all together raised more than 14 MSEK and currently, there is especially one active investor, an international VC-company, who is active through the board of directors but also on a weekly basis with meetings because of changing conditions in the last six months. Company A has just recently started to generate revenue.

5.1.1. Pre – Investment

Founder A described their first fundraising process as intense. Company A had been in due diligence with Investor A2 for a couple of months when Investor A2 suddenly withdrew. Luckily, Company A had some previous contacts that were picked up and one of them, Investor A, expressed an interest to invest. The screening process and the "get-to-know-each-other-phase" took three months, which were described as *"three months without any money at all, so we really needed that investment after a while"* (Founder A). Hence, the founders decided to go with Investor A1, who managed to include another investor, Investor A2 in the same round. Founder A described Investor A1 as: *"a team of people we entrusted and liked and the fact that they offered the money we needed to a valuation that we could accept made it easy"*

A feeling of team spirit began to evolve already during the screening process: *"Prior to meeting the whole team at Investor A1, our contact person who really believed in us as a team and our plan, prepared us thoroughly for questions ahead of the pitching process"* (Founder A). This made it much easier for the founders to present and answer questions in a persuasive way and it was perceived as if they already were on the same team. Furthermore, the founders did not want to make any mistakes: *"we invested heavily in lawyers to help us with all the contracts when we partnered with Investor A1 and A2. It was a necessary evil that we needed back then to be on the safe side, and to set the rules with the investors on equal terms"* (Founder A).

5.1.2. Post – Investment

Founder A described Investor A1 as: *"extremely competent, accommodating and supportive whenever we need something, in almost any situation. Even in complicated situations, they are there to support, which I am very thankful for"*. Founder A assign a high value on a good relationship and to feel that the investors are people who are nice to spend time around. Especially in light of the intensity of their relationship as they talk on the phone weekly and meet almost every third week since the investment was completed.

Further on, the cooperation became even more intense and they started to meet once a week, when the company chose to make a pivot, and change the business idea and model, which coincided with the money running out. Nevertheless, the shortage of financing was according to plan, but the change in the business model was not expected. The situation caused Investor A2 to exit: *"they had to exit according to their investment policy, but we separated as friends"* (Founder A). Later on, Investor A1 secured the necessary bridge financing and bought Investor A2's shares. Following this event, the monitoring activities increased dramatically. From meeting and talking more informally on a more ad hoc basis to scheduled meetings every week, almost like working-sessions. There were also weeks when the VC wanted a short written report in between those meetings: *"not very formal, but still time consuming to always prioritize reporting"* (Founder A, 2015). The opinions about the weekly monitoring activities were somewhat split into both a positive and a more negative view: *"It took a lot of time to manage, but we needed the help and the privilege of being autonomous as before was something that we knew would disappear when the bridge-investment was completed, that was part of the rules"*

(Founder A). Founder A described Investor A1 as being supportive and understanding throughout the stressful period and in general they have been contributing with a focus and knowledge about execution, sales and the work towards the long-term goal of becoming profitable. Additionally, the employment of interns by Investor A1 had been very useful for Company A, who have had periods with three interns from Investor A1 supporting Company A with different tasks. *"The assignments the interns were working on were very important, but they were time consumed and since we could not afford to hire additional staff, their help was needed"* (Founder A).

5.2. Founder B

Company B was founded couple of years ago and has been generating revenue for some time but still has negative cash flow due to investments in growth. Today they have a group of almost 5 angels and one Swedish semi-professional investor, Investor B, who is active in the same industry but in another place in the value chain. The empirical findings will focus on covering the relationship with Investor B. In general, Founder B views Investor B as an active owner, having a representative on the board of directors and keeps in contact with the founders on a regular basis. They have completed multiple seed-funding rounds of c.5 MSEK, with the same investors that have been on board since 2012.

5.2.1. Pre – Investment

The screening process for Company B was extensive and lasted for 9 months. The process included not only pitching related activities but also workshops around different areas that interested Investor B to create a collective business plan. The founders were for example asked to apply their plans and budgets in to Investor B's own frameworks so as to analyse and understand them better. The process was perceived as a challenging period. Every time the founders would meet with Investor B, they would go through what they had done so far and what their plan was for the coming year and months.

These workshops and meetings gave Investor B a feeling of the founders' ability to execute and create plans: *"After these months of meetings we had shown our ability to always execute according to our plan"* (Founder B). By then the founders had also developed a lot of trust for Investor A during the screening process: *"Except for their good reputation in the industry, which we already knew, we realized the value of their network and expertise in order to become successful"* (Founder B). During the same period, Company B was in another screening process but chose Investor B for several reasons: *"We had the option to go with "hard money" or an investment that would include competence as well. The deal breaker, however, was the fact that Investor B offered a higher valuation and did not want, as the other investor, to own a majority of the company in the future."* (Founder B).

Founder B also underlined the importance that the personal chemistry in the end has to be right for any good working relationship to thrive. Founder B described the expectations as clear and understood from both parties during the discussions. They had involved Investor B in all kinds of strategic planning and thoughts. Furthermore, Investor B was transparent what the founders could expect; an active involvement through a supportive sounding board and also one person in the actual board of directors with the focus on strategic and management issues. *"We also had a somewhat silent agreement outside the contracts that they would continue to help us with the budget work and introductions to potential suppliers, which later on fell out even better than expected"* (Founder B). Founder B described the contracts as a template, provided by one of the angels they trusted and they did not spend much time or energy to create detailed contracts that outlined responsibility, roles and what to expect from each other as they believed that was covered in the screening process.

5.2.2. Post – Investment

According to Founder B, the cooperation that followed the investment was both important and valuable: *"Thanks to Investor B we have got both better deals, and deals that we would not have got without them, across all kinds of areas"* (Founder B). They also supported as mentors and assisted in coaching. During the first year we had meetings weekly and between that, we called each other almost all the time. In the beginning they gained a lot from the active involvement: *"It is easy to see that you both save money and time when having a competent and relevant investors like we have"* (Founder B).

