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Trust me!

A study of Corporate Governance in Corporate Venture Capital

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Abstract

The present study investigates how Corporate Governance (CG) is exercised in the context of Corporate Venture Capital (CVC), through a single-case study of a Corporate Venture Capital Investor (CVCI) and its Portfolio Company (PC). Applying Roberts (1991, 2001) theory of accountability, the present study finds that socializing rather than hierarchical forms of accountability are dominant in the relationship between the CVCI and the PC, contrary to conventional theory on CG in VC. Moreover, the case indicates that this accountability structure leaves room for mutual influence between the CVCI and the PC, while rendering accounting information less value-relevant than typically assumed by researchers. Previous research has highlighted considerable differences between VC and the subset that is CVC across a wide spectrum of topics, but governance has thus far been assumed consistent with conventional VC research. Accordingly, the present study serves to highlight an inconsistency in the treatment of CVC as a research topic.

Key words: Corporate Governance, Corporate Venture Capital, Socializing Accountability, Hierarchical Accountability, Value Relevance of Accounting Information

Acronym explanation: Corporate Venture Capital (CVC), Corporate Venture Capital Investor (CVCI), Venture Capital (VC), Venture Capital Investor (VCI), Corporate Governance (CG), Portfolio Company (PC)

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1. Introduction

1.1 Background

“Corporate Venture Capital is what we believe to be the key to the new industrialization”
- Elisabeth Thand Ringqvist, Chairman Swedish Private Equity & Venture Capital Association (SVCA, 2016)

Corporate Venture Capital (CVC), the corporate subset of traditional Venture Capital (VC), is the investment of corporate assets directly in external ventures (Chesbrough, 2002). On a global basis, CVC has outpaced the growth of VC and between 2010 and 2015, grew at a compound annual growth rate of 32 percent (CB Insights, 2018). While the aggregate amount of VC investments doubled in the same time period, the fraction of CVC investments as a share of overall VC activity increased and today accounts for approximately 20 percent of all VC transactions globally (BCG, 2016b). In 2017, CVC activity continued on its growth trajectory, and amounted to 32.1 billion dollars in funding over 1,791 deals globally (CB Insights, 2018). In the Nordic setting, a host of familiar corporate names have recently established a CVC setup, including Scania, Volvo, and H&M (BCG, 2016a; Scania, 2017).

Previous research on CVC has been scattered and investigated a host of topics, including success factors, strategic relationships and investment rationale (Dushnitsky & Lenox, 2006; Gompers & Lerner, 2000; Sykes, 1990; Weber & Weber, 2007). Research has also attempted to define the fundamental concept of CVC itself, with varying results (Chesbrough, 2002; Guth & Ginsberg, 1990). Overall, CVC research (Chesbrough, 2002; Dushnitsky & Lenox, 2006; Gompers & Lerner, 2000) has almost exclusively been of a quantitative nature and investigated overarching themes within the field, potentially missing important, fine-grained, aspects affecting CVC activity. Despite the merits of previous research findings, several topics in CVC have been left unaddressed, and an array of researchers have highlighted the substantial literature gap in CVC research (Dushnitsky & Lenox, 2006; Gompers & Lerner, 2000; Keil, 2004), more specifically, within Corporate Governance (CG) (Anokhin et al., 2016b).

Thus far, CG in CVC has been unannotatively included in overarching research (Kaplan & Stromberg, 2001, 2003; Sahlman, 1990) on CG in the broader context of VC. Interestingly, the aforementioned research on CVC (Chesbrough, 2002; Dushnitsky & Lenox, 2006; Gompers & Lerner, 2000) has noted comprehensive differences between CVC and VC across a wide spectrum of topics, and still, somewhat counterintuitively, CG has been assumed consistent with conventional VC. There have been attempts to fill the gap in CVC-CG research, but this limited effort (Anokhin et al., 2016b) has garnered inconclusive results. By undertaking a qualitative study on the CG relationship in CVC, the present study offers an exemplar of how CG is exercised in practice in a CVC setting and further explores whether there is reason to question the unannotated inclusion of CVC in CG research on VC.

Understanding the CG relationship between Corporate Venture Capital Investor (CVCI) and Portfolio Company (PC) has widespread implications for key stakeholders. Firstly, the recent increase in CVC activity among Swedish corporations highlights the need for comprehensive understanding of potential effects of PC-integration and governance mechanisms. Secondly, smaller firms seeking investments would benefit from the same understanding to ensure rational decision making based on a balanced cost and benefit analysis. Thirdly, the importance of CVC research extends beyond the CVCI and PC to include financial service firms involved in transactions, management consultants involved in integration work and government agencies promoting innovation. These stakeholders would gain from having a solid understanding of the CVCI-PC relationship to make fair financial assessments, encourage suitable integration schemes and endorse suitable initiatives to promote innovation.

1.2 Research Question

The present study aims to provide an in-depth understanding of CG in a CVC context. More specifically, understanding the underlying mechanisms of governance as exercised between CVCI and PC. Thus, the research question follows as:

How is corporate governance exercised between investor and investee in corporate venture capital?

1.3 Contributions

The contributions of the present study are threefold. Firstly, by investigating the thus far under-researched area of CG in CVC qualitatively, the study contributes broadly to the field of CVC research. Secondly, the in-depth understanding of different governance mechanisms presented in the study contribute to established CG research in general, as well as to the more specific research context of CG in VC. Lastly, the study makes a contribution to accounting research in general, by providing an understanding of the value-relevance of accounting information in the CVC context.

1.4 Limitations and Delimitations

Three main delimitations have been made in the research process. Firstly, the thesis only investigates the governance relationship between CVCI and PC, and does not extend to include any specific research on the internal procedures and governance mechanisms of the involved parties. The governance relationship between a corporate parent and the CVCI-unit is a research area of importance in CVC research (Gompers & Lerner, 2000; Sykes, 1990) but beyond the scope of this study. Similarly, the internal procedures of the PC are not investigated but could potentially add explanatory value in answering the research question. Secondly, the research scope is further limited to only include a case of a strategic CVC investment, thus excluding the far less common case of financial CVC, since results pertaining to one, may not be generalizable to the other (Chesbrough, 2002). Thirdly, both the CVCI and PC are Swedish-based companies, primarily as a result of practical constraints pertaining to travelling. In addition, no access was granted to any internal documents such as valuation models or shareholders' agreements, which limits the data gathering to solely interviews. Further analysis of these formal documents could have contributed greater detail and concrete understanding of the mechanisms which are explored in the interview context.

2. Literature Review

This section contains a review of two blocks of literature relevant to the present study. The first block reviews previous literature on CVC to offer a broad understanding of the topic. The second block presents prior research on accountability mechanisms of CG in the broader context of VC. Lastly, Roberts' (1991, 2001) theories of accountability are presented to later be applied when analyzing the empirical data.

2.1 Corporate Venture Capital

CVC has been defined as "the investment of corporate funds directly in external startup companies" (Chesbrough, 2002). Others have extended and generalized the term farther, simply defining it as "equity investments by established corporations in entrepreneurial ventures" (Dushnitsky & Lenox, 2006), thus widening the scope beyond startup investments. In this paper, the latter and broader term is used. An important note is that CVC differs from the even broader term "corporate venturing" which includes financing of internal venture projects, as defined by Guth and Ginsberg (1990).

Chesbrough (2002) outlines two dimensions that characterize CVC investments and distinguish them from traditional VC investments; "Corporate investment objective" and "Link to operational capabilities". The former concerns whether the purpose of the investment is to gain strategic benefits, most common in CVC, or to gain a financial return, which is the sole objective of conventional VC. This distinction has been found important in previous research, with Gompers and Lerner (2000) noting that CVC investments with strategic objectives, as opposed to financial motives, outperform traditional VC investments. "Link to Operational capabilities" refers to the overlap of capabilities between the CVCI and the PC, and the closeness of their operative relationship, which according to Chesbrough (2002) can be deemed "tight" or "loose". Below follows a more detailed review of these two dimensions.

