Stockholm School of Economics
Department of Accounting
Master Thesis in Accounting, Valuation and Financial Management
Fall, 2019

Auditioning for External Capital - Entrepreneurs' use of impression management to meet investors' expectations

A multiple case study investigating the entrepreneur-investor relationship in a start-up setting

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Abstract

The aim of this thesis is to present a more comprehensive view on the relationship between entrepreneurs and venture capital (VC) investors. By drawing upon a multiple case study with entrepreneurs, our study adds to the existing literature by providing a much-needed entrepreneurial perspective. Building upon Goffman's (1959) dramaturgical framework, we investigate how entrepreneurs of different backgrounds use techniques of *impression management* and *idealisation* in their attempt to manage the expectations of investors. Our study contributes to the literature on the entrepreneur-investor relationship in several ways. Firstly, it provides insights on how idealisation takes different shapes depending on the identity of the entrepreneurs. Our findings show that entrepreneurs with a business background tend to idealise the financial aspect of their business model, by putting emphasis on financial projections connected to the use of KPIs. In contrast to this, those with a technical background show reluctance towards the use of accounting, and instead idealise their entrepreneurial narrative. Secondly, we have identified a tension that entrepreneurs experience as they involuntarily participate in the institutionalised norms of the start-up world. In particular, this relates to the myth of a 10x return expectation, which forces entrepreneurs to make assumptions they cannot stand behind. Thus, it is shown how the expectations from investors are perceived differently based on belief of identity. Thirdly, this study provides insights on the role and emergence of accounting in start-ups, by providing evidence that accounting plays an important part as an impression management device that entrepreneurs use to legitimise their business.

Key words: Impression management, idealisation, institutionalisation, entrepreneurship, venture capital, legitimacy, accounting, management control systems

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Date: December 9th, 2019

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Acknowledgements

First and foremost, we want to express our greatest gratitude to our supervisor, Marek Reuter, Assistant Professor at the Department of Accounting at the Stockholm School of Economics. He has provided excellent guidance and has always been available to give us thorough feedback and highly valuable advice throughout this period.

Furthermore we want to show our appreciation to all the interviewed entrepreneurs at different start-ups for taking the time to meet with us and answer our questions regarding their work.

Stockholm, December 2019

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Table of Contents

1. Introduction

"We decided to be more optimistic in our forecasts. If you look at other start-up cases, you notice that it is often unrealistic numbers and unrealistic valuations" - CEO of S1B

This quote illustrates the ambiguity entrepreneurs face when conducting financial forecasts for investor presentations. While they want to create a transparent and trusted relationship with a potential business partner, there is a constant pressure to live up to expectations of what a start-up should be. This forces the entrepreneurs into an act, where they have to play their assigned role as a high growth potential start-up in order to please their audience, that is, return-seeking investors. Strikingly, while both parties know that the forecasted numbers are mere speculations, they nevertheless seem to adhere to a set of unwritten rules and myths of the venture capital (VC) setting. What calls for this kind of behaviour, and is it possible to make rational decisions under such conditions? By shifting tense from present to future, perhaps current flaws and contingencies can be allowed.

Mouritsen & Kreiner (2016) explore this in their essay on the "promissory economy," an economy that shifts tense towards the future, not because the future is perfect but because the future inspires current action. In this context, accounting serves a stronger purpose as a means of reaching a decision, rather than providing accurate information. In an environment where decisions are made based on hope rather than truth, stakeholders have to adjust accordingly. As such, the promissory economy strongly relates to the VC setting outlined above. Entrepreneurs that are pitching their start-up need to find ways to inspire and give hope to their investors, because it matters more who you are tomorrow, than who you are today. This thesis seeks to investigate which role accounting plays in this promissory economy.

The road to VC funding is long, time-consuming and characterised by uncertainty and complexity. The funding process includes meeting with and pitching to potential investors, before ultimately setting a price and reaching a valuation of the company. This involves a lot of pressure and ambiguity for entrepreneurs. Pressure, since months and years of work will be boiled down to a short pitch that can determine the future of the company in its entirety. Ambiguity, as empirical research indicates a significant difference in what entrepreneurs and investors perceive as the most important traits that an entrepreneur should possess (Black et al., 2010). Few topics within the domain of finance and accounting are as draped in mystery as start-up valuation. When the media reports the valuation of start-ups, people tend to speak of inflated, or even insane, valuations (Vetter 2016). For instance, between January 2014 and

September 2016 the increase in the number of privately venture backed firms with a valuation of at least USD 1BN was over 200% (Köhn 2018). As these companies are young and associated with high risk, high cash burn rates and asymmetric information (Sievers et al. 2013) it is difficult to know what is behind the numbers.

In an attempt to help solve the mystery of valuation, prior literature on the entrepreneur-investor relationship in a start-up setting has investigated what factors are associated with high valuations and entrepreneurial success. The limited historical financial data that exists on start-up companies leads investors to find more alternative ways to evaluate an investment. These alternatives include evaluating non-financial factors, such as the capacity of the founders, the characteristics of the start-up, and the entrepreneurial identity (Sievers et al. 2013; Beckman et al. 2007; MacMillan et al. 1985; Hsu 2007; Navis & Glynn, 2011). The high relevance of these non-financial factors does not indicate that financial information is not of value. On the contrary, investors put a lot of effort into analysing financial data provided by the entrepreneurs (Wright and Robbie 1996; Hand 2005; Davila et al., 2015). In addition to financial data, a proven understanding of accounting, indicated by the use of management control systems, is proven to be valuable (Davila et al. 2015, Carruthers, 1995). The organisational benefits of such systems, as well as the reluctance towards them illustrates a world of conflicting views on the role of accounting in organisations (Jönsson & Solli, 1993; Greiner, 1989; Goretzki et al., 2018)

When studying decision-making in a promissory economy it is important to analyse how causal mechanisms are constructed and solidified rather than to assume that they are obvious and clear (Mouritsen & Kreiner, 2016). However, existing studies on start-up valuation are to a large extent quantitative in their methodological nature, associated with an extensive reliance on VC databases that only state the "official facts", that is certain start-up characteristics and the final valuations (Köhn 2018). Only studying the inputs and outputs of start-up valuation in search of correlation leaves out the dynamic factors and mechanisms that shape the valuation process in detail. Also, the focus on externally available data leaves out the internal conflicts entrepreneurs experience, the struggles that take place behind closed doors. Moreover, the quantitative approach means that qualitative factors are pooled into dummy variables - which disregards the heterogeneity of such factors. Most importantly, these studies tend to focus on the investors' perspective, leaving how entrepreneurs deal with the pressure and uncertainty a mystery.

Considering the above, there is a need to look further into the mechanisms of the entrepreneur-investor relationship. To do so, this study aims to answer the following research question: *How do entrepreneurs manage the expectations from investors?*

To answer this question, our empirical inquiry will be studied through the lens of sociologist Erving Goffman. Goffman (1959) outlined a sociological analysis of interactions based on the idea that our behaviour shares many similarities with a performance that takes place on a stage. As a part of the socialisation process, performers desire to convey an image of themselves more superior than what the reality claims for notably called idealisation. In this thesis, the performer will be the entrepreneur whilst the audience will be the investors. Entrepreneurs need to manage what investors require in order to get a successful outcome, that is external funding. By mastering the art of impression management, entrepreneurs can control how others form an impression of him. By applying Goffman's (1959) notion of front-stage and back-stage regions, this thesis aims to look at what happens behind the scenes in start-ups. More specifically, to study how entrepreneurs use impression management and idealisation to manage the expectations from investors.

The aim of this thesis is to contribute to existing literature on the entrepreneur-investor relationship by addressing two identified gaps. First of all, there is a lack of studies that investigate the relationship from the entrepreneurs' perspective. Previous studies have predominantly been based on data from VC databases, factors associated with high valuations and interviews with investors (Amit et al., 1990; Sievers et al., 2012, 2013; Köhn, 2018; Beckman et al., 2007; MacMillan et al., 1985; Hsu, 2007; Wasserman, 2016; Houlihan Valuation Advisors / VentureOne, 1998; Miloud et al., 2012; Zider, 1998; Navis & Glynn, 2011; Weick, 1995; Hand, 2005; Wright & Robbie, 1996; Davila et al., 2003, 2005, 2015; Davila, 2009; Carruthers, 1995; Hsu, 2007)

Moreover, little attention has been paid to the entrepreneurs' point of view. Secondly, studies within the start-up setting tend to treat "the entrepreneur" as a homogeneous actor. We aim to broaden this view by acknowledging that there are different types of identities that an entrepreneur can take. In addition to this, we aim to contribute to the literature on the emergence of accounting in start-ups (Davila et al., 2009; Greiner, 1989; Goretzki et al., 2018).

The remainder of the thesis is outlined as follows: Section 2 will provide an overview of the existing literature on entrepreneur-investor relationship domain, the selection of method theory and lastly outline the theoretical framework which will serve as a guidance for analysing the empirical data. Section 3 will discuss the chosen research methodology and the criteria the case companies had to fulfil. Section 4 will outline the empirical findings analysed through the theoretical framework. Section 5 presents contributions to the domain literature. Lastly, Section 6 outlines conclusions and suggestions for future research.

2. Theoretical Development

Section 2.1 starts by briefly introducing the complex and uncertain environment that entrepreneurs and investors take part in. Moreover, we will review how investors deal with this uncertainty, by cataloguing factors that are associated with entrepreneurial success. Finally, we will add how our study will contribute to subject by adding a much-needed entrepreneurial perspective. Section 2.2 identifies an applicable method theory by the sociologist, Ervin Goffman (1959). Section 2.3 presents the theoretical framework that will guide the empirical analysis.

2.1 The entrepreneur-investor relationship – a review of the literature

2.1.1 An environment characterised by high uncertainty and important decisions

Start-ups often face financial difficulties because of the high probability of failure of young companies. As a result of this, many young ventures cannot obtain sufficient debt financing because future cash flows are uncertain, and they have a limited number of assets to serve as collateral. One option for entrepreneurs to serve their capital needs and grow their enterprise is to turn to venture capital funding. In this case, a venture capitalist (VC) or business angel (BA) will provide the start-up with money to cover their expenses, in exchange for ownership in the company. There are more reasons for start-ups to consider taking in VC investors than mere financial gain (Kaiser 2007, Smith 2001). In addition to capital, skilled investors can bring years of experience of building companies to the table. The application of the investor's skills can take the form of active board participation (Gabrielsson & Huse, 2002), informal visits to, and interaction with, the start-up, (Sahlman & Gorman, 1989) and access to the VC's network (Hellman & Puri, 2002).