However, after approximately a year, they perceived the process as increasingly time consuming: *"There were situations when we wanted to do something and they responded with something vaguely like 'Sounds good, let us take a look at that' or 'Yes, why don't we schedule a workshop for that in three weeks', but that is a lifetime for an entrepreneur!"* (Founder B). This behaviour, was exacerbated when the founders brought up the next strategic move; to expand internationally, which Investor B disagreed to. They thought that Company B was not ready for that yet as there were still "low hanging fruits" left in the Swedish market. On the other hand, according to Founder B the strategic move was in alignment with the long-term plan and they believed the reason for the disagreement was due to Investor B´s lack of competence concerning international expansion. The founders did however succeed to expand to a new market, but the board work and the relationship suffered severely: *"One should not underestimate the importance of feeling supported. When you do not feel the support for your ideas it drains you on energy and takes a lot of time, even though you know that you can carry out your ideas, you just don't disregard someone's thoughts in a partnership even if you have the actual, contractual, power as we do"* (Founder B). In retrospect, Founder B considered the sceptical approach from Investor B regarding the expansion and other issues as not only time and energy consuming but important for another reason as they had to build a structured decision making process, which yielded much more trust and autonomy and the relationship was catching up subsequently.

5.3. Founder C

Company C was founded prior to the financial crisis and has had several investors involved. The current investors work in a professionalized way and are active through representation at the board of directors. The perception is that the investors above all act as a sounding board, helping and giving advice when solicited. In the summary of the interview below, we have focused on the relation with an international investor, who joined around 2010.

5.3.1. Pre – Investment

"Except the actual financing, we had one area of focus when we were looking for venture capital, which was to build a hype around the company as an attractive employer to specific competence that was important to us. But of course we also aimed at a good VC-partner on our team, because VC-investing is still a very person driven business" (Founder C). The founders were also hoping that Investor C would increase trust and bring in large client accounts. When they met, Founder C felt that Investor C was the right partner; not only the brand was good for the reasons mentioned above, but also the chemistry was great and the partners from Investor C seemed to live up to their personal reputation of being intelligent and honest people. Furthermore, when Investor C expressed an interest to invest, Founder C chose to not proceed with any other interested investors, which they could have done to increase the valuation: *"We wanted to make Investor C feel chosen and we appreciated that they should make money on their investment"* (Founder C).

The founders, as stated above, expected some hype thanks to the investment. They also hoped for good advice but they did not expect that: *"we were told early from experienced entrepreneurs that one should never trust to get anything but money from VC-Investors, so we did not"* (Founder C).

5.3.2. Post – Investment

Contrary to the expectations, Founder C described their partnership as both less demanding and more valuable than expected: *"the investment and their involvement led to more than we could ever have expected"* (Founder C). According to Founder C, Investor C´s general point of view regarding corporate governance has always been that the entrepreneurs should manage the companies and the investors should be there as a support: *"Investor C is generous both in terms of how much trust they put in us and how little they intervene, but also regarding what they are ready to do for us"* (Founder C). Entrepreneur is pleased with their relationship and also raise the possibility that the contracts has played a "protecting role", Founder C elaborates more about "one could not know if that is thanks to our contracts or if we just fits as persons. We can however note that we still possess a lot of power and if they mess with us we can certainly mess with them, so in some sense it might be a fruitful terror balance in our relationship. The contracts established a common ground about the rules and roles in the partnership". Even though Partner C, was praised for not intervening in the operations, he attained an active role as member of the board of directors and as a supporting sounding board for the founders:

"If you have been in the industry for such a long time and been involved in so many startups you have valuable experience, regarding for example strategy, which was perfect for us" (Founder C). As mentioned above there were a few operational issues that Investor C got involved in, except financing and more commercial contacts: *"Partner C introduced us to people at banks that would not otherwise have spoken to us and there are also some big potential clients that Partner C has introduced us to"* (Founder C). Investor C also had a junior partner assigned to help the founders with hands-on issues, for example when they needed help to analyse accounting or financial issues. This was very valuable in the beginning of the cooperation. However, later on the focus of Investor C shifted: *"Today we can hire that competence, so the current focus from investors is related to strategic issues, which they are excellent at"* (Founder C).

5.4. Founder D

Company D was founded around 2010 and two years later a professional and local investor, provided capital. Investor D made an additional investment at the time when another investor invested. Investor D is monitoring Company D on a regular basis. Company D has started to generate revenue, but not yet reached a profitable stage. The founders behind Company D had a preference for *smart money* as they were looking for capital: *"We didn't only want money, we needed competence and active involvement from potential investors to be able to get the full potential out of the investment"* (Founder D). The founders needed competence in both strategy and marketing, since they lacked the knowledge themselves.

5.4.1. Pre – Investment

Company D participated in a regional startup-program, envisioned to guide entrepreneurs from the idea stage to pitching to investors. During this period, which lasted for almost half a year, Company D had an assigned investor as their coach, who gave them feedback concerning different stages in the process: *"he gave us weekly tasks, everything from creating a budget, a business plan to an elevator pitch"* (Founder D). When the program ended it turned into a pitching process and Founder D perceived it as if Partner D held their hand throughout the process, which laid a solid foundation for their relationship. The founders also trusted and believed in the competence possessed by Investor D. Before the investment was completed, Investor D and the founders created a comprehensive and visionary five year plan for Company D, where Investor D attained an important role as a sounding board. The two factors deviating from the norm is the supreme power possessed by Investor D through the contracts regarding fundraising and the fact that Founder D trusted Investor D to set up the contracts, without having own lawyers investigating them: *"We trusted Partner D, and the contracts seemed to be all right, when we had a look at them"* (Founder D). Regarding the fundraising, Investor D had the legal right to know about any meetings with potential investors in advance and they were to negotiate the terms should there be deal.