2.1.1 Strategic Corporate Investment Objectives

One of the dimensions along which CVC investments are categorized, as introduced above, is the investment objective. These objectives tend to differ between the CVCI and PC. In terms of the CVCI, Chesbrough (2002) argues that investments can be strategically beneficial either by advancing or complementing the current strategy (Chesbrough, 2002). As such, the specific rationale for large corporations to engage in CVC investing can be wide-ranging in practice (Anokhin et al., 2016a; Dushnitsky & Lenox, 2005). Typically, investments serve to strategically renew through attaining dynamic and innovative capabilities that large firms often struggle to attain, but which are frequently prevalent among smaller firms or startups (Deeds & Hill, 1996; Dushnitsky & Lenox, 2005; Lantz, 2011).

Research on the investment objectives of PCs has highlighted several potential benefits with CVC investments, both financial and strategic (Keil, 2004). Small and technologically advanced firms often struggle in obtaining financing from independent financial investors that lack technological understanding, which can be overcome by finding a CVCI with more industry-specific knowledge (Chemmanur et al., 2014). Strategic benefits can be wide-ranging to a PC, including all from access to established distribution channels or manufacturing capabilities (Teece, 1993), to strengthen professional and social networks (Maula & Murray, 2009), and increased innovation rate through industry-specific support (Keil, 2004).

2.1.2 Link to Operational Capabilities

As previously mentioned, the link to operational capabilities includes both the closeness of operational collaboration between CVCI and PC as well as the overlap of operational capabilities (Anokhin et al., 2016a; Chesbrough, 2002). In relation, Thornhill and Amit (2001) point to the internal fit between the two firms as an enabler for synergies that lead to greater cooperation and innovation levels across the two firms. Moreover, they highlight that the relationship between CVCI and PC is dynamic, and show that as the PC matures it grows more detached from the CVCI (Thornhill & Amit, 2001). However, a paradoxical relation between linkage and autonomy is noted. Thornhill and Amit (2001) theorize that a close connection between CVCI and PC enables the PC to capitalize on the CVCI's competencies and resources, but confining the autonomy of the PC allows corporate inertia and bureaucracy to constrain PC growth.

Other research has produced similar findings, and to some extent also contradicted them. Anokhin et al. (2016a), building on Thornhill and Amit's (2001) reasoning, states that instituting organizational routines to encourage and funnel learning through increased interactions and information flows, is what enables strategic benefits to spring from the CVC investment. However, Sorrentino and Williams (1995) have presented contrary findings, going as far as to state that organizational relatedness between CVCI and PC has no effect on added value or outcome of the investment to either party.

This brief review of CVC literature has highlighted several characteristics which distinguish CVC as an investment vehicle. However, in terms of CG, CVC has been assumed consistent with the broader definition of VC, as evident by the limited CVC-specific CG research by e.g. Anokhin et al. (2016b). Therefore, a review of CG literature in VC follows below to provide a sufficient basis for investigating the research question.

2.2 Corporate Governance in Venture Capital

CG is a broad topic, and in the context of VC, it has an important role in regulating the linkage and interplay between investor and investee (Sahlman, 1990). In general, research has highlighted the difficulty in defining CG succinctly and as such a broad definition is often more useful for analytical purposes (Armstrong et al., 2010; Brickley & Zimmerman, 2010). The definition employed in this study follows as "a collective term for the various processes, relationships and systems which are employed to control and regulate an organization, and in extension the interplay between three primary constituents; shareholders, board of directors and management team" (Bicksler, 1996). Underpinning this definition of CG is accountability, in other words, ensuring that each of the constituents can be held accountable for their actions within the organization (Brennan & Solomon, 2008).

Conventional CG research on VC has typically been based on agency theory and the ´nexus of contract view´ pioneered by Jensen & Meckling (1976). This block of research insists that relationships between Venture Capital Investor (VCI), the principal, and PC, the agent, are inherently based on distrust (Brennan & Solomon, 2008). As such, there is a substantial risk for goal divergence, since the VCI often provides the majority of financing while lacking complete oversight of the PC and its business (De Clercq et al., 2008). Further, it assumes the PC is utility maximizing and self-interested, rendering the goal-divergence costly to the VCI (Sahlman, 1990). To minimize these costs, VCIs typically enforce various forms of contracting to ensure the PCs are held accountable for their actions (Sahlman, 1990).

2.2.1 Accountability Mechanisms

Research on the mechanisms which VCIs employ to regulate accountability in the investment-context has been diligently researched (Brennan & Solomon, 2008). As mentioned above, these various accountability mechanisms are enforced through various types of formal contracting (Brennan & Solomon, 2008). In his article, Sahlman (1990) notes various ways in which VCIs contract to mitigate the issues of goal-divergence and agency costs. These measures can be grouped into three main categories: obtaining control of the board or becoming actively involved in the management of the PC, structuring financing to attain control, and demanding various information rights (Sahlman, 1990).

Firstly, research has highlighted the ability to influence company management via the board of directors (Becht et al., 2003), since board rights and their inherent voting rights often constitute the main tool of decision making and power in a firm (Davies, 2000). In line with the research of Sahlman (1990), Kaplan & Stromberg (2003) have found that in most cases, VCIs assert control over the board through attaining a majority of board seats in the PC upon investing. In addition, the authors note that VC board-control tends to be more prevalent as the PC matures. In cases where board and voting rights are separated, contracts determining special voting rights are often established, again allowing VCIs to ascertain control and enforce accountability (Sahlman, 1990). Furthermore, attaining operative control by replacing the whole or parts of the PC management team is also common and allows the VC extensive influence over daily management activities to ensure accountability (Hellman, 1998).

Secondly, the financing structure can be alternated greatly and a wealth of contract features are employed that allow VCIs to ensure PCs are held accountable (Kaplan & Stromberg, 2001; Sahlman, 1990). For instance, VCIs normally invest through a convertible share structure, which allows the VCI to convert shares at a pre-specified price depending on the performance of the PC (Sahlman, 1990). Other conventional financing options which do not involve convertibility-features, include VC firms issuing multiple classes of shares (Kaplan & Stromberg, 2001). These different investment structures serve the purpose of allocating previously discussed decision rights, and board rights differently compared to traditional common stock. Again, this allows VC firms to gain voting rights and subsequent control which exceed their absolute ownership share Kaplan & Stromberg, 2001; Sahlman, 1990). Sahlman (1990) also notes that VCIs amass direct ownership shares, which affords them sufficient influence to ensure accountability. This is in line with the findings of Shleifer and Vishny (1997) who highlight that influential minority shareholders that lack the outright control of a firm, can still exert control by being the biggest individual shareholder. This is further reinforced by the existence of so-called block-holdings which allow semi-concentrated ownership to influence company direction (Hart, 1995).

Additional features in contracting include go-along rights, which prohibits key employees or large owners in the PC from liquidating shares prior to the VC being given the same opportunity beforehand (Sahlman, 1990). In addition, buy-back provisions and vesting schedules are other common contracting features, which allows either the VC or other PC owners to acquire or divest shares based on the achievement of various performance milestones (Kaplan & Stromberg 2003; Sahlman 1990). Furthermore, contingency features that serve to relinquish more control to PC-management are sometimes used (Kaplan & Stromberg, 2001). These include board structures and voting rights being altered depending on the PC reaching different performance milestones (Sahlman, 1990). Sahlman (1990) further highlights that VCIs often employ sanctions to ascertain indirect control over capital usage.

Thirdly, information rights are often contracted and enforced by VCIs, which call for a regular and continuous flow of information regarding all from daily operations to the financial standing of the PC (Sahlman, 1990). This allows VCIs to continuously assess performance levels of the PC, as well as reducing the inherent information asymmetry and potential for moral hazard on behalf of the PC, providing ample basis for determining accountability (Sahlman, 1990). In practice, reporting-procedures include the type of information that is reported as well as the timeliness and frequency of information distribution (Chenhall & Morris, 1986). Previous research has, in line with Sahlman (1990), highlighted the importance of maintaining open and clear communication channels with stakeholders to maximize true firm-value (Glosten & Miligrom, 1985). However, information flows could be tainted by parties with more firm-specific information, as they avoid disclosing information to other stakeholders which might be detrimental to their own or their firm's interest (Verrecchia, 2001). This issue has been further proclaimed in CVC investing, as small technology firms may vary technological expropriation from corporate investors and thus avoid disclosing such private information (Dushnitsky & Shaver, 2009).

