THE ENTREPRENEUR'S HUNT FOR SMART MONEY

A qualitative study of the entrepreneur's perspective on the investment process

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Master Thesis in Business & Management
Stockholm School of Economics
2020

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ABSTRACT:
Start-up companies, and subsequently the entrepreneurs, have an increasingly important role in today's global economy. Besides contributing to economic growth, they also have a crucial impact on the society in promoting innovation and productivity since their businesses contribute to technological changes and innovative solutions. However, to be able to take the business from idea to an established and commercialized business, entrepreneurs need financial capital and difficulties in funding the business is one of the most common reasons for a start-up to fail. Since growing the business often requires a large amount of capital, the entrepreneurs need to establish relationships with multiple investors to survive this challenge. The relationships between the entrepreneurs and their investors are of crucial importance for the entire investment process and for the future success of the company. Due to the difficulties for entrepreneurs to fund their businesses and its importance for the society, the purpose of this study is to investigate how entrepreneurs with growth ambitions perceive the investment process in the expansion phase. To do this, a qualitative multiple-case study has been pursued using an abductive approach and semi-structured interviews were conducted with a total of 22 entrepreneurs. The businesses participating in the study are active in industries with varying research and development needs, which affects the need for financial capital. The empirical findings have been analysed through a consolidated theoretical framework consisting of three identified stages in the investment process and Shepherd and Zacharakis (2001) model of confidence in partner co-operation. The findings show that throughout the investment process, the factors of trust building are used to different extents in different stages. In the early stages of the investment process entrepreneurs are mainly focusing on signalling commitment and consistency as well as obtaining a good entrepreneur-investor fit, while they in the later stages also focus on ensuring fairness in the relationships and having an open and frequent communication with their investors. Furthermore, the result shows that there is a contradiction in the behaviours of the entrepreneurs. While they spend a lot of time on finding investors with competence that can help the businesses succeed, they in later stages of the investment process do not utilize the competence to a full extent.

KEYWORDS: entrepreneurial finance, entrepreneurial investment process, entrepreneur-investor relationship, expansion phase, high-growth start-up

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Master Thesis
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Thank you, Anna, for all the support and for always encouraging us to walk the extra mile.

Thank you to all the entrepreneurs who shared their time and thoughts, without you this study would not have been possible. We highly value our conversations with you and the inspiring stories.

Thank you to Amanda, Natalie and Emma for your invaluable input.

Thank you, Olof, for inspiring us to do this study.

Glossary

Bootstrapping: Financing the company without long-term external investors. Includes activities such as borrowing equipment, delaying payments and giving up their own salary.

Business angel: Individuals that invest their own money, often in industries in which they have knowledge and/or experience.

Expansion phase: The phase where the company generates substantial sales but might not have reached break even. The company seeks to commercialize the business through expansion.

High-growth venture: A company characterized by a high rate of organic growth in a relatively short time period.

Smart Money: Capital invested by investors who have expert knowledge that the company can utilize.

Start-up phase: The phase the company is in before entering expansion phase. Here defined as companies which are recently founded and are just starting to enter the market.

Venture capitalist (VC): Finance professionals that invests and manages the firm's money.

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1. Introduction

The global start-up economy has for long been in a state of rapid growth and the start-up companies, and subsequently the entrepreneurs, has thereby gotten a crucial role in today's global economy (Startup Genome 2019; Wiens & Jackson 2014). Not only do they contribute to stimulation of the economic growth (Startup Genome 2019; Acs, Autio & Szerb 2014; Coleman, Cotei & Farhat 2016), they also have a major role in innovation and experimentation (Cantamessa, Gatteschi, Perboli & Rosano 2018) which can lead to innovative solutions, technological changes (Lindholm Dahlstrand, Andersson, Carlsson 2018) and increased productivity (Acs et al. 2014). One type of start-up company that can be considered especially important for the overall societal contribution are the high-growth ventures (Haltiwanger, Jarmin & Miranda 2013), since they contribute to a higher economic growth rate and more new job opportunities than start-up firms with lower growth rates (Zhao, Dalziel, Barge & Walker 2019).