The road to VC funding is long, time-consuming and characterised by ambiguity and complexity. Entrepreneurs often have to pause their business almost completely in order to focus all their resources on funding. The funding process includes meeting with and pitching to potential investors. This involves a lot of pressure, since months and years of work will be boiled down to a short pitch that can determine the future of the company completely. During a pitch, the entrepreneurs have the opportunity to present themselves and their business plan. Naturally, they will present the best version of themselves, and highlight features that they believe matter to the investors. This, however, is proven to be a difficult task. In a study by Black et al. (2010), entrepreneurs and investors were interviewed to find out which factors they identified as important for VC funding. The findings demonstrate that there is a significant difference in what the two groups perceive as the most important traits that an entrepreneur should possess in order to be successful. On the one hand, entrepreneurs believe that traits that entrepreneurs are born with make up most of the factors that contribute to entrepreneurial success. However, VCs believe experience is far more important in determining an entrepreneur's success than entrepreneurs do. This implies that entrepreneurs believe that success is more a factor of who they are, than what they learn, supporting the findings of Thomas & Mancino (2007).

Knowing how valuable the skills that an investor could bring puts even more pressure on the entrepreneur. Combined with the task of understanding what investors look for during a pitch illustrates the uncertainty that entrepreneurs face. They are however not the only ones to experience this. On the other side of the relationship, investors encounter similar ambivalence. They have to make a rational decision based on very limited material. To counter this uncertainty, there are certain features that investors look for in start-ups. These serve as indicators for future entrepreneurial success and has been thoroughly investigated in previous literature. The determinants can be grouped into financial and non-financial factors and will be investigated more in detail below.

2.1.2 Building a narrative that emphasises your strengths

The uncertainty that entrepreneurs face during an investment pitch is not something that investors are spared from. Investors face a similar ambiguity as a result of the lack of historical data on the companies. Where traditional equity investors can rely on a thorough analysis of a company's track record, VC's and BA's have to find more creative ways to evaluate a potential investment. By identifying factors that are associated with high valuations, entrepreneurs can shape the way they present themselves in a pitching situation. Some factors are rather static, and not subject to manipulation. However, some can be altered to appear better.

One of the first factors that investors look for is the capacity of the founders. Ever since the work by Amit et al. (1990), the ability of the founding team has been viewed as one of the success factors for innovative start-ups. Despite support in terms of capital, knowledge, and connections from business angels and VC firms, it is the entrepreneurial skills, experience and leadership that determines whether or not if the venture succeeds (Sievers et al. 2013). Sievers et al. (2013) incorporates these factors into a valuation framework and assumes that a high-quality management team increases both the level and the probability of positive future cash flows and thus, the valuation. Moreover, a high-quality management team reduces the investor's concern regarding adverse selection. Based on their findings and assumptions, they identify five non-financial factors that indicate high management team quality, including: team composition, founding team size, management team size, CEO education, and team experience.

In regard to team composition, Beckman et al. (2007) finds that broad access to information by virtue of having top management team members that have worked for many different employers and have diverse prior experiences tend to be associated with positive outcomes. Sievers et al. (2013) has a slightly different view and define this diversity as an entrepreneurial team consisting of a CEO, in charge of running the business, and a chief science officer, in charge of product development, and assumes that it indicates quality and that the company is further developed.

MacMillan et al. (1985) administered a questionnaire to a hundred venture capitalists to determine the most important criteria that they use to decide on funding new ventures. The findings suggest that above all it is the quality of the entrepreneur that ultimately determines the funding decision, as five of the ten most important criteria had to do with the founder's experience or personality. Furthermore, using data of 149 early stage technology-based start-ups, Hsu (2007) finds that prior founding experience (especially financially successful) increases both the likelihood of funding and the valuation. Additionally, the founders' ability to recruit executives via their own personal network (instead of using the VC's network) is positively associated with valuation. These results are in line with Wasserman (2016), who finds that prior founding experience and the social capability to attract employees to the start-up, should be able to keep more control, which is associated with higher valuations.

In addition to team characteristics, there are several studies that suggest that industry in which the start-up operates, matters (Houlihan Valuation Advisors/VentureOne 1998; Sievers et al. 2013; Miloud et al. 2012). Houlihan Valuation Advisors/VentureOne (1998) find that high tech, and especially communication companies received the highest pre-money valuations of all six industries included in the study. The same study, which uses a sample of American start-ups, also concluded that companies located in California or Massachusetts were more likely to have higher valuations than similar companies in other regions or states. Miloud et al. (2012) examines the effects of industry structure on start-up valuation. Focusing on two key structural elements, namely the degree of product differentiation and industry growth rate. They find that both measures of product differentiation (R&D intensity ratio and advertising intensity) are highly significant and linked to higher valuation. Regarding the second element, industry growth rate, they confirm their prediction that the growth rate is indeed positively and significantly related to the pre-money valuation of new ventures. These findings are also consistent with Zider's (1998) finding that VC investors give higher valuation to new ventures in growing industries.

Many of the qualities described above can be seen as objective, and difficult for the entrepreneurs to alter in their attempt to create a bond to investors. Rigorous preparation before a pitch can make you appear intelligent; however, it will not make your team seem more diverse. Nonetheless, some traits that investors look for can more easily be shaped and communicated by the entrepreneurs themselves. The entrepreneurial identity is one of them.

Entrepreneurial identity is defined as the constellation of claims around the founders, organisation, and market opportunity of an entrepreneurial entity that gives meaning to questions of "who we are" and "what we do" (Navis & Glynn, 2011). The identity works as a narrative that highlights the market, the venture and the founder. In an environment characterised by high uncertainty and ambiguity, the identity becomes an important factor and serves as a device for investors' sense-making of the business (Glynn, 2000; Navis & Glynn, 2011). The constructed identity impacts the interpretations and assessments of interested investors. Navis & Glynn (2011) argues that if the entrepreneurial identity is constructed as legitimately distinctive, investors are more likely to perceive the entrepreneurial proposal as plausible. Plausibility is the aim of sense-making and is a particularly important factor for investors when the accuracy of their prediction cannot be known with certainty in advance (Weick, 1995). By anchoring the identity, many of the complexities and concerns arising for an investor can be reduced. It serves as a guidance of general expectations of the entrepreneur and increases the investors' confidence in the entrepreneur's predictability.

Moreover, the investor judgement will differ depending on the market context. This is because the market provides frames of reference that entrepreneurs appropriate in their identities and that investors use as guidelines to their assumptions. Although established markets assist investors by giving them a frame of reference, there is a downside as it encourages institutionalisation. *"Institutionalisation consists of shared social understandings and normative structures that reinforce a collective agreement by the audiences who use it"* (Kennedy et al 2010 p. 369). This can generate certain beliefs and expectations of what a start-up should do, how they should do it and why they should do it. Deviation from the collective, institutionalised agreement, or not adapting when such agreements change can put legitimacy at risk. To the extent the entrepreneurs' claims of "what we (propose to) do" align with the categorical expectations, investors will have greater confidence in the legitimacy of the entrepreneurial endeavour. Furthermore, the legitimacy can be strengthened by working with the entrepreneurial identity correctly (Navis & Glynn 2011). Navis & Glynn (2011) finds that the best entrepreneurial narratives are those striking a positive emotional chord with investors. The authors argue that it can be either through good organisational names, notions of places, history, nostalgia or societal trends. One of the advantages with an identity narrative is that it anchors new interpretations in already familiar categories. Such identity narratives can be in the sense of metaphors or analogies (Gioia & Chittipeddi, 1991). This type of narrative can create an institutionalised legitimacy by equity investors of the new venture. Conclusively, the quality of entrepreneur's storytelling become a crucial factor for investor's sense-making and investment-decision when legitimising the new venture (Navis & Glynn, 2011; Huang & Pearce, 2015).

2.1.3 Using accounting to signal financial credibility

Despite the lack of historical annual reports and financial statements, it is essential to not underestimate the importance of financial and accounting information in a start-up setting. In fact, VCs require exhaustive financial information in their assessment of a new venture. Using a sample of American biotechnology companies, Hand (2005) finds that financial statements are highly value-relevant in the VC market, and that the signs of the association between equity values and financial statement data are similar to those in the public equity market, despite significant structural differences between the two. Moreover, Hand (2005) shows that the value relevance of financial statements generally increases as start-ups mature. In contrast, he finds that the relevance for valuation of non-financial information decreases as start-ups mature, indicating the dynamics between financial and non-financial information in a start-up setting. Furthermore, financial information is not limited to reported figures, there are several sources of information. It can be generated by the entrepreneurs, such as financial forecasts, or internally within the VC firms, or by obtaining external information.

In a survey carried out by Wright and Robbie (1996), British VC firms were questioned about their investment decision-making behaviour. In the preparation of a valuation, a highly critical source of information was rated to be the VC's own financial due diligence report. The overall coherence of the business plan was also considered of high importance. The second most important piece of information was the accounting statements in the entrepreneur's business plan, especially the profit and loss statement. Moreover, there was a lot of consideration given to the unaudited latest period financial statements and management projections for the coming year. The wide range of factors covered in the business plan and due diligence procedures can be seen as further evidence of the influence that the extra information has. In essence, these factors provide the means by which the VC's can test the robustness of the accounting and financial projections, rather than simply taking that information at face value, thus reducing uncertainty and asymmetric information problems.

In response to the uncertainty and risk that comes with start-ups, company characteristics that indicate operational structure and control is assumed to be of value. Management control systems (MCS) are one way of structuring the flow of information and communication within a company. MCS are defined as *"formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities"* (Simons, 1995, p. 5). They focus on the financial and non-financial aspects of the company. The implementation of formal control systems can be challenging, as it can feel constraining. Individualistic and creative activities are essential for a start-up in the beginning. However, as the company grows, those very activities can become a problem. Small start-ups can be managed with very limited formal control systems, as strategy and operational needs can be communicated directly to the employees. Nonetheless, an increased number of employees cannot be managed exclusively through informal communication, and new employees are not motivated by an intense dedication to the product or organisation (Greiner, 1989). Jönsson & Solli (1993) investigates this issue in a professional area where there are difficulties in translating primary actions into secondary, financial effects. They find that if a financial perspective is forced upon a territory which has grown used to being sheltered from budget austerity measures, all kinds of defensive behaviour can be expected. Jönsson and Solli (1993) uses the metaphor of an orchestra with professionals that are more interested in playing their instruments than participating in budgeting work. *"No conductor wants to be recognized as an expert on keeping budgets. It is remarkable performances, memorable moments of perfection, that they want."* (Jönsson & Solli, 1993, p 304). Goretzki et al (2018) investigates why workers interpret accounting and control systems as enabling or coercive. While previous studies on accounting and control systems focus mainly on systems with a top-down oriented control, the authors acknowledge the crucial role these systems play in bottom-up knowledge creation. They argue that local users would evaluate a proposed global system as enabling or coercive depending on both their ability to manipulate the knowledge codified within, as well as the authority over the knowledge process itself. In other words, introducing a global MCS with the aim to increase efficiency may lead to employees feeling controlled, rather than in control, thus having a coercive impact.