Apart from formal contracting, informal contracting represents an important influence on CG although under-researched (Armstrong et al., 2010). Citing Hermalin (2001), Armstrong et al. (2010) highlight that inducing cooperation informally may be less costly than formal contracting if the relationship is on-going and long-lasting. In addition, the authors explain that informal contracts "allows for a much richer analysis of governance-related working relationships among executives, directors, and shareholders". Moreover, it is claimed that informal contracting may contribute to a more transparent information environment, and that such informal agreements rely on a mutual commitment to information sharing and reporting quality, contrary to mechanical adherence to formal contract clauses (Armstrong et al., 2010; Bushman et al., 2004).

2.2.2 Accounting Information and Accountability

Accounting information is widely considered one of the most important components in monitoring constituents and ensuring accountability in CG (Brennan & Solomon, 2008; Mitchell, 1995; Sweeting, 1991), more specifically management accounting information (Chenhall and Morris, 1986). Management accounting information is financial data that is aimed at internal managers and stakeholders, including forecasting, budget variance analysis and cost accounting (Chenhall and Morris, 1986). In the context of VC, Mitchell et al. (1995), in their study of VCIs in the UK, show that accounting information was a universal and crucial requirement for VCIs in governing PCs. Balance sheets, profit and loss accounts and cash flow statements were considered highly important both prior and post investment (Mitchell et al., 1995). This information was normally frequently distributed from the PC, often at least monthly, to ensure timely assessment and monitoring of the PC's actions. The accounting information was also found to be highly detailed, with every line item of each financial statement disclosed in near all cases, further easing the enforcement of accountability (Mitchell et al., 1995). In addition, the reporting procedure usually included a formal meeting, where the information was explained, regardless of any variance from targets or budgets (Mitchell et al., 1995).

Hand (2005) further documents the importance of financial statement information and its value relevance in VC markets. Financial statements, primarily cash flows, were found value-relevant and frequently used in this setting (Hand, 2005). Hand's findings further show the relevance and importance of accounting information even when valuing young firms with equity values based on future performance rather than assets-in-place. In relation to this, the importance of unaudited financial statements produced by PCs themselves has been highlighted as the most influential source of financial due diligence information to VCIs (Wright and Robbie, 1996). More recent research has confirmed these findings. In their study of VC backed startups in Germany, Sievers et al. (2013) found that accounting information was often more value-relevant than non-financial strategic information. Moreover, detailed financial statement information, such as Selling, General & Administrative expenses as well as Research & Development expenses, were important to VCIs, both in valuing and monitoring the PC (Sievers et al., 2013).

2.3 Hierarchical and Socializing Forms of Accountability

As the previous review on CG in VC has revealed, accountability is at the core of CG practices and the interplay between constituents. Roberts (1991) presents two forms of accountability through which to understand this interplay; the hierarchical form of accountability, and the socializing form accountability. Roberts (1991) extends a critique towards the former and more conventional interpretation of accountability in organizations. This interpretation, Roberts (1991) claims, is based on agency theory and the inherent distrust that characterizes the relationship between principal and agent. In this hierarchical form of accountability, accounting information plays a central role and is used as means of defining and imposing expectations as well as a resource in enforcing power relations between constituents. In this context, accounting information is considered an objective mirror of organizational performance that reinforces hierarchical power structures. This, Roberts (1991) argues, has an individualizing effect on the interpretation of the organizational reality, producing and reproducing a solitary and singular view of the self and the relationship to others as being external and instrumental, both at an individual and organizational level (Roberts, 2001).

In contrast, Roberts (1991) provides an alternative view of accountability referred to as the socializing form of accountability. This form of accountability is established and sustained by continuous face-to-face interactions between constituents of relatively equal status, rather than by the use of accounting information. This has a socializing effect which supports a process of sense-making of the organizational context. This is by Roberts (1991) referred to as "talk" and enables collective interpretation and reinterpretation of the organizational reality. Given the context in which such socializing effects are possible, Roberts (1991) suggests that hierarchy has a restraining effect on such talk, and states that "power and talk seem fundamentally opposed". This is further explained by the effect that hierarchical structures have due to the emphasis it puts on individuals' relative value, which then sets them apart in terms of power, thereby restraining talk. Where hierarchy is absent, however, talk is the only way in which common sense-making of the organizational reality is possible. Thus, the socializing effect enables relationships built on trust, loyalty and reciprocity, and enforces the sense of the individuals' interdependence on others, both instrumental and moral.

Applying his classification of accountability (Roberts, 1991), Roberts (2001) investigates the effect of accountability processes on CG practices. Conventional CG research has been heavily influenced by agency theory and the need to control agents (Brennan & Solomon, 2008), while Roberts (2001) proclaims that it is the different forms of accountability that should define CG problems. In this context, the hierarchical form of accountability reflects CG factors pertaining to monitoring, incentive structures, sanctions and board composition. Socializing governance factors, on the other hand, are characterized by informal and regular communication as well as felt reciprocal obligations. Another distinction that Roberts (2001) makes is the different emphasis on financial performance. He argues that hierarchical accountability puts far greater emphasis on short-term performance indicators and risk contrary to socializing accountability which rather highlights long-term wealth creation.

In the present study, Roberts (1991, 2001) theory of accountability is used to analyze the empirical findings pertaining to accountability mechanisms observed in the relationship between the CVCI and the PC. The analysis is undertaken by categorizing the empirical findings according to the two forms of accountability presented by Roberts (1991) and contrasting these findings to the previous literature on CG in VC, as well as analyzing the role of accounting information in sustaining these forms of accountability.

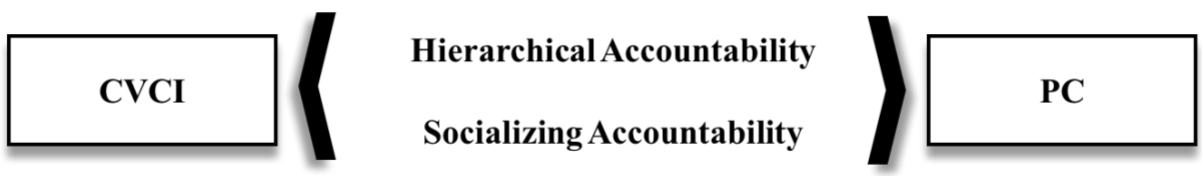

Figure 1: Application of accountability theory as basis for analysis in the case context

3. Methodology

This section presents the research methodology and justifications for the choice of method. Initially, the design of the study is presented, including the research approach and reasoning behind the case selection. Thereafter, the data collection method is outlined and justified and later, the approach to data analysis is introduced. Lastly, the quality of the report and its reliability and validity are considered.

3.1 Research Design

3.1.1 Empirical Method

The present study is a qualitative single case study. Case studies, while criticized for a lack of generalizability and reliability, can provide a more comprehensive and in-depth understanding of different phenomena and events compared to quantitative research (Vaivio, 2008). In the context of this study, the case study provided a deeper understanding of governance, potentially unattainable through quantitative research, as indicated by Anokhin et al. (2016b). In addition, the decision of studying a single case as opposed to multiple cases was made based on two factors. Firstly, a single case-study can provide a greater depth of empirical gathering and analysis (Vaivio, 2008), allowing for a broad interview context and thus an analysis of governance as understood by stakeholders across several levels of both organizations. While a multiple-case study could have improved the breadth of the empirical findings (Vaivio, 2008), the scope of this study would not have been able to accommodate sufficient depth across multiple cases.

3.1.2 Research Approach

In this study, an abductive research approach has been adopted. This research methodology is based on no prior hypothesizing or theorizing taking place, rather empirics are analyzed continuously and individual hypotheses are formed on a repeated basis (Dubois & Gadde, 2002). These are then connected to form a more complete overview of the phenomena which is researched (Levin-

Rozalis, 2004). As such, it is distinguished by an iterative process of empirical research and theory-based analysis. Abductive research has been recommended when there is limited previous research at the outset of the study (Dubois & Gadde, 2002; Levin-Rozalis, 2004). Given the considerable shortfall of literature on CG in CVC, the abductive research method was deemed suitable.