The perception is that having Investor D managing the fundraising process was good, because the founders trusted Investor D and their ability to get things done, and did not see that fundraising was a field where Founder D possessed any expertise or experience. However though, the first fundraising process after the entrance of Investor D was delayed with 6 months. According to the founders they believed they could have resolved the financing faster, should they have been leading the work.

5.4.2. Post – Investment

"To bring in Investor D as an investor was the best thing we have done for the company. During and after the screening process that we worked closely together and today we have our offices in the same building. It gives us the possibility to meet and get advice on an ad-hoc basis" (Founder D). The collaboration with the investor is perceived as highly value creating. For example Investor D connected Company D to other portfolio companies, which has led to several good contacts. They also have a representative on the board of directors: *"an external expert and entrepreneur in online-marketing, which fits us perfect"* (Founder D). This director assists Company D with strategic, long-term issues, but also in more operational matters. Currently, the founders perceive themselves to be in an autonomous relationship following the screening process and mentioned the benefit of Investor D not intervening too much: *"Investor D is never part of our daily business but is always there if we need their help"* (Founder D). The perception is that Investor D has a lot of faith in the founders and gives them the freedom they want, as long as they stick to the agreed plan, which is not always the situation: *"If I want to do something that I know they will not agree about, it is better to not tell them at all and hope that they will not discover it or ask anything about it"* (Founder D).

5.5. Founder E

Company E was founded after the financial crisis and the company has raised hundreds of million (SEK), divided over several rounds and today has more than 5 investors in the company. The investors are actively monitoring through board work and as accessible advisors. The company was still dependent on further investments when the interviewed was held. The focus of interview was the unsuccessful relationship with Investor E, which was the first professional investor to invest in the company. Apart from Investor E, the founders have only had investors, which they have been satisfied with.

5.5.1. Pre – Investment

When Company E was looking for financing, they met Investor E among other investors. After the initial pitch, Founder E recalls it as a fast process to the stage where Investor E said they were ready to invest. After that however, the real screening began, which was a process Founder E described as very time consuming and intense: *"it started with Investor E sending over 40 in-depth questions related to our business idea and market"* (Founder E). However, this made the founders only to believe that Investor E was competent and had done their homework. After answering the first 40 questions as good as they could, Investor E replied with another 40 questions, which were even more specific. An example could be: *'why do you think you can grow in this market?'* and it continued in this fashion until the founders had to obstruct against the endless questions.

After that, the founders met the whole team at Investor E and spent a whole day at their offices pitching and got to know each other. Furthermore, there were a lot of negotiations regarding the terms of the contracts and Investor E played "good cop, bad cop": *"Partner E was the good cop and always had to verify everything with other partners at Investor E or their lawyers, who always had objections"* (Founder E). The basis of the contracts were same as had been used since the first angel investment: *"We did not know that much about contracts, so we used the ones we knew, which later we later regretted"* (Founder E). Founder E explained further: *"We have learned our lesson. It is easy to believe that some parts are important, and that could give you a false feeling of security. You need to focus on the right paragraphs in the contracts"*.

5.5.2. Post – Investment

Upon completion of the investment, the relationship started to deteriorate rather fast: *"It only took a couple of board meetings before we felt that Investor E started to intervene in a way that we were not used to, it was about issues we saw as operational and not strategic and therefore not a question for the board of directors"* (Founder E). The angels had only been supportive and never acted like that. It became apparent to the founders that their startup and their product was seen only as Investor E's investment, which reduced the team spirit. The view of the long-term goal was still aligned but how to get there was started to diverge. Founder E realized that showing the investors good numbers was not a guarantee for autonomy. Good numbers was only a hygiene factor and it did not help that the founders had kept Investor E as informed as possible and shared everything in detail.

This intervening behaviour was further exacerbated when Company E experienced a temporary derail in growth. In contrast, the angel investors and the founders knew that this was how the growth cycle looked like. *"The lack of trust influenced our relationship more than anything else. It does not feel good to hear that you are doing something wrong when you work hard and really believe in it"* (Founder E). Investor E suggested a lot of drastic solutions when the growth decelerated, for instance, the demand to hire additional senior people: *"We did not believe in that and it undermined the trust in Investor E's competence"* (Founder E). Founder E interpreted the hiring suggestion as a far cry to get "their people" into the operations.

6. Analysis

The empirical findings show clear signs of what seems to be the preferred relationship and also potential tendencies of causality related to the creation and maintenance of ideal kind of relationship. The empirical findings will be analysed through the theoretical framework developed by Davis et al. (1997) and subsequently connected to the investment process. A summary, table 1, is found in the appendix.

5.1. Determining Criteria

6.1.1. Motivation

To analyse an individual´s motivation based on the empirical findings in the study is a difficult undertaking. First of all, it is very subjective and secondly it is challenging even for oneself to asses motivation without deep self-reflection. However, the very nature of running your own company could potentially serve as a more reliable explanation of motivation. In general, founding a startup implies self-leadership, creativity, solving complex and challenging problems, autonomy in decision-making etc., which support intrinsic motivation. Supporting this argument, all of the founders talk about their businesses with passion and enthusiasm, when describing their journey and why they started the companies. They all use expressions like: *"the vision is to revolutionize the industry"* or *"we aim to solve problems for others"* and *"help people who have a problem"*, which could be interpreted as motivation by higher order needs. They all find joy in the day-to-day work, which is important for fulfilling the second criteria about intrinsic motivation. As Founder B put it: *"I really think it is interesting working in our industry"*. The founders also view their work as more of creating something, rather than just task oriented. They are also satisfying the argument regarding self-leadership, made by Manz (1986), through exercising self-leadership on a daily basis by mostly working independently or at least leading the strategic work. This implies that criteria 1 and 2 are fulfilled, which speak in favour of a relationship built on stewardship theory.