However, to enable a high growth rate and commercialize the business, companies need financial capital (Krishna, Agrawal, Choudhary 2016) and the lack of funding is considered to be one of the most prominent reasons for start-up failure (Cantamessa et al. 2018). This has been shown to be a challenge in all phases of a company's life cycle (Krishna et al. 2016), but seems to be extra critical in the expansion phase where fewer external investors are active and the total sum of invested capital is lower compared to other phases (Söderblom & Samuelsson 2014). Since the growth and expansion are crucial for the progress of the firm (Markova & Petkovska-Mircevska 2010), the lack of financial capital in this phase is a major issue that can have tremendous effects on the company's chances of survival and future success (Cantamessa et al. 2018). It is therefore surprising that few studies have focused on investigating the underlying issues related to financing in the expansion phase, and instead have had the main emphasis on earlier phases of the business life cycle (Wilson, Wright & Kacer 2018; Mäkäräinen-Suni 2017). Consequently, the area is still missing a comprehensive understanding.

To manage the challenge of raising external capital the entrepreneur needs to focus on establishing and maintaining strong investor relationships since these have been shown to determine both if financial capital is obtained in the first place (Van Osnabrugge 2000) and the future success of the venture (Timmons & Bygrave 1986). Since high-growth ventures in the expansion phase often require a large amount of financial capital, there is generally a need to establish multiple investor relationships (Van Osnabrugge 2000). Therefore, the investment process from the entrepreneurs' perspective is highly characterized by establishing and maintaining these different relationships (Steier 2001). Previous research has had a strong focus on the investors' perspective on the investment process (Brush, Edelman & Manolova 2012), showing that they often utilize control to influence the business and lower the risk of opportunistic behaviour (Shepherd & Zacharakis 2001). It has also been argued that for entrepreneurs, the factor of building trust is the main focus during the investment process to cope with and lower the investors' exercised control (Ibid). However, limited attention has been given to the entrepreneurial perspective of the investment process and the area still lacks an in-depth understanding (Zacharakis, Erikson & George 2010). Contributions in this area could therefore benefit the field by providing a more holistic view on the investment process, with a conceptual clarity on both perspectives.

1.1 Research Gap

While start-up financing is a field that has been given a lot of attention in previous research, there are still areas that are under-researched. This study intends to contribute to the knowledge in two identified research gaps.

First, much of the research has focused on understanding the investment process from the perspective of the investors while less focus has been given to the entrepreneurs' perspective (Brush et al. 2012; Winborg & Landström 2001; Wright & Stigliani 2012; Zheng 2011). This has resulted in a fragmented academic understanding and lack of research regarding the entrepreneurial perspective on the investment process (Coleman et al. 2016). The research that has studied the entrepreneurs perspective has mainly been of quantitative nature, while there is a lack of, and request for, in-depth studies that provides a more detailed understanding of the entrepreneurial perspective (Bird & Schjoedt 2009; Coleman et al. 2016; Brush et al. 2012; Gartner, Reynolds & Carter 2010; Yazdipour 2011; Atherton 2012). This lack of in-depth understanding can be considered a problem since entrepreneurs are the ones facing the challenge of acquiring financial capital.

Second, the issue of not obtaining enough financial capital has been shown to be most prominent in the expansion phase (Söderblom & Samuelsson 2014), but scholars have tended to focus on other parts of companies' life cycles, and the investment process for companies in the expansion phase therefore still lacks a conceptual clarity and comprehensive understanding (Wilson et al. 2018; Mäkäräinen-Suni 2017).

1.2 Research Purpose and Question

The purpose of the study is to investigate how entrepreneurs with growth ambitions perceive the investment process in the expansion phase. This includes studying the entrepreneurs' views on the sources of capital they use, on their relationships with the external investors and on the process itself. The study aims to contribute with knowledge to the research field regarding the entrepreneur's role in the investment process and acquisition of capital in the expansion phase. Therefore, the research question guiding this study is:

What is the entrepreneur's perspective on the process of financing their high-growth ventures in the expansion phase?

More specifically, this will be pursued by studying the investment process through a theoretical lens formed through combining literature about the investment process and trust-building in relationships. Throughout the process of this study, the entrepreneur-investor relationship has emerged as a critical factor in the investment process which has formed the foundation for the theoretical framework. Therefore, since the entrepreneur-investor relationship is determining the success of the investment round as well as the future progress of the venture, the understanding of this relationship is thereby also a main part in understanding of the overall perspective on the investment process.

1.3 Delimitations

To allow for access to primary empirical data the study will only investigate entrepreneurs that have founded companies based in Stockholm county, Sweden. This was also considered an important delimitation to ensure that the geographical market does not induce differences for the companies with regards to for example regulations. Furthermore, the study only covers the investment process where the investor provides external equity to the ventures. The companies in the study have utilized other sources of funding as well and choosing a source of funding is part of the investment process. However, it was considered an important delimitation to limit the scope as the investment processes will look significantly different when comparing with for example debt financing. Hence, this allows for a more in-depth approach into the chosen investment process. The study will also exclude companies without external investors to ensure that the entrepreneurs have experience of going through a process of financing the business.