3.1.3 Case Selection

The case studied in this report has been selected based on several criteria being fulfilled. Firstly, a mainly strategic rather than financial rationale on behalf of the CVCI was required to better contrast conventional VC. Secondly, due to geographical constraints, the two companies were preferably based in Sweden. Finally, the PC was preferred to be an innovative or niche firm to dovetail with the previously defined aspects of a CVC investment. The two companies involved in the case-study are the investor, henceforth referred to as BigCorp, a large Swedish industrial firm, and SmallTech, a niche IT-company also based in Sweden. The transaction took place more than six months ago, whereby BigCorp acquired a substantial minority equity stake in SmallTech for an undisclosed fee. SmallTech is a small company according to European Commission-standards (European Commission, 2015), with less than 50 employees at the time of the study. SmallTech is operating in Sweden and the US, with clients across six continents. BigCorp is a large firm according to the same standards and has not previously utilized CVC as an investment-vehicle, making the investment in SmallTech the first since inception.

3.2 Data Collection

3.2.1 Sample Selection

The study was undertaken through in-depth qualitative interviews. The sample of interviewees consisted of five interviewees representing BigCorp and seven representing SmallTech. In addition, one independent industry expert was interviewed to provide an initial understanding of the topic of research. Follow up interviews were undertaken in three cases, resulting in a total of 16 interviews. To allow for a fair and nuanced gathering of empirical data, several key stakeholders across both organizations were interviewed. At both BigCorp and SmallTech, the respective management teams, as well as operative managers, were interviewed to ensure a sufficiently deep understanding of the governance mechanisms at play. At SmallTech, interviews were also conducted with major but not operatively active shareholders, given their extensive decision-making ability in the context of SmallTech and the collaboration with BigCorp.

3.2.2 Interview Context

Contact was initiated with what was considered key personnel of the management teams at SmallTech and BigCorp using contact information gathered from LinkedIn as well as the companies' respective websites. In all instances, an introductory email was sent out explaining the background and purpose of the research in broad terms. As was agreed with respective points of contact at both companies, brief phone meetings were held initially to further plan and outline the requirements of the study. This initial contact established a foothold within both organizations, and employee access was later facilitated by the respective companies throughout the study.

Due to certain geographical constraints, the interview context varied. All interviews except one were conducted with both authors present. Interviewees were interviewed individually, and recorded and transcribed as agreed on an individual basis depending on the interviewees' preference. In addition, certain interviews were made in English depending on the background of the interviewee. Interviewees were informed of complete anonymity prior to and at the beginning of the interview to ensure comfortable communication.

All eight interviews held with SmallTech employees were conducted face-to-face at their offices, while one out of seven interviews with BigCorp staff were made in person due to geographical constraints. In cases where face-to-face interviews were not possible, video communication links, such as Skype, were utilized to mitigate the potential risk for reduced comparability. Regarding the three follow-up interviews, two were held over the phone. The independent industry expert was interviewed face-to-face at their office premises. Interviews were conducted over a period of c. 3 months, with the first interview taking place Jan 26^{th,} 2018, and the last on April 23rd 2018. Interview length ranged between 25 minutes and 55 minutes, averaging just over 40 minutes, the shortest interviews being the follow-up interviews held over the phone.

3.2.3 Interview Technique

The interviews were made using a semi-structured interview technique. This involved creating a structured interview guide as the basis for interviewing which was then complemented by unstructured features and follow-up questions to allow further probing where deemed necessary, as recommended by Ryan et al. (2002). This served to gain a deeper understanding of interviewees reasoning and garner more nuanced insights, while still maintaining a basic structure of inquiry. Furthermore, amendments were made to the interview guide throughout the empirical gathering process, to align the interview technique with the abductive research approach (Dubois & Gadde, 2002). In addition, questions were revised depending on the background of the interview subject, and their respective responsibilities in the relationship between BigCorp and SmallTech.

3.3 Data Analysis

Given the use of an abductive research approach, an initial analysis of the empirical data gathered from each interview was undertaken within a day of the interview taking place. This, in turn, led to revisions of the literature study, as well as undertaking aforementioned amendments to the interview guide, highlighting the iterative process which characterized the study. As such, each interview was analyzed on an individual basis and subsequently in relation to other empirical data and relevant previous research.

Interviews were transcribed where possible and deemed necessary. In the four cases where recording was not agreed to, highly detailed notes were written and the results discussed immediately after to confirm notes and reduce the risk for misunderstandings. These notes and transcriptions made up the main source of empirical data. In cases where quotes were translated from Swedish to English and used directly in the report, translations were reviewed and accepted by the affected interviewees. The interviewees have not been coded, and are referred to by their employee title to highlight the views of different individuals in the respective organizations. The titles have been fictionalized to ensure anonymity but reflect the main tasks and responsibilities of each interviewee. Furthermore, these have been confirmed as apt by each individual interviewee.

3.4 Research Quality

3.4.1 Reliability

As defined by Ryan et al. (2002), reliability concerns the soundness of the research procedures and the comprehensiveness of data documentation. Overall, the study's reliability is considered strong and the research plan is deemed viable in terms of the present study. In addition, the conclusions which are presented are considered reasonable in the circumstances, based on the careful case-selection. Three potential issues concerning the study's reliability are identified, however. Firstly, given that both BigCorp and SmallTech were aware of each other partaking in the study, questions which concern the motives of the other party may suffer from biased responses. Secondly, provided this was BigCorp's first CVC investment, results may differ if the same study was repeated with a more experienced CVCI. Lastly, the unavoidable subjectivity of qualitative interviews and studies could render the particular analysis and conclusion dissimilar to a potential repeated study.

3.4.2 Validity

Validity is defined as the credibility or believability of the research study (Ryan et al., 2002). Pertaining to the choice of a single case study, there are both contextual and external factors of validity (Ryan et al., 2002). The former being the inherent subjectivity of case-studies, and the latter concerning the potential for generalization. Considering the explorative nature of the study, no attempt at generalization will be offered. Instead, this in-depth case study aims to provide an initial exemplar within the field of CG in a CVC setting. Contextual validity is a potential risk factor in all qualitative research (Ryan et al., 2002), including this study. However, the design of this study has contributed to minimization of contextual validity issues through several mechanisms. By having both authors present throughout the interviews, the subjectivity of interpreting interview responses is reduced. In addition, the broad data gathering which consisted of interviews with employees at multiple levels of both organizations further reduces the subjectivity of individual responses. Concerning external validity, BigCorp and SmallTech operate within an industry whose characteristics might render the conclusions non-applicable to other industries.

4. Empirical Findings

Initially, a thorough description of the case background is presented. Then, the empirical findings are outlined according to the structure of the literature review on CG in VC. Firstly, the accountability mechanisms in the case are described, followed by a presentation of the role of accounting information within the accountability process.

4.1 Case Background

Company	Position	Additional Feature
SmallTech	*Chairman of the Board*	Board Member of SmallTech
SmallTech	*Main Owner*	Board Member of SmallTech
SmallTech	*Chief Executive Officer (CEO)*	
SmallTech	*Executive A*	Board Member of SmallTech
SmallTech	*Chief Financial Officer (CFO)*	
SmallTech	*Sales Manager A*	
SmallTech	*Sales Manager B*	
BigCorp	*Senior Vice President (SVP) 1*	Board Member of SmallTech
BigCorp	*Senior Vice President (SVP) 2*	Board Member of SmallTech
BigCorp	*Investment Director*	Board Member of SmallTech
BigCorp	*Engagement Manager*	
BigCorp	*Operations Manager*	

Table 1: Interviewee directory

The table above provides an overview of the interviewees who participated in the study, classified according to company and role, in order of seniority within the respective companies. In the context of the case, the BigCorp Engagement Manager and Operations Manager are the main parties involved in the active management of the collaboration, while SVP 1 and 2 along with the Investment Director have less active involvement. On behalf of SmallTech, all parties, including board members have near equally active roles in managing the collaboration, albeit different responsibilities. Below follows an extended review of the respective parties' investment rationale along with other general information pertaining to the case.