Indeed, it can be costly to implement MCS, however, empirical research suggests it is an NPV positive investment. Davila et al. (2003, 2005, 2015) has several studies on the use and adaptation of management control systems (MCS) in start-up companies. These studies have challenged the traditional belief that the rigid and bureaucratic nature of MCS jeopardises the entrepreneurial spirit of start-up companies. On the contrary, these systems allow managers to better focus on key areas, thereby increasing the likelihood of safely transitioning through the entrepreneurial crisis and of preparing the venture for future success. Davila et al. (2015) examines the value of adopting an MCS. First, they examine the relation between MCS intensity and company valuation, where the results indicate a positive relationship between the two. Second, they examine whether equity or debt investors value MCS differently. They find that debt investors value MCS implementation less than equity investors do. This is consistent with the argument that equity investors take on more risk and are more in favour of risk-reducing measures. Third, they put the MCS adaptation in an industry context, where the results indicate that MCS adaptation has a greater impact on valuation for companies in highly competitive environments and with higher growth.

While previous research focuses mainly on why MCS exist, Davila et al (2009) presents evidence on the reasons MCS is adopted. In addition to the traditional internal reasons, such as structure and control, the authors identified two external triggers for MCS adoption. They find that in some companies, MCS are adopted to legitimise the company vis-á-vis external partners. This stems from the research by Carruthers (1995), that discusses how new institutionalists view accounting practices as a larger set of features that can be used to legitimise organisations through construction of an appearance of rationality and efficiency. Another reason for adoption is to increase the visibility of the organisational processes to external parties, such as investors, who need the visibility to be able to monitor, coordinate, and control them.

2.1.4 There is a need for a different perspective

There are many uncertainties in the entrepreneur-investor relationship when the entrepreneurs enter the process of getting external capital. It is an environment characterised by complexity, expectations and promises about different outcomes in the future, affecting both the investors and the entrepreneurs. Investors expect that the start-ups play their part as a high-growth potential company while still requiring legitimacy in the entrepreneurs' act. Prior scholars mention that according to investors, there are different ways to present legitimacy where entrepreneurial identity, identity narratives and the adoption of management control systems are most the central (Navis & Glynn, 2011; Davila et al., 2003, 2005, 2009, 2015; Greiner, 1989; Goretzki et al., 2018). However, the process of how entrepreneurs deal with these ways to show legitimacy is still a mystery. Therefore, this thesis aims to contribute to existing entrepreneur-investor relationship by addressing two identified gaps.

First, prior literature has been predominantly focused on the investors' perspective. Their expectations have been outlined and elaborated on by prior scholars (Amit et al., 1990; Sievers et al., 2012, 2013; Köhn, 2018; Beckman et al., 2007; MacMillan et al., 1985; Hsu, 2007; Wasserman, 2016; Houlihan Valuation Advisors / VentureOne, 1998; Miloud et al., 2012; Zider, 1998; Navis & Glynn, 2011; Weick, 1995; Hand, 2005; Wright & Robbie, 1996; Davila et al., 2003, 2005, 2015; Davila, 2009; Carruthers, 1995; Hsu, 2007). This stream of research mostly look into which factors are associated with high valuations. In addition, these studies are based on data from VC databases and interviews with investors. Leaving the entrepreneurial perspective largely ignored. This gives rise to the uncertainties entrepreneurs deal with when entering into a capital-funding process. As mentioned above, there is however research made on how entrepreneurs can reduce these uncertainties. By examining how entrepreneurs work with identity, narratives and accounting, this thesis aims to determine how, why and what they do to adapt to the institutionalised norms.

Secondly, previous studies have to a large extent treated the entrepreneurs as homogenous actors thereby, excluding the heterogenous identities that this group is comprised of. Different backgrounds could potentially have different points of reference which affects their approach when engaging with investors. Beckman et al. (2007) takes previous work experience into account, however, only addresses this as independent variables in a regression model, thus ignoring certain aspects that cannot be put into numbers. By analysing their professional backgrounds, and asking questions in relation to them, this thesis hopes to shed light on how various identities manage these uncertainties differently.

With this background, this thesis aims to answer the following research question: How do entrepreneurs manage the expectations from investors?

2.2 The art of the Performance - Mastering an audience's impression

In the *Presentation of Self in Everyday Life* (1959) Erving Goffman outlined a sociological analysis of interactions. It relies on the idea that our behaviour in everyday life shares many similarities with a performance that takes place on a stage. When people interact with others, they consciously assume roles to generate impressions in the minds of others. They step into these roles in a similar way that actors step into character before entering a stage. The purpose of this is to mediate a particular image of themselves, that is in line with certain standards, values, or ambitions, all depending on who is watching. The performances take place on what Goffman (1959) denotes as the *front-stage*. Here, the performer addresses a particular audience and enters the role that is aligned with the expectations put upon him. This requires the performer to have knowledge of what expectations the audience have, as a misrepresentation could lead to unwanted consequences. When the performance is over, the performer exits the stage and enters what Goffman calls the *back-stage*. This is the area where the stage props are tucked away and the performers are able to relax, rehearse and recharge. The *back-stage* is a place where the desired impression is formulated and iterated in teams or individually. Moreover, the *back-stage* is kept closed from outsiders, creating a safe haven, free from subjective judgement. A region where individuals can communicate in their own language, allowing them to behave in a less formal manner.

2.2.1 Using impression management to idealise a performance

A "*performance*" is about making an impression on those present, and in particular about asserting (to oneself and to the audience) that we are who we pretend to be. The audience is asked to believe that the character actually possesses the attributes he appears to possess, and that the tasks he performs will have the consequences that are implicitly claimed for. In staging his performance, an actor uses expressive equipment to articulate his message of claim. The expressive equipment creates a personal front consisting of items that we most intimately identify with the performer himself and that we naturally expect will follow the performer wherever he goes. Some of these attributes, such as sex, or ethnicity, are relatively fixed over time and do not vary for the individual from one situation to another. Others are more mobile, such as facial expressions, clothing, and can vary during a performance from one moment to the next or between performances (Goffman ,1959, p. 24).

Usually, the performer desires to make a mark in the audience's mind. This is no easy task. However, there are ways in which a performer can guide and control how others form an impression of him. Goffman (1959) denotes this as "*impression management*". It can be through actions, behaviours and appearance, through what we do and do not do, whatever attributes the role we are playing is assumed to have (Goffman, 1959). Goretzki & Messner (2019) find that performers can apply impression management to transform an identity. They argue that all interactions produce ideas or positive remarks used for identity-conforming experiences stored as "*storyable items*". The *storyable items* serve as a guidance to define a new role. In the article, the performers were management accountants attempting to transform their identity into a business partner, rather than conventional accountants. The business partner role involved combining accounting and operational concerns. The identity was formed and rehearsed in the *back-stage* and was then executed in the *front-stage*. Essentially, reactions from the *front-stage* were stored and re-produced in the *back-stage* again until their new identity was formulated more definitely for the *front-stage* audience. The *storyable items* helped the accountants to substantiate their stories as a new identity. The authors also suggest the importance of a broader interaction context that influences the roles in an organisation, where some actors may have an indirect influence on the identity work (Goretzki & Messner, 2019). This is also confirmed by Åhblom (2017), suggesting that financial numbers become meaningful in an organisational setting after numerous iterations both internally in an organisation and externally. In some instances, Åhblom (2017) finds that the numbers changes meaning after receiving feedback from the *front-stage*. In other instances, the meaningfulness arises before the *front-stage* event occurs (Åhblom, 2017). The findings of Goretzki & Messner (2019) and Åhblom (2017) demonstrate that the performer can get many insights from the audience during a performance. Therefore, it becomes vital to reiterate feedback from the *front-stage,* in the *back-stage,* when attempting to control the impression made, as multiple interactions and re-productions could constitute a desired impression. Indeed, impression management is an influential and persuasive tool in corporate communication (Stanton et al., 2004).

Misztal (2001) discusses Goffman's (1959) framework of *impression management* as a device for social order that provides predictability, reliability and legibility of order. Legibility is the ability to link experiences in a readable and meaningful way. This is supported by the findings of Jeacle & Carter (2012) where the use of accounting as stage props provided concrete readability for the creative identities in a comprehensive manner. More specifically, the study showed that accounting can act as an intermediary between two different identity roles. One creative and one commercial, where the latter focusing on profitability. By applying accounting, the gap between these two roles was bridged and the creative role learnt how to adopt a *cost-conscious* creativity. The study demonstrates how agile environments can adopt accounting as a communicative tool to provide concreteness across different role identities. Llewellyn (1998), adds another dimension to the powerful role of accounting in *impression management*. It serves as an important tool in constructing a *narrative* as it speaks to the past and the future. Indeed, "*narratives in accounting will relate to the past but will also have the open and adaptive character that allows for projective scenarios.*" (Llewellyn, 1998, p.223). She argues that *narratives* balance credibility and defamiliarisation in an attempt to not only persuade oneself but also the audience. Her findings show that accounting can essentially manage impressions by legitimising future assumptions based on actual events and therefore, serve an important role in persuasion.

On the other hand, *impression management* can be costly for the performer. A study conducted by Merkl-Davies & Brennan (2007) looks into how *impression management* is implemented in annual report publications. The scholars argue that evidence from both share price reaction studies and behavioural studies suggests that in the short-term, users of financial reports interpret discretionary disclosures as *impression management* and not value-relevant information. Such discretionary disclosures can be visual and structural effects and choice of earnings numbers. Furthermore, they argue that this is due to cognitive limitations and framing effects. Their preliminary evidence suggests that managerial discretionary disclosure strategies are aimed at influencing outsiders' impression of the firm and social performance as to overcoming information asymmetries (Merkl-Davies & Brennan, 2007). Indeed, multiple scholars agree that *impression management* explains managerial discretionary disclosure strategies as opportunistic and driven by self-interest (Abrahamson & Park, 1994; Aerts, 2005; Li, 2008). Aerts (2005) adds that this could potentially damage relationships between the organisation and shareholders as managers are prompted to manipulate outsiders' perception of financial performance and thereby, fail to manage the desired impression to the audience.

Furthermore, it is argued that *impression management* can take to two different approaches in corporate communication. One route is *proactive* when the agenda is to enhance its image. The purpose is to align the organisation with the target audience. By doing so, the organisation can gain approval for various decisions made thereby conforming to the normative rules of the institutionalised environment (Dowling & Pfeffer, 1975). Alternatively, in corporate communication, *impression management* can be *control-protective* where the agenda is used to protect an already established image that is threatened. The purpose is self-serving, where the strategy is either admit your fault, deny by using excuses, or using justifications (Jameson, 2000). This could potentially be an act to hide the true identity and thereby, refuse to admit any flaws.

A performer may hide certain things from the audience, that put him in a bad light (Goffman, 1959). Whatever the performer has to do in order to keep up the front of the person he is trying to portray (Goffman, 1959). The fear of revealing oneself was present in the study made by Goretzki & Messner (2019). Here, the accountants did not have a clear distinction between the *back-stage* and *front-stage*, because part of the audience was present in both regions. This made the management accountants reluctant to share concerns or experiences in the *back-stage*, due to fear of being perceived as incompetent. The findings of Goretzki & Messner (2019) demonstrates that when there is no clear distinction between the *front-stage* and *back-stage*, the performer has to be constantly performing. This prevents him from using the *back-stage* as a safe haven, thus aggravating the opportunity of identity construction.