6.1.2. Identification and Value Commitment

The entrepreneurs in this study have founded their companies and by definition played an important role in the creation and development of vision, mission and objectives, allowing identification with the organization and supporting a strong value commitment. However, mutual commitment is necessary for a stewardship relationship to prosper (Bender, 2001), which is characterizing the majority of the cases.

Most of the investors exhibit strong commitment in general, but we can distinguish some differences. In both Case B and D the investors are local and entered at an early stage. The investors have participated in the actual creation of the vision, mission and goals during the screening process, which lasted for more than six months in both cases. The participation in the process could imply mutual commitment and identification with the organization. This argument is also strengthened by founders A and B through the description of their investors: *"Always there to support"* and *"Constantly helping us and always keeping their promises"*. However, after the screening process and the investment was completed, Founder B experienced commitment issues from Investor B when preparing for an international expansion. This happened due to the lack of trust for each other's competence in the current situation, which seem to have had an impact on the motivational criteria. Even though the investors were engaging a lot, they were not as enthusiastic as before, which might indicate that the drop in commitment carved out intrinsic motivation and made the investment the primary driver. The commitment was later regained after the founders proved Investor B wrong: *"we kept on delivering, in both the international and national market, which restored their trust in us again"* (Founder B).

One similarity between Founder A and C is that their investors had strong conviction for, and trusted the business plans when they were presented during the pitching process. This dedication by their investors and the support in the continuous work of reshaping and refining the long-term goals, was perceived to be of great value. Hence, this activity could be interpreted as a full value commitment, which created a team spirit and a sensation of affiliation. Worth mentioning is the situation when one of Company A's investors had to exit according to their investment policy. Investor A decided to buy them out and provided even more capital, which augmented the perceived commitment even further and also made Investor A more active, which will be examined under the section about management philosophy. In Case E, trust issues arose after less than half a year, which resulted in a feeling of low commitment. Investor E expressed anxiety about the devious progress and growth and later also refused to participate in the agreed second funding round, which were perceived as a big betrayal to Founder E. Consequently, this analysis results in a situation where 4 out of 5 cases satisfy criteria 4 and 5, even though in Case B, the journey to reach the criteria has been staggering and encountered obstacles along the way.

6.1.3. Power

Concerning the fifth criteria as to whether the basis of power consist of institutional or personal power could be considered connected to the eighth criteria examining the power distance. Hence, these two criteria are analysed together below. In common for all cases, except Case E, is how the entrepreneurs relate to the investors as a member of the team as opposed to an outside entity. Founder A-D have always had the possibility to reach out for advice as needed and the investors have been supportive and have assumed autonomy of the entrepreneur rather than granted freedom of action from a position of authority, which would shift the use of power in favour of personal power. Davis et al. (1997) explain that the suppression of institutional power facilitates a dynamic where the both parties are acting as both principal and steward where the parties answer for each other, which is consistent with this situation. However, both Entrepreneur B and C claim that they are in a situation of greater institutional power, through contracts, than their investors. On the other hand, the important factor in these cases is that none of the entrepreneurs have followed through and exercised their perceived institutional power.

In reality this could be questioned. The perceived superior advantage of institutional power might actually not be superior to the power of the investor, but rather, the contracts have allowed them to attain a position at par with the investors, creating a balance instead of supremacy towards any direction. Simultaneously though, Founder B explained that they have had a reason to exercise institutional power in the situation about the international expansion, but as Founder B mentioned: *"you just do not want to overrun your investors, you should not underestimate the importance of feeling supported and trusted"*. This statement is consistent with a stewardship relationship emphasizing the belief that individual needs are met in the long term by working towards collective objectives first and collaboration above individual pursuit. Hence, even if the institutional power balance would have been tilted in favour of Founder B, they have made a deliberate choice to rely on personal power as the source of influence.

According to Davis et al. (1997), the choice of power is a function of individual characteristics and prevailing structure. Consequently, in this situation individual traits have overrun the organizational structure, i.e. the contracts, that would have allowed them to use more formal power than they did. A possible general explanation for this might rest within the intrinsic nature of founding a startup. If the management philosophy adopted by the investor were involvement oriented in alignment with the sixth criteria in a way that doesn't crowd out intrinsic motivation according to the motivation crowding theory (Anthony et al., 2014; Frey and Jegen, 2001), the entrepreneur would be less inclined to be coercive and use institutional power if possessed. Rather, he or she would rely on personal power and supress individualistic motives and realize the benefit of prioritizing the collective interest.

Moreover, Founder C on the other hand has not seen a reason to use their institutional power, because they have never felt anything else than support from Investor C and no intervening actions. Hence, we can observe two relationships with a low power distance and a use of personal power where competence is superior to hierarchy. Both Company B and C lean towards a steward relationship according to the satisfaction of criteria five and eight. The relationship between Investor A and Company A is associated with extreme low power distance and a great focus on personal power. They work together weekly, the support is reciprocal and they share feedback, which is accepted with no almost sign of prestige and rejection.

On the contrary, the power situation was rather unique in Case D. Part of the deal was that the founders had to renounce their right to manage future fundraising in favour of their investor. This could be seen as a factor speaking for a relationship where institutional power is predominant through the creation of a superior authority in decision-making. However, according to Founder D it was only problematic when the last funding round were delayed. Nevertheless, Founder D is positive: *"they do what they excel at, and I do what I am best at, that is the deal".* To decide the use of power in this situation is therefore not easy, although it leans towards personal power because of the mutual agreement that expertise should prevail in dividing responsibility in the relationship. Case E is the only situation, where the investor has intervened with the founder's decision and exercised their institutional power. Preceding this occurrence, the founders used their institutional power to obstruct Investor E from intervening regarding some rather operational issues. Both situations clearly indicate a tendency to exercise institutional power and also the long power distance in both directions, depending on the possession of the contractual power in the given situation. Summarizing the analysis, the majority of the cases accomplish criteria 5 and 8, except for Case E.