Historically, BigCorp has been a manufacturing company. The executives at BigCorp explained that foregoing the transaction between BigCorp and SmallTech, BigCorp had identified six different technological areas in which they had to invest to sustain the business in the longer term, by acquiring external firms, as highlighted below:

> "When we initiated this [cooperation] a resigning CEO at BigCorp said that "We have a problem. We have too much money and are afraid that we'll fall behind selling dumb (anonymous products). So, either we give the money away to our shareholders – and die – or, we try something." (Sales Manager A, SmallTech)

BigCorp found SmallTech to be a firm that answered to one of those technological areas and had the potential to increase the value of their existing product portfolio. In parallel, SmallTech were at the time prior to the transaction seeking a strategic partner, rather than a financial investor, as highlighted by the executives and owners of SmallTech. The CEO explained that "We realized that we would gain more from initiating a cooperation with a large industrial player," further noting that "It's hard to extract value from [financial] investors since it takes strategy to build something, not just a loose end." All interviewees at SmallTech considered the main advantage of choosing a strategic partner to be the access to the "scale and expertise" (CEO, SmallTech) that they could provide. "We feel like we've gone from Little League to Major League", Sales Manager B at SmallTech's described the cooperative setup. BigCorp's SVP 1 further elaborated that:

> "We have offices, we have manufacturing premises, we have personnel – so one person for us is not that expensive. But, if SmallTech would enter [for example] the South African market alone, it would be extremely costly for them to install just one person. There is a large discrepancy in regard to costs, depending on which one of us does it."

BigCorp considered the knowledge they could gain from the cooperation, along with SmallTech's technology to be the main components of their investment rationale, while SmallTech recognized BigCorp's industry expertise and distribution channels as the main value contributors of the collaboration. In practice, these rationales were realized through cooperation across two main areas, as noted by all interviewees at both SmallTech and BigCorp: sales and support along with research and development. The sales support consisted of five dedicated sales representatives, one in each targeted market around the world. This part of the cooperation was considered a big advantage, since “having boots on the ground” was considered much different from “flying a guy out from Sweden to do some instalment somewhere in the world”, as SmallTech’s CEO expressed it. To ease continuous evaluation, planning and alignment of sales efforts, Regional and Global Sales Boards were set up, where representatives from both companies were involved. The joint development efforts were mainly focused on combining BigCorp’s and SmallTech’s products, although some complementary products were currently taking form on the drawing board.

The previous section has reviewed general information regarding the case and the strategic background of the cooperative setup. Below follows a presentation of the accountability mechanisms regulating the CG relationship between BigCorp and SmallTech, as explained by interviewees throughout the empirical study. Subsequently, a similar review of the role of accounting information in the accountability process is provided.

4.2 Corporate Governance in the Case

4.2.1 Accountability Mechanisms

In the cooperation between BigCorp and SmallTech, a number of formally regulated mechanisms of ensuring accountability were brought up by interviewees from both companies. Executives at BigCorp considered board seats to be an important mechanism, along with the voting rights, related to their share block. The SmallTech board consisted of six seats and was equally divided between BigCorp and SmallTech, with three boards seats each. BigCorp’s share block made them the second largest owner in SmallTech, warranting them a certain level of influence, but as all shares had equal voting rights, the formal level of influence did not extend BigCorp any control beyond that indicated by their ownership share. However, SVP 1 of BigCorp highlighted that their sizable share block did put them in a blocking position in regard to matters which were not formally regulated in the shareholders’ agreement, such as prohibiting SmallTech from selling through market channels of BigCorp’s competitors. SmallTech’s executives and owners highlighted that BigCorp’s representation on the board was something positive, and SmallTech’s CEO accentuated that: "It is hard to achieve value without an active counterpart, and the fact that they are on the board as well just shows their engagement." In accordance with SmallTech's experiences, BigCorp's management also highlighted the importance of being active owners and thus engaged in the board. However, the Investment Director at BigCorp stressed their inexperience in managing via the board, since BigCorp up until the investment in SmallTech, had never been part owners in any company. They spelled out that:

> "We are used to integrating a company completely and control the operative business. This is completely new to us [control via board] and so we are testing this out."

Aside from board-representation, there were formally agreed upon mechanisms which served to ensure accountability from the other large owners in SmallTech. These owners pointed out that go-along rights were used to influence the ownership structure. More specifically, in the case that an owner would be interested in selling their shares, these first had to be offered to BigCorp, and solely in the case of them forfeiting the offer, be sold to another party. The shares would in such a case be offered at a market price. However, other mechanisms, such as performance-based contingency features were not included in formal agreements, nor were any agreements regarding specific sanctions or penalties, should there be any deviation from what was formally regulated. Moreover, there were no exit-clauses or any types of buy-back agreements. This was partly explained by the Chairman of SmallTech, who stated that "we are not focused on that [exit] at all".

In addition, there were no formal agreements regarding information rights or communication processes in the case of BigCorp and SmallTech. However, reporting of accounting information was formally regulated and occurred on a monthly basis. Regarding this arrangement, the SmallTech CEO noted: "If you were to only look at the contract, we would speak once a month and then it would be radio silence." Similarly, BigCorp's Investment Director noted the following:

> "Formally, we tend to focus on the financials [...], but that rarely gives a complete view and so we have other communication channels of course."

Reflecting on the absence of formal information rights, the majority of the executive team at BigCorp noted certain disadvantages concerning formal processes in general. SVP 1 exemplified this by contrasting complete acquisitions to part-ownership, noting that by integrating a company as a subsidiary, they would have to ensure adherence to "all our formal procedures and other compliance stuff", something which would limit the agility of a company like SmallTech. As was vivified by BigCorp SVP 2: "Heavy structures and rigid processes would be the death of a small company such as this." In accordance, BigCorp management gave exclusively positive accounts of the level of formal regulation, highlighting the importance of allowing SmallTech "autonomy" and "agility" within the cooperation.

Despite the established formal mechanisms of accountability, trust was singled out by all executives at both BigCorp and SmallTech as the most important factor regulating the collaboration, with several interviewees, such as the Main Owner of SmallTech and SVP 1 of BigCorp, referring to the arrangement as a "Gentleman's agreement". The feeling, the BigCorp Engagement Manager explained was that "We are you, and you are us." In line with this closeness, extensive informal communication and information sharing was noted by all prompted interviewees, and often described as "open". When asked how much insight the BigCorp Engagement Manager had into SmallTech's daily activities the answer was clear: "too much [laughing]", highlighting that they "talk to the guys [SmallTech Executive Team and Sales Managers] almost daily".

The nature of the communication and information sharing was further described as informal and need-based, and interviewees at both companies were positive when asked about the setup. The Engagement Manager of BigCorp described this accordingly: "The key point [to successfully cooperate] is that you need to have that trust, and you can't have trust if you start hiding things." Similarly, the information was considered non-rivalrous, exemplified by the Operations Manager of BigCorp who stated: "We feel that by giving information you would not lose it yourself." This transparency was further emphasized in an interview with the SmallTech CEO. SmallTech's technology was not patented and therefore not legally protected from infringement, but despite this, there was no fear in sharing proprietary information on behalf of SmallTech. The CEO explained this as a necessity, noting that: "We are trying to build something together."

Moreover, other informally agreed upon processes had been established, beyond information sharing and communication. While the components of the cooperative setup had been formally agreed upon and contracted, the practical workings of these had been informally established in a joint effort by BigCorp and SmallTech. The BigCorp Operations Manager noted that a plan for these practical workings had been outlined by the executives at both firms following the transaction. For instance, it was worked out that sales efforts would initially focus on five prioritized geographical areas, and that SmallTech would educate the five dedicated sales representatives stationed there. Furthermore, the Operations Manager at SmallTech noted that BigCorp had recently received full access to their CRM-system to ease the joint sales effort. When probed on the continuous emergence of such informal procedures, interviewees noted that this was the simplest way to cooperate smoothly and enable "efficient collaboration", something which was supported by the CFO and Operations Manager at SmallTech. It was noted that: "It gains us both, we can be more solution-oriented and not get bogged down by process." (Operations Manager, BigCorp)

Several interviewees further emphasized the importance of both BigCorp's and SmallTech's respective inputs in managing the collaboration, with the Operations Manager of BigCorp noting that the ability to offer valuable input "might even be weighted more towards SmallTech". Regarding the use of sales channels, BigCorp were encouraging SmallTech to sell their products only using BigCorp sales channels, although this was not formally regulated. The Engagement Manager at BigCorp explained: "We had agreed that there would be possibilities for them to sell directly. But we have been trying to influence that, so that they would always go through us." Moreover, the Regional and Global Sales Boards were highlighted as other forums for sharing input on sales and product related matters. Thereto, SmallTech were offered further opportunities to provide input to BigCorp's other business areas, exemplified by the inclusion of the SmallTech CEO in the BigCorp M&A-group. The Engagement Manager noted the significance of this decision:

> "[First name] has been included in our [BigCorp's] M&A discussions [...], which you know is [conventionally] within a very small circle with NDAs and all that."