By presenting an act in a certain setting and using a certain personal front, the performance is socialized, moulded and modified to fit into the understanding and expectations of the society in which it is presented (Goffman, 1959). Social representations shape perception of a certain stereotype (Jeacle, 2008). As part of this socialisation process, the performers tend to offer their observers an impression that is superior to what reality will verify. Goffman (1959) denotes this as "*idealisation*". Thus, when the performer executes his act, the performance will tend to incorporate and exemplify the officially accredited values of the society in which he occurs. *Idealisation* takes many different shapes depending on the setting and the purpose of it. When he performs an *idealised* version of himself, he will try to look as good as possible in the eyes of the audience. This is done by highlighting the factors that he believes the audience is fond of and hide the factors he believes is not in the taste of the audience (Goffman, 1959). A performer can adapt the *idealisation* depending on the purpose of the performance. Prior research made by Jeacle (2008), discuss the challenges of changing the perceived dull role of accountants into a fun and trendy choice of profession. Her findings suggest that in order to overcome a stigma of an identity or stereotype, the entire society also needs to be a part of that identity change. Similar findings were made by Warren & Parker (2009), adding that questions related to identity formulations are important as they offer insights into which stereotypes, matched with certain professions, are based on personal definitions. This may have consequences for future recruitments, employee retention and professional development in an organisation (Warren & Parker, 2009). These findings suggest that identity construction is not only a matter of internally evoking a certain sentiment regarding the specific desired identity but is rather a complex iteration requiring multiple re-visitations. Institutionalisation of stereotypes prevents the construction process from being straightforward. The impact of institutionalisation is, however, not necessarily a negative trait. Burns & Scapens (2000), argue that institutionalisation can also contribute to relative stability and act as a carrier of know-how in different settings, thereby acting on the impression of credibility and rationality. Furthermore, the authors argue that if a change is doomed to happen, this can internally be evoked by first acknowledging the rules and routines that comes with institutionalisation. Once this is done, explore any potential change as a process rather than an outcome (Burns & Scapens, 2000).

2.3 Theoretical Framework

In this section we develop a theoretical framework that integrates Ervin Goffman's (1959) dramaturgical framework with previous research on the entrepreneur-investor relationship and *impression management*. Since prior research has focused mainly on the investors' perspective, this framework will provide guidance in solving the mystery of the uncertainty from the entrepreneurs' perspective. The art of *impression management* lies in how the performer masters the interactions with the audience. Therefore, from now on, the performer will be denoted as an entrepreneur whilst the audience is the investors. In addition, this thesis will divide interactions into Goffman's (1959) widely adopted regions, namely *front-stage* and *back-stage*. The *front-stage*, where the performance takes place, is the meeting with investors where the entrepreneurs present their business idea. The *back-stage* is defined as areas where the investor is not present. Here, entrepreneurs are able to conduct their daily operations, rehearse and formulate the investment pitch. By studying the *back-stage*, the entrepreneur's perspective will have a more central role.

During an investment pitch the entrepreneurs have limited time to make a lasting impression on the investor. According to Goffman (1959), the performance takes place in a certain setting with a certain front in a way to socialise and modify it to fit the expectations of the society. Social representations shape perception of a certain stereotype (Jeacle, 2008). Thus, the entrepreneurs need to adjust their appearance and presentation to fit the expectations of the investors. One of the many forms of making this lasting impression is through *idealisation* (Goffman, 1959). The future of the entrepreneurs' new venture is to a large extent dependent on their ability to *idealise* their identity in interactions with investors. Prior studies have outlined that to increase the probability of success, entrepreneurs need to manage their impression of legitimacy, both in terms of identity and their venture (Davila 2009; Navis & Glynn 2011). This need for showing legitimacy has its foundation in institutionalised norms, where investor judgement differs depending on the market context and generate certain beliefs of what a start-up should be and not be. By not obliging to the norm, entrepreneurs risk putting the ventures' legitimacy at risk (Kennedy et al., 2010). It is not easy to change these norms as they require the entire society to take part in changing the perception of the norm (Jeacle, 2008; Warren & Parker, 2009). Therefore, entrepreneurs need to manage the impression of the audience thereby, conforming to the prevailing normative rules (Dowling & Pfeffer, 1975). There are methods to ensure alignment where the use of identity *narratives* is an important one. It anchors new interpretations in familiar categories which generates an institutionalised legitimacy of the venture. The identity narrative plays an important part in for investor sense-making and ultimately, investment-decision (Navis & Glynn, 2011; Huang & Pearce, 2015).

There are other ways to manage the impression of legitimacy to investors. Carruthers (1995) discusses how institutionalists view accounting practices as a way to legitimise an organisation. He argues that it provides the impression of rationality and efficiency of a venture. It serves as a powerful tool that can be used in various ways to act as an intermediary between different identities (Jeacle & Carter, 2012; Merkl-Davies & Brennan, 2007; Llewellyn, 1998). When studying the role of accounting in a start-up setting its application is most commonly through the use of management control systems. These control systems signal structure and control to investors and allows entrepreneurs to better focus on key areas (Davila et al., 2009; Davila & Foster, 2005, 2007; Davila, 2015). The MCS generates the impression that the entrepreneur knows what he is doing, thereby, increasing the legitimacy of both identity and the venture (Davila, 2015). The implementation of an MCS is not frictionless. For actors that are unfamiliar to working with accounting, the systems can be perceived as *coercive* (Jönsson & Solli, 1993; Goretzki et al., 2018). This type of defensive behaviour is known as *control-protective impression management* where the agenda is to defend a certain identity, whereas its opposite is *proactive impression management* and has the purpose to *idealise* an image. By doing so, the entrepreneur can prove his legitimacy (Dowling & Pfeffer, 1975).

To prove legitimacy by applying *impression management* is no easy task. Prior research has outlined that it depends on entrepreneurial identity, narratives and the knowledge of accounting. To add more complexity to it, these factors does not guarantee a successful outcome, namely receiving external capital. In addition, identity-conforming is not a linear process but requires multiple re-visitations. Prior research shows that if the performer failed to align the conveyed impression with the audience's desired impression, the feedback received in the front-stage can be re-iterated in the back-stage (Goretzki & Messner, 2019; Åhblom, 2017). The feedback is stored as *storyable items* which serve as a guidance in the identity-construction. In addition to the audience, other factors can also influence an impression. These factors can be either financial projections or other identities (Wright & Robbie, 1996; Goretzki & Messner, 2019)

There are many layers to take into account as an entrepreneur when determining which impression, they want to convey. Adoption of accounting and an aligned identity with investors' expectations are means to which they can reduce some uncertainties. If the entrepreneurs understand the expectations of the investors, the likelihood of receiving external capital from equity investors increases. By mastering *idealisation* in *impression management*, the entrepreneurs can decide which attributes they want to convey in the *front-stage*. *Impression management* is seen as a powerful tool in persuasion and should therefore not be regarded as negligible (Llewellyn, 1998). For the act to be convincing, it is vital that the performers have a belief in their own performance. This confidence can differ dramatically. At one extreme, the performer can be completely taken in by his own act, deeply convinced that the impression of reality which he stages is the real reality. At the other end, one can find a performer that is not taken in at all by his own routine. Accordingly, entrepreneurs need to deliver an *idealised* version of the business, incorporating and exemplifying the officially accredited values of the start-up environment, while appearing trustworthy in front of the audience. The literature review has provided insights into what investors expect and desire to see. However, the mystery of how the entrepreneurs manage these expectations is still undisclosed. By applying Goffman's concept of *idealisation*, this thesis will study how entrepreneurs *idealise* their identity and adoption of accounting to meet investors' expectations and hopefully, receive external funding.

3. Research Methodology

In this section the chosen research methodology is discussed and presented. Section 3.1 outlines the choice of research design. Section 3.2 elaborates the selection of the research setting. Section 3.3 discuss the data-collection process and the interview structure. Section 3.4 provides a data analysis. Lastly, Section 3.5 will discuss the quality of research.

3.1 Research Design: Multiple Case Study Research

The research topic of entrepreneur-investor relationship in a start-up context was chosen out of interest in the field. The dynamic and fast-growing start-up world is receiving a lot of attention. To ensure internal consistency in this topic between the research question and prior theoretical contribution, the framework of methodological fit by Edmundson and McManus (2007) was chosen. Therefore, the relevant design category of nascent is adopted initially providing open-ended data to be interpreted and concluded upon according to the theoretical framework. The motivation behind open-ended questions is mainly based on the prevailing uncertainties of the start-up environment namely, whether or not the company will succeed. In nascent studies, the issues are unknown emerging from data collected. Interviews, observations and open-ended questions have been applied to determine similarities and differences within the sample. This thesis covers a rather unexplored subject involving interviews with different entrepreneurs. Therefore, a multiple case study is the most appropriate case study (Eisenhardt, 1989). This is due to three reasons; first of all, according to Yin (1994) multiple-case studies provide denser base for theory building and enable comparability and similarities. Secondly, it provides a robustness due to a larger set of diverse empirics. Lastly, multiple-case studies provide a more generalised theoretical development than a single-case research (Eisenhardt & Graebner, 2007). Also, the data is analysed in each situation to understand similarities and variations (Eisenhardt, 1989; Yin, 2003). Indeed, this is due to the start-ups being in different fundraising phases.

To ensure quality, the findings will be compared to prior research (Baxter and Jack, 2008; Eisenhardt, 1989) and ultimately tie similarities together with literature that does not necessarily have to be a natural association (Eisenhardt, 1989). To ensure comparability, the interviewees have all had the same role within the start-up. Their role is namely to find suitable investors to receive additional capital (in most cases one of the founders). Soft-funding are not included in this thesis, as it usually is governmental allowance.

3.2 Selection of Research Setting

The start-up setting is characterised by uncertainty and ambiguity where the future of the company is unknown. Many early-stage ventures do not have long-term horizons but rather plan as they go along and hope to be able to continue the business in the foreseeable future. The decision to study actors in this environment was chosen due to several reasons. First of all, as of today, the start-up industry is booming. Extensive amounts of capital are being invested in the start-up industry, where investors are trying to find the next unicorn (privately owned companies valued over US$1 billion). Also, there has been significant media attention recently on the number of new venture-funds establishing. Therefore, this is a current topic that is interesting to dig deeper in.

Secondly, prior research in this subject has taken investors perspective and thus ignored the entrepreneurs' perspective. Moreover, Black et al. (2010) finds that entrepreneurs struggle with identifying what investors look for in start-ups. In addition, prior studies from the entrepreneurs' perspective have not touched upon how they deal with the identified expectations and their feelings about it.

Lastly, due to the uncertainty of the future, financial projections are highly speculative. Especially for start-ups that are not yet profitable and have limited customer traction. The level of reliability in the projections could therefore be questioned from the investors point of view. Many of the start-ups are aware that investors have return expectations. The high level of uncertainty in determining projections combined with the required return-expectations from investors, makes it an interesting subject to investigate from an entrepreneurial perspective.