6.1.4. Management Philosophy

When analysing the empirical findings, evidence suggest that the overall management approach is involvement oriented in favour of criteria six. The entrepreneurs are given autonomy and freedom in decision-making as well as support and advice when solicited. The majority of the relationships are characterized by transparency and open communication. Generally, the entrepreneurs perceive their investors as a sounding board for their ideas and they view their advice as value added. As Founder C put it: *"Partner C has a strong attention to detail and due to his experience he has always something to add in any discussion".* However, this is only the case as long as the investors do not participate in a destructive way. In such a situation, the very same activity could be viewed as intervening as opposed to supportive, as in Case E, when the investor hired new competency. This is interesting since it suggests that an involvement oriented approach is preferable and a stewardship relationship is much more valuable to the entrepreneur. The perception of the investor´s capabilities and competence seem to be crucial in this aspect and could potentially affect the level of trust.

Furthermore, in Company A, we can observe that they perceive their investor to be completely supportive and there is no intention to control Company A. However, if we disregard the perception of Founder A, it could be argued that the management philosophy resembles a control oriented approach upon recognition that Investor A had increased their activity to at least weekly, with rather intrusive involvement from both partners and junior staff. Personal power may have an important role in explaining this discrepancy. Due to personal persuasion as well as trust in the investor's capabilities and competency, i.e. expert power, the activity was perceived as involving as opposed to controlling. This resonates with the argument above that the perception of competence is a strong indicator of how the investor´s engagement is experienced. An alternative explanation for this inconsistency in perception could possibly be found by borrowing arguments from the resource dependency theory (Pfeffer and Salancik, 1978). Upon reflection, Founder A did not have the knowledge and above all, not the time for certain matters and when the investor increased their engagement they created a dependency as the entrepreneur recognized the need for the investor´s capabilities, even if they were delivered in a controlling fashion.

This could explain why the engagement on the contrary was perceived as involvement oriented. Ultimately this evolution resulted in preserving a stewardship relationship despite the fact that the engagement might have been control oriented from an objective perspective. According to the theoretical framework we may interpret this as a fulfilment of criteria 6 in case A. Furthermore, all founders except Founder E express positive thoughts about how good and value creating the investors' different activities have been and still are for them. Even if managing the relationship is challenging at times, they all agree they would not prefer an investor only contributing with money.

More factors in favour of the satisfaction of criteria six are the relationships between the investors and founders behind Company C and D. The founders mentioned that their investors have explicitly communicated that entrepreneurs should run and lead the businesses and that the investors are there to support, not intervene. Somewhat contradictory to this statement is the investors' actual behaviour; both have representatives at the respective board of directors. According to the founders however, the majority of the interactions between them are very informal, not during board meetings, and totally dependent on what the founders believe they need help with. Hence, creating a low power distance and as well as an involvement oriented engagement. However, in Company E there are signs of a controlling management which is perceived as intervening and eroding trust. However, synthesizing the analysis of criteria 6, most of the entrepreneurs view the relationship with their respective investor as a value creating cooperation, not being controlled, which suggests that criteria 6 is satisfied as well.

6.1.5. Culture

There is a mutual perception among Founders A - D that the investors are engaging in a supportive way and provide an extensive effort in order to maximize the success of the venture. Founder A explained: *"Investor A is always just a phone call away if we need their support about anything"*. Founder C agreed, but also highlighted the more individualistic part of the investors´ behaviour: *"of course they do what is necessary for our success, they have invested capital in our company"*. Regardless of the underlying motivations, the investors seem to emphasize the importance of an informal, non-hierarchical way of communicating, creating a collectivist culture. This reasoning is further reinforced by the entrepreneurs´ speeches about the relationships with their investors as a team characterized by an including atmosphere and affiliation. In Case D, they even shared offices for instance. Ultimately, regardless of periods of trust issues and periods of intervention the entrepreneurs stress the investors' constant focus on the best interest of the startup. Founder E however, has experienced another reality with only a short period of perceived collective culture: *"they made it clear to us early on that we were their investment, not that this was a partnership"*. Thus, criteria seven is satisfied in case A – D, whereas it is not in Case E.

6.2. Investment Process and the Relationship

6.7.1. Screening

As we can observe in our empirical findings, three out of the five startups, have had extensive screening processes, which have had various impact on the relationship and its efficiency in reducing information risk. In two of those three situations, the screening has reinforced a stewardship relationship: the due diligence was based on cooperation, getting to know each other and creating a mutually accepted business plan, vision and objectives. First of all, the adverse selection was reduced when the investors understood the business idea and saw that the first two criteria had been satisfied and assured about the entrepreneur´s intentions and motivations. Secondly, the screening process set the foundation for a stewardship relationship since it affected most of the other criteria. Both the third and fourth criteria were pleased by embracing the vision together and the sixth criteria could be reached by discussing independency and their potential roles when working together in the future.

The seventh and eighth criteria could also be accomplished in the screening by creating a foundation for a collective culture as well as a low power distance. Hence, if performed in alignment with the criteria, an extensive screening process could be beneficial in order to shape a stewardship relationship. Additionally, the advice and input from the investors in crafting the business plan seemed to have provided great value to the founders. In many of the cases, the development trajectory was much more visible after the support. However, in one of situations, the lengthy screening process were more destructive and tilted the relationship towards one with agency characteristics later on. A likely reason for this might be the attitude of the investors and the absence of trust, caused by what was perceived as the incompetence of the investors. In contrast to the constructive screening, this investor was more interested in reducing adverse selection, than creating a solid foundation for a steward relationship by shaping the vision and culture together, with a subsequent result accordingly. This also shifted the screening process to focus more on extrinsic factors and the founders only had their attention on securing the financing, which carved out intrinsic motivation.