Apart from these direct channels for input, there were also instances where the parties indirectly affected each other. This crystallized in an interview with the BigCorp Engagement Manager, who pointed out that SmallTech influenced them in to “having the right resources in place and pushing us in having them at the right time - the sooner the better.” SmallTech’s ability to influence internal processes at BigCorp was further underscored by BigCorp’s Operations Manager, who stated: “We identified that [speed] as one of our biggest weaknesses, we are not fast enough”, and that SmallTech was considered “a big source of inspiration”.

4.2.2 Accounting Information and Accountability

The use of accounting information was widely considered of limited importance by near all interviewees, both prior and post investment. Instead, accounting information was almost exclusively considered a formality among interviewees at both BigCorp and SmallTech. The accounting information reporting setup between SmallTech and BigCorp consisted of monthly financial reports, comprising the latest profit and loss account and balance sheet, along with a rolling forecast for the rest of the year. No cash flow assessment was included in the monthly reporting structure. The CFO of SmallTech provided insight to this setup, highlighting that the reported information was of an overarching nature and depicted the general state of revenues and costs. They stated that: “I do not send them a report which is broken down to every different account, rather it is more like: these are the personnel costs, these are the external costs etcetera.” The CFO claimed that the overarching nature of the reporting was a positive thing, stating that “We are still such a small company, reporting everything would be very time-consuming, and I think not really necessary to either us or them.”

Regarding the frequency of the financial reporting, the CFO of SmallTech stated that this frequency was a demand on behalf of BigCorp, and this was further explained by SVP 2 of BigCorp. They noted that this reporting frequency was in large part undertaken to align with BigCorp’s internal accounting procedures. Each month, the reported accounting information was further analyzed during monthly follow up meetings. The CFO of SmallTech highlighted the importance of these meetings in familiarizing BigCorp with the “flows [revenues and costs] of our [SmallTech] business”. It was further noted that the follow-up meetings were particularly important at the beginning of the cooperation, and less so at the later stages. However, meetings still took place in the case of unexpected deviations in the accounting information.

When asked about the role of accounting information in the relationship, parts of BigCorp management explained that the reporting of accounting information was mainly a formality to incorporate the parts of revenue or dividend payments which were attributable to their internal accounting reporting. Further probing revealed a rather coherent reasoning behind this proclamation. The executives at BigCorp discussed the general role and value of accounting information with the most actively involved managers noting that accounting information may serve a purpose that is not directly applicable when collaborating intimately. This was pinned down by the Engagement Manager at BigCorp who, with regards to SmallTech, stated that:

> "I don't think that we need to assess them so much in that sense [accounting measurement]. It is more for the formal accounting so that we can count our part of their revenue to us, […] I have pretty much information on all I need to assess, what they are doing daily and all that. So that is because of our very close cooperation."

However, SVP 2 of BigCorp offered certain nuance to the discussion and stated that accounting information was partly analyzed to gauge the general financial performance of SmallTech. Still, SVP 2 emphasized that this information was not primarily used to "monitor" SmallTech, but rather to assess the performance of their products in the market, and in extension, the strategic benefits BigCorp sought with the investment. This was further emphasized by SVP 1 of BigCorp, who highlighted that this type of transaction does not necessarily show in BigCorp's "accounting numbers" in the short term. A similar remark was made by the Engagement Manager of BigCorp who noted that SmallTech's revenue represented "rounding errors on our bottom line even".

Regarding the stages prior to the investment, the Investment Director and SVP 1 of BigCorp, who were both heavily involved in the due diligence process, noted the difficulty in using SmallTech's accounting information in estimating the value of the company. Firstly, they both highlighted that valuing a startup is different to a traditional company valuation and that their experience in doing so was limited. Secondly, it was noted that the value which they sought with the investment was difficult to succinctly define, and therefore measure using accounting information. Further probing rendered clear examples from the Investment Director, who when asked what about the valuation process differed from their typical investments, sarcastically replied “Everything”. This was further explained by SVP 1 of BigCorp:

> “Often when we buy a company, they have a factory and some kind of tangible product, could be a (product 1) or a (product 2) or what have you. It is straightforward, we have pre-fixed templates to value those firms and their synergies with our business. Compare that with a small IT-company with 14 million in revenue and a glowing red bottom line who forecast a revenue of 500 million in 3 years [Interviewee laughed].”

5. Analysis

This section presents the analysis of the empirical findings, undertaken and structured according to Roberts' (1991, 2001) theory of accountability. Initially, hierarchical forms of accountability are distinguished and compared to previous literature. Then, the role of accounting information is examined, followed by an analysis of the socializing forms of accountability as noted in the case.

5.1 Hierarchical Forms of Accountability

Conventional research on CG in VC (Brennan & Solomon, 2008; Kaplan & Stromberg, 2001, 2003; Sahlman, 1990) typically assume that hierarchical forms of accountability are essential to ensure accountability. However, in the case of BigCorp and SmallTech, such hierarchical accountability structures were far less prevalent than research would suggest, demonstrated by discrepancies across three main areas.

Firstly, as suggested by Kaplan and Stromberg (2001, 2003), VCIs tend to assert board control through the voting rights assigned to board seats, to demand accountability from the PC. In contrast with these findings, BigCorp did not have sole control of the board as the number of board seats was equally split between BigCorp and SmallTech. In cases such as these, Sahlman (1990) offers further nuance, stating that VCIs demand special voting rights in certain cases to achieve board control regardless of board composition, however, no such voting conditions were prevalent in the case of BigCorp and SmallTech. Hellman (1998) point towards another important instrument for VCIs to influence the PC, the replacing of parts of PC management to attain operative control. In contrast, BigCorp had taken no such measures to influence SmallTech's operations. While probing on the reasoning behind this decision did not offer any firm explanations, the BigCorp executives' active role in the board of SmallTech, might have reduced the need for direct operative influence. Although, throughout the empirical findings there are also indications that their close operational cooperation reduced the need for direct management influence on behalf of BigCorp, and these relationship characteristics are not fully captured by Hellman's (1998) reasoning.

Secondly, in the case of BigCorp and SmallTech, the financing structure resembles what is suggested by e.g. Kaplan & Stromberg (2001, 2003) or Hart (1995), but only to a certain degree. BigCorp held a minority ownership share but was not the largest individual shareholder and as such lacked the dominant control of SmallTech, contrary to what is suggested by Shleifer and Vishny (1997). However, aligned with Hart's (1995) findings, BigCorp did have a block-holding position and could thus influence the company through their board rights, as suggested by SVP 1 of BigCorp who exemplified this by claiming they could prohibit the use of certain "market channels". Moreover, the use of additional financing features suggested by Sahlman (1990), such as buy-back provisions or sanctions, were non-existent. However, BigCorp did make use of so-called go-along rights that prohibited SmallTech owners from selling equity stakes to any party prior to BigCorp being offered the opportunity to purchase them, in line with Sahlman's (1990) findings.

Lastly, formal information sharing processes and reporting structures are according to prior research (Kaplan & Stromberg, 2001, 2003; Sahlman, 1990) extensively used by VCIs, as these serve to mitigate information asymmetry. In contrast with this research, communication and information sharing was not formally regulated to any extent in the case of BigCorp and SmallTech, apart from monthly financial reporting. In fact, avoiding formal structures and processes was repeatedly described to be a most deliberate choice by interviewees, as vividly highlighted by SVP 2 of BigCorp, who went as far as stating that such procedures would lead to "the death" of a small company. Similarly, almost all interviewees underscored the importance of maintaining SmallTech's agility, and noted that this would be impossible if stiff and heavy structures, such as those at BigCorp, would be imposed upon them. These empirical findings are concurrent with the paradox presented by Thornhill and Amit (2001) whereby linkage is necessary to enable the PC to capitalize on the CVCI's competencies and resources, but that infringing on their autonomy may induce corporate inertia and constrain the PC.