2. Literature Review & Theoretical Framework

In this section, a comprehensive literature review of the field and relevant theories is presented. In line with the research question and purpose of the study, the review contains previous research regarding the investment process which has three identified stages: time prior to the interaction, the interaction and time after the interaction. These stages will be further developed by reviewing literature regarding activities in the stages. Following this, a theoretical framework is presented and elaborated on, ending in a presentation of the synthesized framework that will be used as the theoretical lens for analysing the empirical findings.

2.1 The Investment Process

The process of financing a company has two conditions that needs to be filled; the entrepreneur must make the decision to search for capital and the investor must decide to finance the venture (Rasmussen & Sørheim 2012). In academia, the latter has long been the focus and the investment process from the investor's point of view has been described by several researchers (Amatucci & Sohl 2004; Tyebjee & Bruno 1984; Haines, Madill & Riding 2003; Paul, Whittam & Wyper 2007b). Overall the investment process has been described as a non-linear process, where the stages are partly overlapping. One suggested process goes from deal orientation, to deal screening, deal evaluation, deal structuring, ending with post-investment activities (Tyebjee & Bruno 1984). Another suggested process is familiarization, screening, bargaining, managing, and harvesting (Paul et al. 2007b). From the entrepreneur's perspective it is common to work with several different investors to reach the full capital sum the venture needs, which therefore leads to separate processes with each potential investor. These separate processes are likely to differ depending on the investor's willingness or reluctance to fund the business, the screening processes, the established relationships between the entrepreneur and the investor, or external factors like changing states in the global economy (Paul et al. 2007b).

The different versions of the investors' investment process, presented by researchers, can be simplified as the time prior the interaction between the entrepreneur and the potential investor, the interaction itself, and the time after the interaction (Maxwell, Jeffrey & Lévesque 2011). In the iterative process of this study, a theoretical framework has been developed, tested and reformulated based on the same steps as in the investors' process. The corresponding entrepreneurial investment process is hence illustrated through the steps that the entrepreneur is going through in the time prior to the interaction with investors, during the interaction, and the time after the interaction (described in *2.1.4 Summary of the investment process*). In this thesis 'the interaction' is defined as the discussion between the entrepreneur and potential investors on the topic of the investments, including for example the pitch, the negotiation and the valuation. Hence, the transition between time prior to interaction and interaction is the first contact with a new investor, and the time after the interaction is identified as the time after the contract is signed, when the entrepreneur-investor relationship is established and formalized. The structure of the chapter is following these stages of the investment process, describing the actions that an entrepreneur undertakes.

2.1.1 Time prior to interaction

2.1.1.1 Achieving investment readiness

Many entrepreneurs start their investment processes through evaluating their venture's investment readiness to prepare the venture to make it more attractive to potential investors (Douglas & Shepherd

2002; Mason & Harrison 2003). This readiness can be divided into three areas; technology readiness, market readiness and management readiness. Technology readiness is achieved when the technology works, prototypes are built, and the product is ready for production. Market readiness is achieved when the concept is tested on the market to ensure that needs and preferences of customers are fulfilled. This is best shown through a track record, surveys or a test market. Lastly, management readiness is achieved when the team is in place, with experience and qualifications needed for the start-up (Douglas & Shepherd 2002). The entrepreneur should then target an investor based on its investment readiness and the risk level associated with it (Mason & Kwok 2010).

2.1.1.2 Choosing a source of funding

The next step in the investment process is to decide what sources of funding to use. Previous research has shown that the capital decisions made have decisive implications for the operations, success, performance and expansion potential of the business (Cassar 2004; Wong, Bhatia & Freeman 2009). There is a wide variety of available sources of capital for entrepreneurs, but the availability and amount of capital provided differ between the phases of the firm's life cycle (Söderblom & Samuelsson 2014). In the expansion phase, there are both fewer sources and a lower total amount of capital available (Söderblom & Samuelsson 2014), which can cause major problems since many companies are still dependent on getting financial capital both for survival, but also in order to grow and become commercialized. Therefore, without financial capital, the future progress and success of the company can be at stake (Davidsson & Delmar 2001).