Lastly in the two cases where the screening processes were less pervasive, they did not enjoy the benefit of shaping the strategy and objectives together and the reduction of adverse selection were not as thorough. However, the screening was somewhat sidestepped and mitigated by emphasizing exhaustive contracts instead, which clarified how the cooperation was to be designed. As will be explained below, the screening process appears to only create prerequisites for a stewardship relationship since there are external factors affecting the relationship and without control mechanisms like contracts, preserving the stewardship relation, there is a tendency for the relationship to backslide and adopt agency characteristics when the business environment changes.

6.7.2. Contracts

The two entrepreneurs with strong confidence in their contracts represent the companies that have experienced the least problems with their respective investor. However, a key ingredient in the constructive contracts appears to be institutional power balance, which might be difficult to achieve without leverage from the founder. As in Case C and accordance with resource dependency theory, they were less dependent on Investor C as they had multiple offers from other investors and they did not need any particular resource from the investor aside from the capital. Nevertheless, Investor C is highly regarded and desired, which ought to have mitigated the leverage, but simultaneously, they explicitly stressed the importance of autonomy for the founder. This could indicate that Investor C emphasized a stewardship relation and did not pursue a power struggle in drafting the contracts. Furthermore, Founders A and C are also the only founders who do not associate the screening process as never ending or extensive. This could imply that the contract should be in focused when securing the commitment and identification with the organization from both parties before the investment, and not put too much faith in the screening. Furthermore, we have found that comprehensive contracts seem to be crucial in sustaining a stewardship foundation created in the screening process. Especially, contracts are important when the progression diverges from what was agreed in the screening process, which shows the difficulty of covering all the different scenarios in the due diligence and consequently, there has to be contracts that protect a constructive relationship.

The entrepreneurs found it valuable to secure their autonomy and an involvement oriented management in line with criteria six as well as a good power balance and distance in accordance with criteria five and seven. Furthermore you could also argue that deviations from expectations would hit criteria three due to divergence in the opinion of the new direction, which could ultimately have a negative impact on motivation as in criteria one and two. Hence contracts could potentially affect all the aspects of the relationship.

The take away is that determination of the relationship is not a question of the prevalence of contracts or the scope of the contracts, which at first could imply an agency relationship. Rather, the impact on the relationship is about how intrusive the contracts are designed and the effect on autonomy. As we have observed, even if the contracts are detailed they can still support a stewardship relationship. The key importance is that that contracts should clarify expectations and roles as outlined above.

6.7.3. Post Investment Activity

As mentioned above, an important factor in triggering problems in the relationship is deviation from the perceived business plan, i.e. the expectations. It could relate to an international expansion, which has been implemented too early as in the case of Company B or not understanding the industry dynamics and that growth is cyclical as in Company E, which had a severe impact on the investor activity and directed the management approach towards control orientation. Simultaneously, in Company A we can witness an important distinction between a deviation from expectation and a hold-up in general. As Founder A put it: *"the setback forced us to pivot and following the associated exit of the other investor, the founding team and our main investor have developed an even better relationship and the commitment from their side is energizing".* This also reinforces the argument of strong contracts that clarify expectations about strategy and define the involvement.

Consequently, unexpected problems have a tendency to push the relationship in a downward spiral and it appears to start with the impairment of trust. Trust could be viewed as the cornerstone, connecting all the criteria conveyed by Davis et al. (1997). As trust is starting to erode, it will strangle the management orientation, affect the culture, lead to wider power distance and create divergence in objectives. This will result in tapping into institutional power, plummeting commitment and ultimately, it will have an impact on the degree of identification and motivation and end up in a depressed destructive relationship. However though, an interesting implication of the relationship transformation is that it does not appear to affect the ability to reduce information asymmetry and the correlation is not stronger in a steward relationship compared to an agency relation.

In a destructive relationship, the information risk might be increased, but it could be compensated by the increase in control. For instance, in Case E, the investor had attained complete transparency and full control of the moral hazard threat, even though the relationship was dysfunctional and characterized by distrust. In contrast, Founder D mentioned he would intentionally hide information if he knew the investor would not conform, which might suggest that a stewardship relationship is not necessarily better at reducing information risk than through an agency approach.

7. Conclusion

The venture capital market has grown in size and importance and is one of the reasons many of the most prominent and successful companies in the world have reached their current level. This has brought about an increasing attention and interest in the investment process and the relationship between the investor and the entrepreneurs. A natural concern associated with VC financing is the risk of information asymmetry, which may cause agency costs through adverse selection and moral hazard. Stewardship and agency theory offer somewhat conflicting perspectives on the issue. However, through research by Davis et al. (1997) the VC – startup relationship could be analysed in light of both theories where they can coexist and complement each other. With this in mind the aim of the thesis was to examine the characteristics of the relationship and explore the most prevailing theory as well as how the entrepreneurs perceive the value from the relationship. Lastly we also investigate the impact on information asymmetry. Through a qualitative case study, based on five in-depth interviews with the founders of five startups, we have analysed the relationships with a theoretical framework consisting of eight criteria (Davis et al., 1997) in order to distinguish the relational characteristics.