The selection of companies was based on four criteria to be considered as a good case-company; 1) The start-up had to be an early-stage venture undergoing either the friends &

family round, first pre-seed round or the second pre-seed round to be classified as an early-stage venture, 2) At least one of the entrepreneurs had to have an academic background, 3) The company had to be based in Sweden and 4) They had to be in the middle of, just finished, or just begun approaching investor meetings in order to mitigate retrospective errors.

3.3 Data Collection: Semi-structured Interviews

The data collection comprised of the interviews which became the primary source of information. Prior research by Langley (1999) discuss that case studies are rarely straightforward but rather iteration for making sense of the actual data. Therefore, the interviews have been conducted in a semi-structured way allowing for flexibility yet still served as guidance for the scope of this thesis. In order to efficiently gather rich empirical data (Edmondson & McManus, 2007; Eisenhardt & Graebner, 2007) it seemed accurate to use interviews as the main source of information. In addition, to iterate plausible and accurate empirics, an initial interview-guide was written up to serve as guidance. The interview-guide included introductory questions about the interviewee where background and the foundation of the venture were asked about. After the introductory questions, a brief explanation about the research topic was elaborated on in order to introduce the interviewee to the research question. Also, taken into account research done by Edmondson & McManus (2007) regarding open-mindedness about changes in direction, so did the scope of this thesis along the way. The approach has been a constant iteration between empirical findings, theoretical framework and analysis as new information has arisen after interviews, also advocated by Edmundson & McManus (2007).

In total, 17 interviews were held with different entrepreneurs. In all of the start-ups, the interviewee was a part of finding external capital, most often the founder. Given which stage the start-ups are in, this has often been one of the founders or the head of the finance function. The interviews lasted in a range between one hour and twenty minutes. Each interview was transcribed, except in one case company. In that case, extensive and detailed notes were taken. Furthermore, the authors participated in four investment pitches to get more knowledge about the front-stage setting.

The data is based on a diverse set of start-up companies interviewed. The companies are early-stage start-ups either trying to enter the market or have to some extent. In one of the case-companies the responsible CEO was externally recruited. However, the founders are still active in the company but works mainly with product development.

3.4 Data Analysis

The data collected was thematically organised based on topics discussed with the entrepreneurs. The entrepreneurs were divided into two subgroups based on their respective backgrounds, either business or technical. This division was made based on either prior work-experience or focus of education in order to compare and analyse the discussed topics.

The data was transcribed and analysed in excel based on the different topics that were addressed during the interviews. This was done to provide an overview and comparability in the answers based on entrepreneurial background. The topics that were analysed in more detail were i) the background of the entrepreneur, ii) how the entrepreneurs work with financial projections, iii) why the entrepreneurs chose to work with projections in the chosen way, iv) what was the actual emphasis during the investment pitch. After the interviews, initial reflections were discussed and written down. These findings were contrasted with the theoretical framework built on Goffman's (1959) dramaturgical framework.

The data was analysed according to an abductive research approach where theoretical development and empirical findings emerged through iterations (Dubois & Gadde, 2002; Lukka & Modell, 2010; Lukka 2014). The interpretative research rarely functions through inductive and deductive modes as these approaches assume a linear process (Lukka, 2014) of which why it is more appropriate to disregard those. Furthermore, the analysis in the different stages during the process have been selected to find causal explanations on the research question, according to the abductive approach (Lukka, 2014).

3.5 Quality of Research

The critique for qualitative research has been discussed by a number of scholars (Dubois & Gadde, 2014). Miles (1979) argue that concepts of validity, generalisability and analysis are blurred. Furthermore, reliability is violated to get an in-depth understanding (Dubois & Gadde, 2014). According to the positivistic approach many scholars (i.e. Eisenhardt, 1989; Yin, 1984), advocate multiple case studies as they provide more robustness and provide greater confidence in the findings (Yin, 1984; 2012). Also emphasised by Eisenhardt (1989) and adding that it develops a more elaborated theory that researchers can bring together into a complete theoretical picture. Lastly, the quality of research increases with multiple case studies due to better grounded arguments, "*more accurate and more generalisable*" (Eisenhardt & Graebner, 2007, p. 27).

According to Lukka & Modell (2010), trustworthiness refers to if the empirical data is genuine and not fictive nor that any information is left out that could potentially damage the author's credibility. An important indicator for trustworthiness is the level of depth that the empirics describe. By adopting a multiple case study, trustworthiness can increase as it provides data from different perspectives when claims are made. The trustworthiness of this thesis will be derived from the extensive empirical data collected during the interviews, post-interview reflections and transcripts.

In addition, the quality of the research depends on reliability and external validity. Reliability relates to the replicability of the study whilst external validity relates to generalisability. The first mentioned will be possible as the start-up environment is large and global thus, enabling the opportunity to replicate the study. External validity will be achieved by applying a multiple case study that allows for generalisability in the studied environment.

4. Empirical Findings

The empirical findings suggest that there is a perceived demand from investors for entrepreneurs to idealise their business case. This demand is perceived differently depending on the interviewee. However, in all instances there is clear evidence that it is a part of identity work. The demand for a performance can be challenging for some entrepreneurs, as it leads to moral struggles. The section below will outline the empirical background to provide empirical context of the interviewed entrepreneurs followed by the key findings in how, why and what the entrepreneurs idealise.

4.1 Empirical Background

The interviewed entrepreneurs have been divided into two different groups depending on their background, that is, business or technical. This prerequisite was based on either education or relevant work experience of the interviewee (*See Appendix 1*). The start-ups are in different rounds of their seeding process. However, the empirics only include companies that have not reached further than or are currently in the second pre-seed round. The first round is known as friends & family, which means when the start-ups seek funding from their friends and family or other people in their close network. The next phase is the first pre-seed round, which is usually the first time start-ups formally meet with either business angels or venture capitalists. The last round is called the second pre-seed round where the target investors are the same however, the investment is usually bigger.

The seeding round process usually consist of two meetings with potential investors where in the initial meeting the start-ups present their investment pitch (front-stage). This pitch contains information about the company, narrative of the product or service offered, vision, strategy, other company-specific KPIs, and lastly a valuation based on future projections. In the second meeting, the investor usually notifies the start-ups about their decision.

The process of receiving funding is a long and strenuous one. There are no clear guidelines on how to get a successful outcome. The sections below will elaborate on what entrepreneurs believe is important to emphasise and how they do it. More specifically, section 4.2 will discuss *how* entrepreneurs work with investor expectations. Section 4.3 elaborates on *why* entrepreneurs use idealisation as a part of their investment case. Lastly, in section 4.4 outlines *what* actual parameters are altered in an idealised setting.

4.2 Living up to investors' expectations - an idealised environment

Goffman (1959) states that as a part of the socialisation process performers ignite a performance more superior than what the reality is. In a presentation, entrepreneurs try to fit into the expectations of the investor and more broadly, the society. This is no easy task as trying to live up to investor expectations is a puzzle. Start-ups trying to understand what investors requires have to make multiple assumptions with regards to strategy and financial projections. They use idealisation as a central part of their performance. Idealisation takes many different shapes depending on who the performer is and who is in the audience. The performer has to decide which of his strengths to idealise in order to maximise the impression on the audience. This requires the performer to know himself, as well as the audience. Meeting up with different investors involves uncertain scenarios where many questions can arise. Investors have expectations, and it is up to the entrepreneurs to live up to these expectations in order to receive external funding. Therefore, entrepreneurs need to identify what investors look for and try to emphasise potential success factors during the meeting.

Many of the interviewed entrepreneurs mention that they idealise in the hope of receiving funding from the investor. The empirical data shows that there is a difference based on entrepreneurial background in terms of which aspects of their start-up are highlighted during the meeting with investors. Entrepreneurs with a business background tend to idealise financial information whilst entrepreneurs with a technical background idealise entrepreneurial identity, relevant industry experience or the product. Impression management becomes crucial in this context. As Goffman (1959) denotes, by mastering the techniques of it, the entrepreneurs can increase the probability of getting a funding. The following two sections will outline how the entrepreneurs applies impression management and idealisation in the back-stage.

4.2.1 Entrepreneurs with a business background leverages accounting knowledge

Entrepreneurs with a background within business apply their knowledge in accounting as a powerful impression management device. They use accounting as *stage props* to idealise their venture. By applying accounting knowledge in their interactions with investors, the gap between investors and entrepreneurs was removed, increasing the probability of funding. Furthermore, the entrepreneurs demonstrate an understanding of how accounting can be translated into financial projections. Many of these know the importance of measuring daily activities, market size estimations and future projections and mention that they tend to idealise these numbers to get investors' attention. One of the entrepreneurs emphasised the importance of Key Performance Indicators (KPIs) and that they provide information for internal use. By analysing the KPIs, the entrepreneur was able to make assumptions about future performance. In this way, accounting served as an impression management device to legitimise the entrepreneurs' future assumptions.

Another start-up has a CFO, which prior to this job had worked as an investor. He provided insights from both sides of the pitching stage. The CFO elaborated on how they had decided to idealise their business case using the market as their main parameter. The company is operating in the consumer service industry and as of date, has no direct competitors. To external investors, this is framed as a *huge market potential*. The idealisation took shape through overestimation of potential revenues and gross margins;

> *"You need to build a case that it is a huge market (..) You become more optimistic in your sales forecasts, because otherwise, it's pointless for the investor to even consider the company." - CFO of S2B*

Note that the above quote adds an additional dimension to the idealisation of the venture, not only idealising the financial projections but adding the large market potential. This holistic approach was perceived to attract investors even more according to him. This was no exception, many of the entrepreneurs admitted to changing one or more input variables to increase the projections of their start-up. For entrepreneurs with a background within business, accounting is used as a *narrative* to illustrate legitimacy to investors. It is used as an impression management device and serves an important role in the persuasion of investors. Furthermore, these entrepreneurs use a *proactive impression management* approach with the purpose of enhancing both their entrepreneurial identity and their ventures' identity.

4.2.2 Entrepreneurs with a technical background leverages the identity and product knowledge

While the entrepreneurs with business background leverage the knowledge and expertise in conducting financial projections, the entrepreneurs with a technical background have difficulties in understanding the point of it. The general reflection is that projections leading to valuation of such early-stage ventures seems neither reasonable nor accurate. Two of the entrepreneurs even denoted it as "*the weather game*". Moreover, they struggle with the fact that they will be held accountable for projections that seem to be taken out of thin air. Due to the lack of knowledge of accounting, the linkage between current action and future financial outcomes is rather unfamiliar. Assumptions about future market shares, sales forecasts and growth rates are not seen as what defines the success of the company. What is rather seen as success factors are the actual product and the entrepreneurs' ability. Indeed, it is these parameters that are idealised during investor meetings.