A common source of funding is equity based external funding, which can be provided by business angels and venture capitalists (VC) (Bozkaya & Van Pottelsberghe De La Potterie 2008). Business angels are often wealthy individuals that invest their own money in industries in which they have knowledge or experience and that often takes on an active role in the business (Wiltbank, Sudek & Read 2009; Wong et al. 2009; Shane & Cable 2002). This differs from VCs, which are finance professionals that invest and manage the firm's money (Van Osnabrugge & Robinson 2000). This difference tends to result in business angels taking their investment decisions largely based on their own experience and judgement, while VCs tend to use a formal and analytical approach based on the entrepreneur's previous experiences, the potential market and financial projections (Wiltbank 2005).

The pecking order theory and the trade-off theory are traditionally used to explain the capital structure decisions made by businesses. The trade-off theory proposes an optimal capital structure that firms seek over time, where the debt-equity ratio is balancing the benefits of debt against the costs (Kraus & Litzenberger 1973). The pecking order theory proposes a way for entrepreneurs with favourable information to make rational decisions based on the cost of capital, where it is preferable to firstly rely on retained earnings, as a second resource go to debt financing and thirdly issue new equity. The rationale is to ensure that the cost of capital does not overweigh the investment opportunity for the company and its current shareholders (Myers & Majluf 1984; Myers 1984). However, the field of entrepreneurial finance has had varying opinions on whether the pecking order and the trade-off theory are applicable for start-ups and new ventures. Some are confirming the theories (Hall, Hutchinson & Michaelas 2000; Hsu 2004; Norton 1991) and some are discarding them (Atherton 2009; Atherton 2012; Howorth 2001; Paul, Whittam & Wyper 2007a). This conflict in the research field opens up for an analysis of the decision process of entrepreneurs searching for funding.

The researchers who are arguing against the trade-off and the pecking order theory are instead proposing several different factors that can be used for capital structure decisions for new ventures. One factor that could be considered is social capital, in the sense of relationships, prior experience and knowledge, as part of an extended rationality. Founders will use this social capital in deciding on the capital structure, rather than using the bounded rationality proposed by the pecking order (Atherton 2009). Another factor that can influence decision-making is path dependency, which is influencing entrepreneurs to make decisions regarding future funding based on historic behaviour and hence choose the same source of funding as they have done previously (Samuelsson, Söderblom & McKelvie 2020). The size and age of the company has also been mentioned as a factor that can impact the choice of sources for financial capital. This is explained in the financial growth cycle developed by Berger and Udell (1998). According to this model the financing options available to an entrepreneur is changing as the firm grows, as the information opaqueness decreases as the firm gets more track records (Ibid).

After deciding on the source of funding the entrepreneur has to choose the specific investor to approach. The reputation of the investor is something that the entrepreneur is considering when choosing funders for their venture (Paul et al. 2007a). Some researchers even argue that *"from whom you raise capital is often more important than the terms"* (Sahlman 1997). In one study it was shown that offers from VCs with high reputations are more likely to be accepted, and these VCs acquire equity at a discount (Hsu 2004).

2.1.2 The interaction

2.1.2.1 Initiating the relationship

The initiation of the relationship is done for example through that the entrepreneur is emailing an executive summary to a potential investor, or through a face-to-face introduction (Mason & Harrison 2003). The first screening is done in this stage, where a majority of prospects are rejected (Freear & Wetzel 1990; Mason & Harrison 2003). The entrepreneur's network plays a crucial role in the initiation of the relationship with future investors, as the probability of passing through the investor's screening increases if you contact someone in your existing network or contact an investor through a referral, than if you initiate the relationship through cold-calling investors whom you do not know (Shane & Stuart 2002; Jenssen 2001; Shane & Cable 2002; Tyebjee & Bruno 1984). This is especially important when searching angel investment from angels who are not experts in the area or industry of the business (Paul et al. 2007a). In a study by Heuven and Groen (2012) it is stated that especially networks rich in structural holes will be favourable in the process of accessing funding for start-ups, due to its more diverse structure.

2.1.2.2 Pitching

The interaction between the entrepreneur and potential investors often include a pitch, where the entrepreneur presents the business opportunity and plan (Brooks, Huang, Kearney & Murray 2014). The presentation is commonly done for a small group of individuals, but it is becoming more common to also organize pitch events where entrepreneurs pitch in front of an audience consisting of for example investment forums (Mason & Harrison 2003; Clark 2008). Apart from the verbal presentation, the pitch also includes a nonverbal part, consisting of pitch decks, as well as written executive summaries and business plans (Brooks et al. 2014).