Our study indicates that the relationships have both differences and similarities. The perception is that having an active investor adds more value than the actual investment, but better yet, the true value rests within how constructive the relationship is. Most of the eight criteria by Davis et al. (1997) are satisfied in 4 of the 5 cases, which would imply that the stewardship theory is predominant in explaining the relationships between the interviewed startups and their investors. The only entrepreneur who described their relationship with agency features also mentioned the previous relationships with other investors, which were much more supportive. Consequently, the entrepreneurs fulfil all the criteria, indicating that stewardship theory is prevailing in describing the VC – startup relationship. Furthermore, the perception of the entrepreneur is that the most valuable, effective and constructive relationship is characterized by stewardship theory and the main value contribution seem to be related to time. According to the entrepreneurs, success has been achieved much faster through a stewardship relationship. Thus we can conclude that the stewardship theory not only should be seen as the most applicable to the relationship, but also the most valuable for the founders. The founders´ appreciation for the relationships in general might suggest a high degree of loyalty towards their investors, which could possibly decrease the risk of agency problems when having a more altruistic approach. However, we have not found that either relationship is to prefer regarding information asymmetry. Even if the risk of agency problems are higher in an agency relationship there are strategies in place for mitigating that risk and the net effect is difficult to evaluate. However, these strategies are intervening by nature and consequently fuelling a destructive relationship. Hence, in order to achieve both a valuable relationship and a proper information risk mitigation, the steward relationship is to be preferred.

We also find that a constructive due diligence is vital in order to establish a foundation for a steward relationship due to mainly two aspects. First of all, a thorough screening process should be focused on creating a common vision and a business plan that both parties have accepted so as to ensure identification, commitment and a collectivistic culture. During the screening process they also have the opportunity to discuss roles and responsibility, how they should interact and work with each other. The second aspect relates to deviations from expectations. It is not the occurrence of problems in the progress, but rather disagreements and deviations from the perceived plan that direct the relationship into a decay. This underlines the importance of clarifying expectations during the screening process.

Lastly, we have found that contracts can fill a crucial role to secure a stewardship relation by balancing the power between the investor and the entrepreneur, avoiding the possibility of intervening and extrinsic behaviour from the investor that lead to a loss of the perceived valuable cooperation and lead to a mutually undesirable agency relationship. Contracts do not necessarily undermine trust as long as they clarify expectations and do not thwart the autonomy of the entrepreneurs.

This discovery might provide a nuance to the otherwise contradicting findings of Strätling et al. (2012), which stipulate a negative correlation between trust and the prevalence of contracts, whereas we can observe the opposite relationship. A possible explanation might be that most of the VC – startup contracts in fact are not as comprehensive as they ought to be. These findings are further reinforced by Poppo and Zenger (2002), who suggest precise and detailed contracts that include the possibility of *bilateral adjustments*, which may facilitate the development of highly cooperative relationships, characterized by stewardship features.

As discussed, a thorough screening is essential to create the prerequisites like commitment and goal alignment. However, this process alone has proven to be insufficient in a fast moving environment, which highlights the importance of comprehensive contracts. Nevertheless, even contracts fail to encompass all the different scenarios. Thus, solely relying on screening and contracts are not enough in order to create a valuable relationship and to address the information risk. The solution might be the perspective on trust in each other's competence, i.e. personal power. In the absence of trust, the entrepreneur has a tendency to pursue his or her own agenda, increasing the information risk and agency cost. In the opposite scenario, the investor has a propensity to intervene. A conclusion is that if investors want to mitigate information risk and entrepreneurs want support and advice, but also to eschew intervening behaviour, they both have to educate each other in areas where there is a lack of competence. In this way, they can both work towards a constructive relationship, which is beneficial for both parties and for the long-term success of the venture.

8. Discussion

8.1. Methodology

The employment of a qualitative method has created an avenue for examining the most applicable of either stewardship or agency theory that is prevailing and best describe the relationships in our sample of five startups. Moreover, the venture capital – startup relationship is characterized by a high degree of complexity, especially in the context of information asymmetry where there are psychological aspects to consider as well. Hence, the scientific approach has been well suited for the purpose of this study and ensuring validity.

However, a fragile aspect of our research is that it is not based on both counterparts, only the perspective of the entrepreneurs. Yet, this perspective has attained the least attention and there might have had to be a trade-off in the depth of the empirical findings, should we have focused on both sides of the relationship. Furthermore, there might have been a risk that the reliability and trustworthiness would have suffered in an attempt to conceal sensitive opinions about the counterpart if both parties were interviewed.

Another important aspect is the issue of subjectivity, which could have an impact on the validity and generalizability. However, in all of the cases, the entrepreneurs brought forward similar reasoning and perceptions and any discrepancies could be understood in light of recognised explanatory variables, which further reinforces the credibility of the empirical findings. Should there have been any inconsistency in the empirical findings it would have appeared in the form of contradictions in the entrepreneurs´ perceptions. Additionally, some of the criteria by Davis et al. (1997) could be argued to be entrenched in the nature of the VC – startup relationship, enhancing the generalizability. For instance, the intrinsic motivation might be originated from the creative characteristics of running a startup, whereas the facilitation of identification, commitment, power distance and culture may be embedded in the screening, which is part of the investment process (Tyebjee and Bruno, 1984).

8.2. Theoretical Framework

It would also be necessary to defend the choice of the theories applied in the thesis, since both the stewardship and agency theory might be seen as too general and proven all ready. Even if the theories are old, we believe they become relevant through the solicitation from the research by Davis et al. (1997). However though, their research is in turn based on theories that are migrating from the scope of this study to some extent, as they are related to human behaviour and psychology and not economics. Hence, explaining our choice of the more high level theories in the study. Furthermore, we have found that in some situations, the theories have not been able to explain certain events, in which we have had to borrow solutions from outside theories like the resource dependency and motivation crowding theory. On the other hand, we do not believe that would jeopardize the reliability of the findings explained by our framework, but rather, they serve as a complement in completing the missing pieces. Nevertheless, we believe approaching the research question from a different theoretical framework would be interesting for future research.

8.3. Further Research

Our research indicates that it is above all the deviation from the perceived expectations, rather than the actual development of the venture that impact the investors' actions and behaviour, which may influence the relationship into a steward or agency direction. However, this has not been our research question or the focus during the interview, which makes it an interesting field for further research to examine any potential causality related to this question. Additionally, as mentioned in the section above it would be interesting to examine this question from a different theoretical framework other than the research by Davis et al., (1997). As mentioned in the analysis about power, the resource dependency theory might have some explanatory clout, which makes it interesting for further research. Lastly, we have only studied the perceived value from the relationship for the entrepreneurs, so it would exciting to see if the vale added had any significance for the long-term performance. Hence, the correlation between the long-term success and the characteristics of the relationship would be another question to investigate.