The aforementioned contradictions with prior research point to hierarchical forms of accountability being of limited importance in the process of ensuring accountability in the case of BigCorp and SmallTech. According to Roberts (1991), accounting information is a mediating factor that reinforces hierarchical forms of accountability. Given the narrow extent of hierarchical accountability in the case, accounting information would be expected to be of a more peripheral importance in the accountability process.

5.2 Accounting Information and Accountability

Prior research (Hand, 2005; Mitchell, 1995; Sievers et al., 2013) on the use of accounting information in the VC setting has established its significance in monitoring the PC and governing the VCI-PC relationship. In line with the previous analysis, the accountability context of the case would imply that this information should be of lesser importance, according to Roberts (1991). Indeed, the use of accounting information in the case of BigCorp and SmallTech does contradict the conventional idea on the importance of accounting information, for three reasons.

Firstly, previous research on accounting information usage among VCIs has highlighted the value-relevance of accounting information to VCIs in monitoring and assessing the PC to ensure accountability (Mitchell et al., 1995; Sievers et al., 2013). Contrary to what is suggested in their research, accounting information was deemed less value-relevant in the case of BigCorp and SmallTech. Mitchell et al. (1995) assert that accounting information flows between VCI and PC include the three main financial reports, profit-loss, balance sheet and cash flow statement, as well as a highly detailed disclosing of different line-items, as affirmed by Sievers et al. (2013). However, SmallTech only reported high-level profit-loss and balance sheet information, in combination with a rolling forecast. The justification for this setup, as offered by SVP 2 at BigCorp, was that while accounting offered certain insight into SmallTech's performance, it was not as important as grasping the strategic value of the cooperation, contrary to the reasoning of e.g. Hand (2005) or Sievers et al. (2013).

Secondly, while the conclusions of Mitchell et al. (1995) regarding the frequency of reporting are partially confirmed since SmallTech did report monthly financial information, the purpose of this frequency differed in the case of BigCorp and SmallTech. This was particularly evident in a statement by SVP 2 of BigCorp, who noted that this reporting frequency was mainly established to align with BigCorp's internal accounting procedures. This conflicts with Mitchell et al. (1995) reasoning, which speaks of frequent reporting as a way of continuously monitoring the PC. Similarly, regular follow-up meetings to explain certain accounting information components were frequent in the case of BigCorp and SmallTech and are in line with the findings of Mitchell et al. (1995). However, the CFO of SmallTech noted that the intention of these meetings was to allow BigCorp to gain an understanding of the revenue and cost streams of SmallTech, as opposed to being used to hold SmallTech accountable for their performance which is what Mitchell et al. (1995) suggests. Indeed, the CFO further noted the meetings were less prevalent and at times, near redundant at this later stage of the cooperation.

Lastly, SmallTech's financial statements were considered less value-relevant than the strategic information BigCorp used to appraise SmallTech in the due diligence and valuation process. While it was used to certain extent, it was highlighted by the Investment Director and SVP 1 of BigCorp that accounting information did not accurately capture the value they sought with the investment. While this does not explicitly contradict Wright and Robbie (1996) who suggest that unaudited financial statements are the most important source of financial information, it does serve to defy Hand (2005), whose study highlights the considerable value-relevance of accounting information, even when valuing young companies with equity-values based on future performance. Similarly, the research of Sievers et al. (2013) which speaks of non-financial strategic information often being less value-relevant than financial accounting information, is broadly at variance with what is depicted in the case.

Overall, there is a limited use of accounting information in the case of BigCorp and SmallTech, which is consistent with the limited prevalence of hierarchical accountability processes. According to Roberts (1991), accounting information has an individualizing effect, resulting in external and instrumental relationships with others. Given the limited extent of hierarchical accountability, such individualizing effects are not visible in the case, and thus a more equal power balance between constituents should be expected, leaving room for collective rather than individual sense-making.

5.3 Socializing Forms of Accountability

Indeed, several aspects of the governance relationship between BigCorp and SmallTech does seem to produce socializing, rather than individualizing effects, reinforcing the presence of socializing forms of accountability. Using Roberts (1991, 2001) accountability theory, three indicators of such forms of accountability are noted in the case; trust-based relationships, informal communication and processes, as well as a relatively equal power balance between constituents.

Firstly, trust was an ever-recurring word throughout the empirical data. This trust can be identified in several mechanisms, in direct contrast to prior research on CG in VC. Sahlman (1990) and Kaplan and Stromberg (2001, 2003) all suggest that information sharing and operational procedures should be formally regulated to monitor the PC, because of the distrust which underlines the relationship between VCI and PC. Contrary to their reasoning, the case of BigCorp and SmallTech points to an entirely different setting, whereby these mechanisms were not only deemed constraining, but unnecessary because of the extensive trust and close collaboration between the two parties. For instance, Sahlman's (1990) reasoning on information asymmetries being costly if the VCI can't monitor the PC, is in contrast with what is evident in the case. Within the scope of the collaboration, information was instead considered non-rivalrous and transparent communication was further highlighted as a way of bilaterally sharing information to further mutual interests. Moreover, the view put forth by e.g. Verrecchia (2001), which speaks of information sharing being tainted by parties with private information, and Dushnitsky & Shaver (2009), which speaks of smaller firms fear of technological expropriation by larger corporate investors, is comprehensively contradicted in the case. All prompted interviewees at SmallTech noted that it was in their mutual interest to share information, and as was specified by the SmallTech CEO, BigCorp and SmallTech were trying to "build something together".

Secondly, informal procedures and processes are highly prevalent in the case and more influential than formal counterparts. Armstrong et al. (2010) suggest that informal agreements that rely on mutual commitment to information sharing and quality, might be more efficient in long-lasting relationships. Indeed, the informally established structures were wide-ranging in the case, and had developed throughout the life of the cooperation, concurrent with the sentiment of Armstrong et al.

(2010). For instance, whereas it was formally agreed that BigCorp would provide SmallTech with a team of five sales representatives, it was informally agreed that they would be educated by SmallTech, and that the team would be under the immediate management of a SmallTech Sales Manager. As was indicated by the Engagement Manager of BigCorp, this type of informal governance furthered the trust between SmallTech and BigCorp, in line with Armstrong et al. (2010) reasoning.

Lastly, the power balance between BigCorp and SmallTech is considered relatively equal, in line with socializing accountability theory (Roberts, 1991), but in direct contrast to the conventional theories of CG in VC (Kaplan & Stromberg, 2001, 2003; Sahlman, 1990). The inherent power advantage this block of research ascribes to the principal over the agent through contracting, is not identified in the relationship between BigCorp and SmallTech. Instead, the empirical findings indicate that the respective parties were in a relatively equal position of power. The lack of hierarchical accountability mechanisms and the restricted scope of accounting information usage curbs the individualizing effects and thus promotes a fairly equal power balance where BigCorp and SmallTech simultaneously and bilaterally influence each other. There were several areas in which BigCorp, in line with both Armstrong et al. (2010) and to some degree Sahlman (1990) and Hellman (1998), could influence SmallTech through informally established structures. Interestingly though, there seem to be as many instances in which SmallTech had this same ability to influence BigCorp and there are several examples of this mutual ability to influence throughout the case, via what resembles Roberts (1991) definition of “talk”. For instance, while Sahlman (1990) and Hellman (1998) proclaim that VCIs often demand and take on active management roles in PCs, an opposite situation was noted in the case of BigCorp and SmallTech, whereby the SmallTech CEO after informal discussions with BigCorp had been included in the BigCorp M&A-group. Further indications of this talk and the mutual influence it contributes were noted by the BigCorp Operations Manager, who claimed that SmallTech’s agility and solution-oriented approach “inspired” BigCorp to speed up their internal processes and information handling.

Contrary to what would be expected according to conventional CG research from the VC setting, socializing accountability is the most influential governance factor in the case of BigCorp and SmallTech, and made possible due to the lack of individualizing, hierarchical accountability mechanisms. The socializing form of accountability, as a regulating factor in CG relationships, has been near completely overlooked in previous research, both in broader CG research, and in the specific context of VC. While such research conclusions may be congruent with the traditional, financial VC setting, the case indicates that CVC differs. It is difficult to distinguish exactly why the socializing form of accountability has such a dominant impact on the accountability process in the case, and the empirics do not provide a clear, isolated reason for this. While the importance of extracting strategic rather than financial benefits from the collaboration may be the most influential factor, other reasons could potentially contribute to the extent of socializing accountability. It is worth noting that this was BigCorp's first CVC investment, and that executives at the company highlighted their inexperience in managing via the board, instead of asserting full operative control. Potentially, socializing accountability may thus, consciously or unconsciously, also be a product of their inherent will to influence operations.