One of the start-ups operate in a small market for outdoor products. The founder is active in that community where the product will be marketed and sold. The founder's background and industry-relevant experience was a central point of the narrative during the investor presentations. According to the founders, this is what was idealised during investor presentations as they were convinced that relevant industry experience was the most important thing to emphasise;

> *"Our edge is that we have relevant industry background, we understand the product. In addition, one of us is active within our customer community, so he knows what is desired. We know that investors want this, which is why we focus a lot on it, painting a picture for investors" - CFO of S3T*

As the CFO mentions, this venture idealises the entrepreneurial identity and the relevant industry knowledge. But when asked about how they have chosen to deal with the valuation of the firm, he applied a *control-protect impression management* approach as the answer became rather defensive.

> *"I see that you connect the valuation strongly with the projections because that's how someone with an economical background would think and do a valuation. You tend to look at the projections, and then see which drivers you have applied for that. Then you discount, do a Chicago first method, 7Ps, I know the drill. But there's no science behind it" - CFO of S3T*

The above quote demonstrates how the founders with a technical background separate themselves from entrepreneurs with a business background leading to different views on what is perceived as relevant impression management. Unlike the entrepreneurs with a business background, financial projections and valuation is more difficult as they are less familiar with accounting. This is not surprisingly though, as someone with a business background gains this knowledge from either academia, prior work experience or both.

Another entrepreneur had declined a second meeting with an investor after being requested for financial projections. During the initial meeting the focus had been on the product and the background of the founder. The investor saw this as an attractive company and suggested a second meeting, for which he required a budget and financial projections. Due to lack of knowledge in how to generate financial forecasts, the founder had declined the meeting. The CEO did not believe that these projections were scientific and therefore had difficulties in making such assumptions about the future. She disliked the idea of having to be held accountable for numbers that she did not know if she would achieve;

> *"In a way, I think all the financial projections are not very accurate. Of course you can estimate market size, but how do you know if you will take 5% share of it? For me, it's not very scientific." - CEO of S4T*

The above quote illustrates the struggle with determining the financial projections, since there are several factors to consider. This shows that regardless of the entrepreneurial background, idealisation is prevalent. It just takes different shapes depending on what the entrepreneurs believe the audience base their assessment on. Entrepreneurs with a technical background believe that the audience seek to fully understand the product or service delivered and industry-relevant background. On the other hand, entrepreneurs with a business background believes that as long as financial projections are attractive enough the investor wants to spend time and resources on it. The purpose of the meetings is the same regardless of subjective beliefs in what investors expects. Still, the entrepreneurs decipher investors' expectations differently. This leads to two different back-stage approaches while adopting the same method - idealisation. The concept of idealisation is not isolated in just one back-stage event but is rather an iteration between the front-stage and back-stage. Many of the entrepreneurs mentioned that what they learn in the front-stage made them re-evaluate key parts in their venture. This will be elaborated further in the following section.

4.2.3 Lessons from the front-stage serve as a guidance in the back-stage

The challenge with impression management is to try to identify what the audience expects and requires from the performance. It is about persuading the audience that the performer is what he claims to be and thereby, show legitimacy. As mentioned earlier, there are numerous factors the entrepreneurs take into account when seeking capital and there is no guarantee that the investor will be satisfied. Due to the small number of employees in the start-up, entrepreneurial identity is reflected in the start-up identity. Most of the interviewed entrepreneurs did not distinguish between the entrepreneurial identity and the start-up identity. Therefore, any changes in identity would mean a change of route in the start-up. These entrepreneurs had attended numerous investor-meetings and mentioned that after each time, they found themselves learning a lot, especially when they received declines. After each decline, the investors would provide them with feedback. This feedback was stored as *storyable items* and re-visited in the back-stage. One of the interviewees mentioned that they had received the same feedback from numerous unsuccessful investor-meetings. This feedback led to a change in their entire business model;

"We initially started off as a consultancy firm. We made quite good money but when we met with investors, they declined us because they wanted a more scalable model which is why we then decided to go from a consultancy company to a SaaS company (..). After that, things got way easier and we have just finished our second pre-seed round." - Finance employee at S5B

Once again, the art of mastering impression management becomes significantly crucial in this kind of setting. In the above quote, the entrepreneurs failed to understand the audience expectations, which was to invest in a company with a scalable business model. These lessons in the front-stage led to changing the entire business model, from consultancy to software providers. This type of identity change requires the entrepreneurs to completely change their mind-set about how to do their operations in the future. In addition, the entrepreneurs who had previously been consultants had to change their identity to fit the new business model. The identity-conforming would not have been done without the help of the collected *storyable items*. Ultimately, after the change the start-up received funding with the new business model.

These findings show that there is no certain outcome despite all the time and effort spent on trying to manage investors' expectations. Rather, this is a trial-and-response process and requires internal meetings to reproduce the desired identity. This is due to requirements that investors have and thereby, institutionalised norms that entrepreneurs need to adapt to. The need for idealisation to show legitimacy was obvious for entrepreneurs. The question *why* will be discussed in the section below.

4.3 Investors' return expectations - an underlying driver for idealised forecasts from entrepreneurs

The phenomenon of idealisation is adopted by all the interviewed entrepreneurs, either through entrepreneurial identity, background or financial aspects. Entrepreneurs with a technical background highlight non-financial elements such as industry background and product. The empirics find that investors do eventually require financial projections, but how the entrepreneurs dealt with the requirement differed, depending on their backgrounds. The entrepreneurs with a technical background lack knowledge in accounting which puts them in a difficult situation. One of the interviewed entrepreneurs did not see the purpose of such projections given the early-stage venture was in. The entrepreneur struggled with presenting numbers just for a show. In fact, she did not want to be held accountable for numbers that are so uncertain;

"I don't really know what the purpose is for them to ask me for these files. (...) Of course, I can say that we can have 10 times growth in the next few years, but like, Am I really going to be able to achieve it? I don't know" - CEO of S4T

The above quote shows the complexities with conducting financial projections. The knowledge in accounting is not apparent for someone who is not used to it. On the other hand, entrepreneurs with a business background can take advantage of the fact that financial projections are required. Their overall impression is that investors are financially driven. More specifically, that investors desire a 10x return on their investment. The return-expectations seem to be an institutionalised norm as it was mentioned by a number of interviewees. One entrepreneur mentioned that:

"it's more important to show that you think that you will grow rather than being realistic" -CEO of S9B

Nevertheless, far from all entrepreneurs with a background within business felt comfortable with adapting to the investor-norm to prove its legitimacy. One start-up had received declines from investors due to a too low valuation which made the investment appear unattractive, thereby failed to legitimise its venture according to the institutionalised norm of a 10x-return. Initially, they did not change the valuation as they did not want to be held accountable for an idealised estimation of the business.

"We just wanted to feel that the pitch-deck was transparent, but some pointed out that the valuation was too low. Or that the business wasn't going to grow fast enough. There are so many that are just looking for a 10x return and exit." - CEO of S1B

However, as time progressed, the two founders were at a crossing of which either was to let the valuation remain the same or to increase it, in order to appear legitimate. This lesson from the front-stage had great influence as it provided them with a tangible expectation of what investors sought for. Therefore, after multiple internal discussions between the founders' they decided to increase the valuation and thus, apply the art of impression management more closely aligned with the investors. This strategy was proven to be successful as the start-up later received funding with the higher financial projections, ultimately proving their legitimacy.

However, the investors' return-requirement also caused uncertainty and ambiguity due to the fact that they had to overstate their projections rather than giving a fair view. This brought forward moral conflicts internally with their identity as it prohibited entrepreneurs from being honest about the future.

"We don't want to present a dream scenario which we know we won't be able to deliver. We want to look them in the eye and stand for what we have said" - CEO of S1B

The expectations of high future returns made it more difficult for entrepreneurs to build a trusted relationship with their potential investors. With the issue of asymmetric information in the relationship, this made it even more difficult for entrepreneurs to feel confident about the deal, thus adding further uncertainty to the context. Moreover, there are many components subject for optimistic projections, adding even more complexity to the financial projections. The section below will outline *what* components the interviewees preferred to idealise.

4.4 The essential role of accounting to meet investors' return-expectations

Our empirical findings show that due to the return-seeking investor stereotype, the role of accounting becomes essential in the entrepreneur-investor relationship. If the entrepreneurs cannot manage accounting as a tool, the likelihood of receiving funding will decrease since financial projections are required by investors. There are, however, differences between the two backgrounds in which impression management device is used. Two methods have been identified where entrepreneurs try to decipher the uncertainty that fundraising implies. These methods will be outlined below.

Firstly, entrepreneurs with a technical background does not have sufficient knowledge in accounting to use it as an impression management device. What is rather the centre of attention in their narrative is either entrepreneurial background or product. These factors are perceived as their strengths and thus they are subject of idealisation during investor meetings. The interviewees discuss the importance of framing a certain narrative that provides an insight on who the investor will ultimately rely on. As an act to increase their credibility, the entrepreneurial identity becomes the central point of the investment pitch. One of the interviewees finds trust as one of the most important things in the entrepreneur-investor relationship. The importance of trust was motivated by a need for transparent communication, allowing for flexibility in the future and leaving room for errors;

"I think that the most important thing is for us to find someone that believes in us. We don't even know if we will keep the same business model in the future" - CEO S6T

The start-up has not launched its product yet and therefore, does not know if it will succeed or not. It is not uncommon for start-ups to change their business model along the way if it fails to meet customer preferences. The entrepreneur in the above quote is aware of this form of uncertainty and therefore, desires to work with an investor that allows for flexibility. Furthermore, entrepreneurs with a technical background are keen on discussing their products and the overall contribution to society. This type of *narrative* was quite frequently addressed;

> *"Our product is essential; we will be able to help contribute to a better world. Being climate friendly is something we put emphasis on. We have great pride in our product." - CEO of S7T*

The product focus was significantly higher during interviews with entrepreneurs with a technical background compared to their business counterparts. The contribution to society was explained as "*what gets them up in the morning*". Instead of entrepreneurial identity, this altruistic approach was the centre of attention in their *narrative*.

Secondly, the entrepreneurs with business background leverages their knowledge in accounting and conveys it through idealised financial projections. These entrepreneurs believe that investors are primarily financial driven and seeks a decent return after exit. Financial projections consist of many different components that can be modified. The most common components eligible for producing idealised projections are those strongly linked to KPIs. These entrepreneurs use KPIs in their daily operations to provide data on historical development. With these in mind, the entrepreneurs can make reasonable assumptions about the future. Thus, knowledge in accounting becomes essential. One of the entrepreneurs was recruited externally after the founders felt that they lacked necessary business knowledge. The externally recruited CEO was a former business student and had worked in both management consulting and investment banking. He mentioned that one of his largest contributions to the start-up was the introduction of KPIs and KPI-related targets. In addition to the KPIs, another large contribution was his network;

> *"I've used my network a lot. Most of our current investors are former colleagues or someone from their networks. Many of the founders in my industry are heavily academic people lacking business mind-set (..) they struggle in dialogues with investors when it comes to KPIs and so on. Therefore, it's good to have this cross experience in this industry." - CEO S8B*

There are two important observations in this quote. The first is related to the importance of an extensive network that the CEO has contributed with. The investors believed that the CEO provided credibility and legitimacy of the business, despite not being an expert on the product. The second observation is related his generalisation of the entrepreneurs operating in his industry. He had acknowledged that there is a difference in how accounting is communicated to investors based on the entrepreneurs' background. Neither the business model nor the product was revised or changed after the CEO stepped in. Rather, he provided a business mind-set that was appreciated by its investors.