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10. Appendix

10.1. Interview Guide

Below is a sample of the questions we asked the founders we interviewed. The interviews was began with general questions about the company and the founder and was after that structured in a chronological order, with pre-investment activities first and after that the post-investment activities.

Introduction

- Describe your role in the company.
- Briefly, share the company's history with important milestones.
- What is your previous experience of raising capital?
- Why did the company need capital?
- Does the investor has a specific expertise?

Pre-investment activities

- How did you get in contact with the investor?
- Did you expect anything else than the actual capital, monetary, investment?
  - Did the investor tell that they could provide with any competence or anything else intangible?
- What did the screening process look like?
  - For how long did it last?

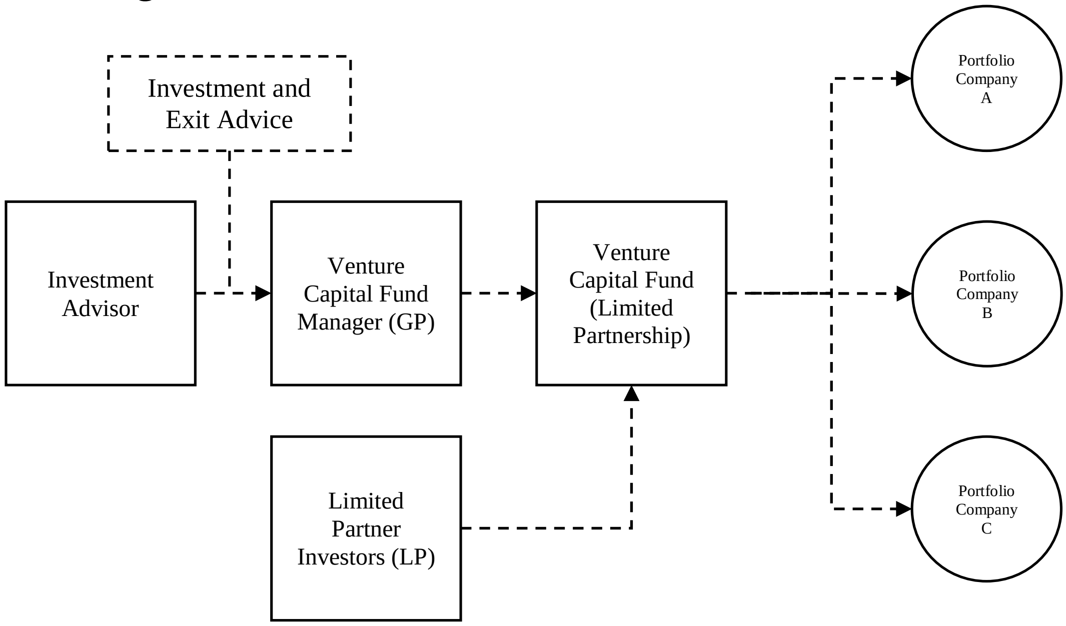
    - What was of greatest interest from both parts?
- What was your feelings about the investor during the screening?
- Was there some actions from the investor that influenced your decision more?
- How did you perceived the part with negotiating the terms and forming the contract?
    - Any experience, good or bad, of what the content of the contracts led to?

Post-investment activities

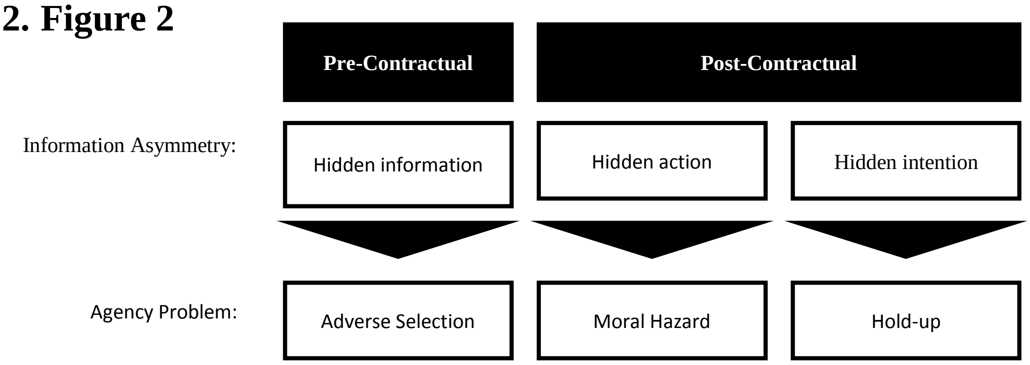
- How is/was the cooperation after the investment?
    - Have you got any support from the investor?
- What field does the investor care about?
- Do the investor wants information? If yes, how?
- Can you describe a situation where you and your investor have disagreed?
    - What did that lead to?
- How has your relation with the investor evolved over time?
    - Is the relationship informal or formal? Describe how, and if that has changed.
- How is the power divided through the contract?
    - Is it the contract or something else that decide who has the most power, in any given moment?

10.2. Figures and Tables

10.2.1. Figure 1



10.2.2. Figure 2



10.2.3. Table 1

Criteria	**Agency Theory**	**Stewardship Theory**
1. Higher order need		A, B, C, D, E
2.Extrinsic/Intrinsic Motivation		A, B, C, D, E
3. Identification	E, (B)	A, B, C, D
4. Commitment	E, (B)	A, B, C, D
5.Use of power	E, (B), [D]	A, B, C, D
6.Management	E, [D]	A, B, C, D
7. Culture	E	A, B, C, D
8. Power Distance	E, (B), [D]	A, B, C, D