6. Conclusion

This section summarizes the main findings of the study. In addition, a discussion on the implications of these findings is provided along with subsequent implications for future research.

6.1 Summary and Discussion

Previous research on CVC (Chesbrough, 2002; Dushnitsky & Lenox, 2006; Gompers & Lerner, 2000) has noted considerable differences between CVC and VC, most notably the investment purpose, and the strategic relationship between investor and investee. Regardless, CG in CVC has thus far, and somewhat counterintuitively, been assumed consistent with conventional VC. The present study aimed to provide an understanding of the CG relationship between investor and investee in a CVC context through a single case study. Using accountability theory (Roberts, 1991, 2001), the study has revealed three considerable insights regarding the CG relationship between the CVCI and the PC. Firstly, socializing forms of accountability were found to be far more prevalent than hierarchical accountability processes, indicatively due to the strategic nature of CVC investing. Secondly, it is noted that within this socializing accountability structure, there is room for and clear indications of mutual influence between the CVCI and the PC. Lastly, in the context of CVC, the limited presence of hierarchical accountability means accounting information is less value-relevant and subsequently less used than previous research (e.g. Mitchell et al., 1995) has implied with regards to conventional VC.

Throughout the case study, conventional CG research in the context of VC (Hellman, 1998; Kaplan & Stromberg, 2001, 2003; Sahlman, 1990), has been contradicted to varying degrees. The primary reason for this discrepancy is most likely this research' fundamental reliance on agency theory to explain governance relationships, and the distrust inherent in such relationships. Prior research from the VC setting, which speaks of rigorous hierarchical accountability structures, is applicable, but to far less extent than anticipated. In line with this limited form of hierarchical accountability, the use of accounting information in this context is far more limited than implied by previous CG-VC research. While certain empirics overlap with what is described by e.g. Mitchell et al. (1995) or Hand (2005), contrary to their reasoning, the purpose of accounting information is not monitoring to ensure accountability. Overall, this limited form of hierarchical accountability allows socializing forms of accountability to flourish.

It is noted firstly, and contrary to the starting point of conventional CG-VC research, that trust rather than distrust is the foundation of the investor-investee relationship depicted in the case. Secondly, informal communication and procedures are the main governance processes prevalent in the relationship between BigCorp and SmallTech, and formal mechanisms of hierarchical accountability are even considered smothering. Lastly, an equal power balance fostering collective sense-making is found between the two parties, and most vividly shown in their ability to influence one and other. That a large industrial corporation can feel obligated to increase the pace of their own internal processes, due to the influence of a small partly owned company, is a striking example of that.

In conclusion, the present study contributes an exemplar of CG practices in the specific context of CVC, and in extension takes steps towards filling the substantial literature gap in CVC research, proclaimed by e.g. Anokhin et al. (2016b). There are large deviations between what is suggested by the current block of research on CG in VC (Anokhin et al., 2016b; Kaplan & Stromberg, 2001, 2003; Mitchell et al., 1995; Sahlman, 1990), and the CG noted in the case of BigCorp and SmallTech, in CVC. The deviations collectively indicate that there is an alternative form of CG in CVC contra VC, and that this governance is sustained by a very different interplay between constituents than conventionally assumed in VC. At the very least, the present study thus serves to highlight an inconsistency in the treatment of CVC as a research topic, and that the research approach to CG in CVC is fundamentally questionable when considering that CVC and VC seemingly differ beyond the purpose of the investment, to include even the fundamental workings of the investor-investee relationship.

6.2 Implications for Future Research

The limited research on CG in CVC leaves spacious room for further research in the field. Generally, the conclusions presented in this study suggest that differing forms of accountability have important implications for how CG is practised in an investor-investee relationship. More specifically, the extensive practice of socializing forms of accountability in the CVC context, points towards an important gap in traditional CG research, in line with Roberts (Roberts 1991, 2001) theorizing. It should, therefore, be encouraged that future research further explores the impact of different forms of accountability, primarily the effect of socializing accountability, in governance relationships between investor and investee, within and beyond the scope of CVC.

The conclusions drawn from the study further point to differences between VC and, what is currently classified as a subset, CVC. Clearer data, and thus firmer conclusions could potentially be extracted from a comparative study of VC and CVC in terms of governance factors and accountability mechanisms. Furthermore, research of a quantitative nature would provide additional explanatory value to the field of existing CVC research on governance-related matters, by incorporating not only individualizing, but socializing factors as explanatory metrics. Building on Roberts theorizing (1991, 2001), such metrics could be the amount of face-to-face interaction and the quality of shared information to mention but a few. Furthermore, as indicated by this report, accounting information is sparsely used in CVC. Therefore, future research should aim to develop a broader understanding of the detail and value-relevance of accounting information in CVC, suggestively through quantitative research.

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8. Appendix

8.1 Interview Guide Example

The questions depicted below are sample questions to provide a general idea of the topics discussed in the interviews. The actual interview questions differed to varying degree depending on interviewee background and the current phase of the study at the time of the interview.

Introduction

- Briefly discuss anonymity
- Briefly discuss possibility to record interview

Background

- Tell me about your role at BigCorp/SmallTech
- Tell me about your role within the cooperation between BigCorp and SmallTech

Rationale

- What was the rationale for BigCorp/SmallTech to begin this venture?
- What do you believe was the rationale for SmallTech/BigCorp (other party)?
- Were their other investment or investor prospects available prior to the venture?

Cooperation

- Could you describe the cooperation between BigCorp and SmallTech in broad terms?
- What are the main components of the cooperation? Please describe these in greater detail.
- How closely do you cooperate, strategically and operationally?
- How much of the cooperation is formally agreed upon?
- Compared to what is formally agreed upon, describe the cooperation in practice.

- How often would you say you communicate with counterparts at SmallTech/BigCorp?
- Do you feel this is a reasonable amount of communication?
- What type of information do you share between each other?
- Would you prefer a different amount of communication (more or less)?

- Would you prefer to share other information than you share now?

- Do you believe you can influence SmallTech/ BigCorp in any way?
- If so, how?
- Do you feel BigCorp/SmallTech (other party) can influence you?

- Do you think this cooperation is working well for you?
- Do you think SmallTech/BigCorp feel the same way?
- What is the easiest part of your relationship with SmallTech/BigCorp?
- What is the most difficult part of your relationship with SmallTech/BigCorp?
- What is the most important part, according to you, in the relationship between SmallTech and BigCorp?

Future Cooperation

- How do you at BigCorp/SmallTech see the current cooperation evolving over the next e.g. 5 years?
- How would you prefer the cooperation to evolve?
- Is there a clear long-term strategy for the cooperation? If so, please describe that strategy.
- How do you believe SmallTech/BigCorp (other party) see the cooperation evolving over time?

Concluding remarks

- Is there anything you would like to mention about the cooperation, apart from what we have discussed so far?
- Is there anyone else you believe could provide us with more useful information?
- Citation approval

8.2 Interview Sample

Number	Company	Position	Date	Start Time CET
1	SmallTech	*CEO*	26-Jan	09.30
2	N/A	*Independent Industry Expert*	02-Feb	14.00
3	SmallTech	*Main Owner*	08-Feb	15.30
4	BigCorp	*SVP 1*	28-Feb	09.00
5	SmallTech	*Executive A*	01-Mar	10.30
6	SmallTech	*CEO*	02-Mar	10.00
7	SmallTech	*Sales Manager A*	02-Mar	14.00
8	BigCorp	*Investment Director*	19-Mar	10.00
9	SmallTech	*CFO*	04-Apr	10.00
10	SmallTech	*Chairman of the Board*	06-Apr	09.30
11	BigCorp	*Engagement Manager*	09-Apr	10.00
12	BigCorp	*Engagement Manager*	13-Apr	14.00
13	SmallTech	*Sales Manager B*	16-Apr	10.00
14	BigCorp	*SVP 2*	18-Apr	14.00
15	BigCorp	*Operations Manager*	23-Apr	10.00
16	BigCorp	*SVP 1*	23-Apr	14.00