Moreover, entrepreneurs with a business background saw the use of KPIs as a way to idealise operational progress to investors. Namely that the KPIs provide the necessary historical data to provide a robust business case in the foreseeable future. He believed that the KPIs would help them get investor funding because the application of management control systems would reduce the uncertainties about the company, and help them keep track and evaluate progress over time;

> *KPIs are important because they provide a security that we have data points (..) the longer we measure our KPIs with good results the higher will our valuation be because we'll be able to show progress" - CEO of S9B*

The entrepreneur mentioned that KPIs were established as soon as the company launched. The founders were tracking these on a daily basis to help them determine a strategy going forward. Another entrepreneur, working as the CFO, had prior experience from running a start-up. He denoted setting up a finance function with KPIs as his strongest contribution to the company. The entrepreneur mentioned that prior to his arrival at the firm they did not have any KPIs or targets;

> *"I was contributing to the experience of running a start-up. All the little things that can save so much time. Knowing which balls to chase and structuring things (..) the finance function, keeping track of the KPIs." - CFO of S2B*

The quotes above demonstrate the essential role accounting has, not only as an impression management device but also in their daily operations. It helps them to better focus on key areas and prioritise relevant activities accordingly. The KPIs assisted the CFO in his daily work by helping him to understand the performance of the firm but most importantly, they served an essential role in the financial projections. The KPIs served as an impression management device to show legitimacy to investors. Another commonly used parameter subject for idealisation, is estimations about future market share obtained. One of the interviewees discussed how projections of market share is rather arbitrary and an easy valuation parameter subject for modification. The start-up has not yet launched their product and is still developing its beta-version. They decided to optimise market share estimation to achieve a higher valuation. The CEO of the company elaborated on their idealised valuation;

> *"Our market potential is huge, almost infinite, so we can afford to be a bit optimistic about how much potential our company has in the market" - CEO of S10B*

There is no given parameter to change in order to reach a higher financial forecast. The entrepreneurs applying an idealised projection, change the parameters which seems most reasonable.

Our empirics show that these are the two methods adopted by the entrepreneurs, namely focusing on the financial projections or entrepreneurial identity and product. Regardless of the entrepreneurial background, idealisation is prevalent where the entrepreneurs highlight their strengths to prove their legitimacy to investors. The entrepreneurs with a technical background idealise either entrepreneurial identity or industry background. Entrepreneurs with a background within business use accounting as an impression management device. This is due to the fact that these entrepreneurs believe that investors are financially driven thereby, leveraging their accounting knowledge when communicating with investors.

5. Discussion

The background to this research question is an identified gap in the literature on the entrepreneur-investor relationship. Existing research on the subject matter has focused mainly on how VCs evaluate possible start-up investments, thus ignoring the entrepreneurial perspective and how they manage these expectations. By applying Goffman's (1959) sociological framework, we have interviewed entrepreneurs to understand how they manage these expectations in the back-stage before entering into the front-stage, with the latter being the meeting with investors. We find that the entrepreneurs use *idealisation* regardless of background. The idealisation is however, shaped in different forms depending on the entrepreneur's background. Furthermore, we find that the main reason for idealisation is due to institutionalised norms of return-expectations. Any deviation from the norm can put the legitimacy at risk (Kennedy et al., 2010). However, obliging to the norms is associated with a higher probability of success (Dowling & Pfeffer, 1975; Navis & Glynn, 2011). Lastly, we find that the role of accounting becomes essential in a venture. The emergence of it is through the use of KPIs which is also another way to legitimise the identity to investors. This provides evidence that accounting serves as an important impression management device as it serves as an intermediary between the entrepreneur and the investor (Jeacle & Carter, 2012).

The sections below will outline the main contribution to the entrepreneur-investor relationship domain. Section 5.1 will discuss how entrepreneurs with a business background and technical background have different views on the role of accounting in meetings with investors. Section 5.2 will discuss how entrepreneurs manage the institutionalised return-expectation of 10x from investors. Lastly, section 5.3 will discuss the emergence of accounting and its essential role in legitimising both the entrepreneur and the venture.

5.1 Entrepreneurs' conflicting views on accounting depending on their background

One of the main findings of this thesis is how the entrepreneur's identity affects the view they have on their business, and the way they engage with investors. It affects how they manage the expectations from investors and how they feel about them. We find that entrepreneurs with a background within business tend to "*idealise*" the financial aspect of their business plan. The focus on future financial growth is their main device for impression management and mirrored across the whole organisation. This has an impact on the role of accounting. It is used in their daily work and brought up as something they consider a strength. One of the interviewed entrepreneurs, with previous founding experience, denoted setting up a finance function with KPIs as his strongest contribution to the company. The MCS helped, saving valuable time by prioritising the tasks on the agenda, or as he calls it: "*knowing which balls to chase*". Thus emphasising the important role of accounting and control systems in their organisation as a means of structure, especially in a fast growing one (Greiner, 1989; Davila et al., 2009).

In contrast to this, accounting played a different role in the impression management and performances from entrepreneurs with a technical background. The business mind-set is not as big of a part of their identity, and they feel more reluctant to speculate on the future of the company. This attitude is based on a combination of not knowing how to make such projections, and not seeing the point in doing so. They argue that since the numbers are not scientifically proven and just mere speculations, they do not serve a purpose. As one interviewee put it: *"I don't want to be held accountable for them when I don't even know what I'm doing"*. This reluctance was proven costly as the entrepreneur even declined a second meeting with a potential investor after being requested to send over a document with financial projections. The reluctance to financial projections illustrates how the use of accounting is an obstacle, rather than a useful tool. The aversion towards the use of accounting is aligned with the findings of Jönsson & Solli (1993), who found that defensive behaviour can be expected when a financial perspective is forced upon a territory that previously has been sheltered from it. Goretzki et al., (2018) argue that the introduction of an accounting system can feel *coercive* if it restrains the workers' ability to manipulate the codified knowledge and takes over authority over the knowledge process itself. This partly explains why the technical entrepreneurs feel reluctant to the use of accounting in their work. Their limited accounting knowledge makes them feel that an MCS would provide more uncertainty than clarity, as they have managed this far without it. This adds to the literature of Dowling & Pfeffer (1975), as these entrepreneurs felt the need to protect the image of their identity and venture that they had established in their own minds. Thereby feeling reluctant to communicate with an unfamiliar domain. Developing a product in a lab or garage is one thing, it requires limited dependence on external factors. However, taking a product to the market, scaling up, and selling it is something completely different and requires an alternative set of skills. One start-up realised this and recruited an external CEO with a business background to mitigate the risk of becoming too focused on the technical side. This led to the establishment of a finance function with KPIs linked to the financial projections.

As mentioned, entrepreneurs with a background within business tend to use their knowledge in finance and accounting to idealise their act. Investors like this since it gives them a frame of reference that they are familiar with (Navis & Glynn 2011). This gives investors greater confidence in the legitimacy of the start-up (Weick, 1995). Entrepreneurs with a technical background use a different strategy to anchor their legitimacy to investors. Our findings suggest that these entrepreneurs focus more on who they are, and what their product is. They use this to create a narrative, a story that involves them and the mark that they make in the world. When discussing what they want out of an investor, they emphasise that they want someone that truly believes in them and have an actual interest in their product. As one of the interviewed start-ups mentions: "*Our edge is that we have relevant industry background, we understand the product. In addition, one of us are active within our customer community, so he knows what is desired.*" In this way, these entrepreneurs legitimise their idea by emphasising a narrative of being active partners within the community in which their product will be marketed and sold. This shows that their business sense lies in understanding their customers rather than the financial aspect. Another way these entrepreneurs emphasise their narrative is by talking about the ecological footprint in relation to their product. This shifts focus away from the subject of profitability, and instead becomes about how their product would help to reduce global emissions. In light of the above, our empirics show that regardless of entrepreneurial background idealisation is present, in different shapes and forms.

5.2. Institutionalised expectations create tensions for entrepreneurs

Despite the different views on the use of accounting and financial forecasts, one aspect unites many of the entrepreneurs. This is the view on how the expectations on highly optimistic forecasts is obstructing the transparency between the entrepreneurs and the investors. Our findings point towards the presence of institutionalisation within the start-up world, as several entrepreneurs believe they have to adjust their presentations according to investors' expectations. Most striking is the myth of a 10x return, which pushes entrepreneurs to make assumptions in their forecast that would only occur in an idealised scenario. Navis & Glynn (2011) find that the institutionalised expectations make up what start-ups should be and that deviation from the expected norms put the entrepreneurs' legitimacy at risk. We add to this literature by arguing that entrepreneurs with a background within business have adapted to these expectations and adjusted their forecasts accordingly. In their view, an overly optimistic forecast is a consequence of the return investors expect, as one of the entrepreneurs mentioned: *"you become more optimistic in your sales forecast, because otherwise, it's pointless to even consider the company"*. The optimistic forecasts are used as parameters when calculating firm valuation, thus resulting in an opportunistic company valuation. They see the need to idealise their financial forecasts as a means to fit into the social expectations from their audience, the investors, thereby confirming their legitimacy. Although it is merely an act of impression management, it serves a purpose by giving the audience what they want. Goffman (1959) acknowledges the conflicting feelings a performer can feel when acting. At one extreme one finds that the performer is completely taken in by his own act, sincerely convinced that the impression of reality he stages is real. At the other end of the spectrum, Goffman (1959) finds that the performer may not be taken in at all by the impression he is trying to engender. When performing an act, the first person you have to convince is yourself and conflicting views on the role that is being played makes this difficult. Our empirics show that although some entrepreneurs felt comfortable during their idealised act, there were also those that did not share this feeling.

One entrepreneur pointed out that she felt that being transparent in their forecast and valuation turned out to be a bad idea, as it signalled a pessimistic view on the future: *"some pointed out that the valuation was too low. Or that the business isn't going to grow fast enough. (..) We decided to be more optimistic in our forecasts. There are so many out there just looking for a 10x return and exit*". The entrepreneurs decided to change their forecasted numbers to fit into the institutionalised image of what a start-up should be - a high growth investment with extreme potential. The entrepreneurs felt that although this behaviour was the expected way of doing things, it did not always feel quite right. This shows how the expectations from investors are perceived differently based on belief of identity. Since investors bring in more value than merely financial capital, such as board representation and network (Gabrielsson & Huse, 2002; Kaiser, 2007; Smith, 2001), the entrepreneurs see the value in building lasting, trusted relationships with them. However, this is where they believe that the expectation of high returns is something negative. They want to fit into the norms while at the same time being able to look their audience in the eyes and stand for the assumptions they make. In their view, trust is the most important aspect of the relationship with their investors, and the return expectations are complicating this. Their concern highlights a similar issue brought up by Aerts (2005) who finds that certain use of impression management can in fact damage the relationship, if it is perceived as driven by self-interest (Merkl-Davies & Brennan, 2007; Abrahamson & Park, 1994; Aerts, Li, 2006). Kennedy et al., (2010) states that *"Institutionalisation consists of shared social understandings and normative structures that reinforce a collective agreement by the audience who use it".* We add to this literature by arguing that it does not necessarily have to be a *collective agreement.* As our empirics show, the entrepreneurs are rather *forced* to adapt to the institutionalised norm of 10x return. Otherwise, the outcome will be unsuccessful, and their legitimacy is at risk.

The conflicting attitudes on taking part in the institutionalised view on what start-ups and entrepreneurs should be, gives further arguments for why entrepreneurs should not be treated as a homogenous group. In addition to their various professional backgrounds they have different views on how well their identity matches the expected norms. This adds to the factors that investors should take into account when interacting with entrepreneurs.

5.3 The role of and emergence of accounting in a start-up environment

Prior research shows that there are multiple benefits with the establishment of MCS. The most obvious benefits are the internal structure that it provides. MCS offer organisational members a stable framework to interpret information and communicate when facing unexpected events and environmental uncertainty (Davila 2015). However, there are not just internal benefits from adopting an MCS. It also acts as a symbol to enhance the credibility of the company towards external stakeholders (Davila 2009). When studying the role of accounting in a start-up setting, it is interesting to analyse the emergence of it.

Our findings show that accounting serves an important role in the start-up setting. It emerges through the establishment of management control systems, more specifically through the use of KPIs. Our empirics suggest that entrepreneurs use accounting as an *impression management device* when engaging with investors, confirming the study by Jeacle & Carter (2012), where accounting serves as an intermediary between two different identity roles. One of the case companies, with an externally recruited CEO, mentions that KPIs is communicated during meetings with potential investors. The KPIs speak to both the ventures' past and future performance through idealised projections, thereby adding to the literature of Jeacle & Carter (2012), Merkl-Davies & Brennan (2007), and Llewellyn (1998). Accounting is viewed as a set of features used to legitimise not only the entrepreneurial identity, but also the company, where it constructs an appearance of rationality and efficiency (Carruthers, 1995; Jeacle & Carter, 2012). Our study adds to this by showing how accounting is used as an *impression management device* to indicate legitimacy to investors.

Entrepreneurs have identified the demand for financial projections from investors, much like the research by Wright and Robbie (1996). In an attempt to manage the impression and thereby, meet investors' expectations, entrepreneurs use financial projections as means to illustrate their capabilities. This sense of *proactive impression management* (Dowling & Pfeffer, 1975), increases the likelihood of approval from investors by conforming to the institutionalised return-expectations. As one of the entrepreneurs argued: *"the longer we measure our KPIs with good results the higher will our valuation be because we'll be able to show progress."* This illustrates how KPIs are used to highlight operational improvement. By integrating operational KPIs in the financial forecasts, the entrepreneurs are able to anchor their assumptions in realistic numbers, and thus provide a consistent analysis. This gives them a competitive edge in comparison to the entrepreneurs who view the use of accounting as something coercive.

The empirics show that accounting serves as an important tool in constructing a narrative due to the norms. As Llewellyn (1998) states, it balances credibility and defamiliarisation of both the entrepreneur and the venture. More specifically, she states that *"narratives in accounting will relate to the past but will also have the open and adaptive character that allows for projective scenarios*" (Llewellyn, 1998, p. 223). This flexibility raises the importance of impression management and ties closely to the notion of an economy based on promises rather than truths (Mouritsen & Kreiner, 2016). In a promissory economy, accounting serves a stronger purpose to reach a decision rather than providing accurate information. The promissory economy shifts tense towards the future because it inspires current action, namely getting external funding from investors. With this background, we argue that idealisation becomes essential in determining financial projections.

6. Conclusion

The aim of our study is to contribute to a more comprehensive view on the entrepreneur-investor relationship by taking a much-needed entrepreneurial perspective. Previous studies on the subject matter have predominantly focused on which factors are associated with high start-up valuations. This includes non-financial factors, such as the capacity of the founders, the characteristics of the start-up, and the entrepreneurial identity (Sievers et al. 2013; Beckman et al. 2007; MacMillan et al. 1985; Hsu 2007; Navis & Glynn, 2011). It also involves the evaluation of financial factors, such as financial statements, financial projections, and an integrated use of management control systems (Wright and Robbie 1996; Hand 2005; Davila et al., 2015, Carruthers, 1995). These financial and non-financial factors are used when screening potential investments as indicators of future success, and in this thesis, they are viewed as the expectations that investors have on entrepreneurs. By applying Erwing Goffman's (1959) dramaturgical framework, consisting of the front-stage and back-stage regions, we investigate how entrepreneurs use techniques of impression management and idealisation in their identity construction. The reason for this is to provide answers to our research question: *How do entrepreneurs manage the expectations from investors?* By interviewing entrepreneurs within various industries and with different educational backgrounds, and taking part in investment pitches, we add to existing literature by contributing with three major findings.

Firstly, our study shows that entrepreneurs idealise different aspects of their business in investor meetings depending on their background. Entrepreneurs with a background within business tend to idealise the financial aspects of their venture. They apply their knowledge within accounting and finance to provide investors with thorough financial projections that indicate a prosperous future, in line with what investors expect. Moreover, they use management control systems to better organise their business and focus on key areas of improvement, confirming the studies of Greiner (1989) and Davila et al., (2009). The application of an MCS has additional benefits as it signals structure and control to investors, which has been addressed by Davila et al. (2009) and Carruthers, 1995. The idealisation of the financial aspect of the venture is popular among investors as it is a setting they are familiar with. Thus, these findings provide valuable legitimacy of the entrepreneur and the venture, in accordance with studies conducted by Navis & Glynn (2011) and Weick (1995). In contrast to the above, accounting plays a different role in the impression management and performances from entrepreneurs with a technical background. Instead, these entrepreneurs put a stronger emphasis on who they are and what their product is, when idealising. They use impression management to create a narrative, a story that involves them and the mark they want to make in the world. Furthermore, while the business entrepreneurs view the use of accounting and financial projections as a valuable tool, the technical entrepreneurs argue that since the forecasted numbers are just mere speculations, they do not serve a purpose. The reluctance towards accounting is aligned with the findings of Jönsson & Solli (1993) who finds that defensive behaviour can be expected when a financial perspective is forced upon a territory that previously has been sheltered from it. These findings imply that although the performance takes place on the same stage, with the same audience, idealisation can take various different shapes. It depends on who is performing.

Secondly, we have identified a tension which entrepreneurs experience when they are taking part in the act of idealisation. This is the view on how the expectations on highly optimistic forecasts is obstructing the transparency between the entrepreneurs and the investors. Our findings point towards the presence of institutionalisation within the start-up world, which pushes entrepreneurs into a role that some are not comfortable with. Most striking is the myth of a 10x return, which forces entrepreneurs to make assumptions in their forecast that would only occur in an idealised scenario. Deviation from the expected norm puts their venture at risk (Navis & Glynn, 2011). While some of the entrepreneurs felt confident with presenting highly optimistic forecasts to meet the expectations, some felt that this was out of character. This shows how the expectations from investors are perceived differently based on belief of identity. Furthermore, our findings suggest that the institutionalised norm is not a collective agreement between the entrepreneurs and investors but is rather forced upon the entrepreneurs.

Lastly, our study provides insight on the role and the emergence of accounting in start-ups. Our empirics suggests that entrepreneurs use accounting as an impression management device. This is in line with the study conducted by Jeacle & Carter (2012) where accounting serves as an intermediary between different actors. Moreover, Carruthers (1995) and Davila et al. (2015) argue that accounting is viewed as a set of features to legitimise both identity and venture. Our study adds to this by showing that by idealising the use of accounting, entrepreneurs aim to legitimise their business. Furthermore, our empirics show that accounting provides investors with valuable information about the venture and serves as guidance in determining the future.

Our findings are in line with Mouritsen & Kreiner (2016), who state that in a promissory economy, accounting serves as a basis for future actions. Its role is important even if the numbers turn out to be unreliable. Accounting comes to play a more powerful role as a means for promoting, exploring and potentially transforming the promise. In other words, to become a part of the world as it unfolds after the decision. The promissory economy shifts tense towards the future, not because the future is perfect but because the future inspires current action. The future is a “regime of hope” rather than a “regime of truth”. In an economy where decisions are made based on hope rather than truth, entrepreneurs need to find ways to inspire. This thesis finds that entrepreneurs navigate through the promissory economy by using idealisation and impression management.

These findings are subject to certain contextual factors which does not necessarily have to hold in other empirical settings. Our empirical data is not statistically representative and is based on entrepreneurs’ personal perceptions. Thus, the interviewed entrepreneurs do not represent all other entrepreneurs. Furthermore, there might be retrospective errors since some of the entrepreneurs had finished their latest seeding round.

This study provides important practical implications for both investors and entrepreneurs. For entrepreneurs, it can serve as a guidance in how other entrepreneurs manage expectations from investors. Thereby reduce some uncertainty for peers with less experience in raising external capital. Furthermore, for the investors, this could potentially shed some light on the fact that there are idealised projections prevalent as a consequence of the institutionalised return seeking stereotype. It can also guide investors in their engagement with entrepreneurs by highlighting the importance of treating the entrepreneurs as unique individuals.

We encourage future research on the entrepreneur-investor relationship, in particular from the entrepreneur's perspective. One domain of future research is to address multiple entrepreneurs in the same venture to find intra-organisational contrasts and tensions with regards to how they deal with investors' expectations. In addition, this thesis shed light on the fact that there are idealised financial projections prevalent in the start-up environment. Therefore, we see potential for future research in how these idealised projections are perceived and more specifically, if they are credible.

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8. APPENDIX

8.1 Description of the Interviewed Entrepreneurs

Company	Entrepreneurial Background	Denotation	Interview Length	Date of Interview
S1	Business	S1B	40 minutes	2019-10-02
S2	Business	S2B	35 minutes	2019-10-02
S3	Technical	S3T	24 minutes	2019-09-16
S4	Technical	S4T	47 minutes	2019-09-19
S5	Business	S5B	26 minutes	2019-10-01
S6	Technical	S6T	27 minutes	2019-10-21
S7	Technical	S7T	35 minutes	2019-10-24
S8	Business	S8B	25 minutes	2019-10-07
S9	Business	S9B	13 minutes	2019-10-02
S10	Business	S10B	30 minutes	2019-11-12
S11	Business	S11B	23 minutes	2019-10-04
S12	Business	S12B	21 minutes	2019-10-02
S13	Technical	S13T	39 minutes	2019-09-20
S14	Technical	S14T	45 minutes	2019-09-14
S15	Technical	S15T	17 minutes	2019-10-09
S16	Technical	S16T	24 minutes	2019-10-01
S17	Technical	S17T	18 minutes	2019-09-16