Since the pitch is usually taking place in the early stages of the interaction, the most common objective in the pitch is to create interest and persuade investors to agree to a following meeting (Clark 2008). The decision is commonly made in a short period of time, sometimes in less than ten minutes (Mason & Harrison 2003; Mason & Harrison 1996). The high level of uncertainty involved in the pitching, where it is difficult for investors to correctly assess the potential in a start-up due to the time limit and scarcity of information, leads to that the entrepreneur commonly is assessed based on his or her social competence (Balachandra, Briggs, Eddleston & Brush 2013) and the ability to present both the idea and themselves (Chen, Yao & Kotha 2009; Rasmussen & Sørheim 2012; Paul et al. 2007a; Brooks et al. 2014). Apart from the communication skills of the entrepreneur, research has linked observable characteristics to receiving external capital. This includes characteristics such as speech patterns, gestures, attractiveness and gender (Kanze, Huang, Conley & Higgins 2018).

2.1.2.3 Valuation & negotiation

One of the key problems when raising equity from external investors is deciding on a valuation of the company as well as the equity stake that the investor can buy into (White & Dumay 2017; Haines et al. 2003). In the valuation and negotiation stage of the process, especially for start-ups without a track-record, the guidelines for valuation are weak so it is commonly based on the parties' judgement (Paul, et al. 2007a). The VC process provides more structure than that of business angels and will usually also mean a more rigid negotiation. The contract between the entrepreneur and the VC is also inducing more formalized control (Kaiser, Lauterbach & Verweyen 2007).

The negotiation starts after the due diligence process, and the main topic of the negotiation is the valuation and the equity stake for the investors (Haines et al. 2003; Paul et al. 2007a). Particularly, the valuation is divided into the current valuation and the value that will be added through the execution of the plan that is presented for the investment. The exit strategy for the investor might also be part of the negotiation, where one alternative could be a negotiated put option where the investor can sell back the shares at a certain point in time or on predefined triggering events (Haines et al. 2003).

2.1.3 Time after interaction

2.1.3.1 Establishing consensus

When entrepreneurs search for, evaluate, and finally obtain capital from investors, a relationship is established (Valtakoski 2015). Some researchers emphasise that this relationship can, to a large extent, be explained by the resource dependence theory which states that a power imbalance can characterize relationships where one part holds resources that are crucial for the other part (Pfeffer & Salancik 2003). Therefore, since the capital held by investors is of great importance for the entrepreneur and the venture's success, there might be an asymmetrical power relationship between the investor and the entrepreneur which can lead to an imbalance in the ability to control and influence the business (Hallen, Katila & Rosenberger 2013; Gomez-Mejia, Balkin & Welbourne 1990; Sapienza & Korsgaard 1996).

However, other researchers are emphasising the importance of co-operative relationships characterized by mutual understanding, consensus and exchange of resources beyond only financial capital (Cumming 2012; Schwienbacher 2008; Shepherd & Zacharakis 2001). Access to resources such as knowledge, networks and experience are crucial for entrepreneurs both when developing and maintaining their company (Huang & Knight 2017; Popov & Roosenboom 2012; Grant 1996). Thus, managing the relationships, and thereby the exchange of both financial and social resources, is a critical part of the entrepreneur's job (La Rocca, Ford & Snehota 2013; Smith, Harrison & Mason 2010).

2.1.3.2 Involvement of investors

One area that has been highlighted as important in managing the entrepreneur-investor relationship is the issue of establishing a sense of unity and mutual goals (Kaiser et al. 2007). In accordance with the principal-agent theory, the investors has delegated the decision-making authority to the entrepreneurs (Mitnick 1975), but one problem that might arise is that the information asymmetry can be high since the venture and its offering is relatively new and there is often a lack of track records which makes it more difficult for the investors to evaluate and understand the business' offering (Wirtz 2011). Since the actions taken by the entrepreneurs still affects the investors and their investments, different interests and opinions may arise which could result in the investor feeling a need to increase their control over the entrepreneurs actions, which, in turn, could lead to conflicts between the two parties (Ibid). Previous research has investigated the positive effects of conflicts between entrepreneurs and investors on the success of the venture, which can be due to improved decision quality when ideas are being challenged and discussed and more thoughtful alternatives are being developed (Zacharakis et al. 2010). On the other hand, it has also been shown that conflicts can have detrimental effects on the company's success if it lowers the confidence in the partner co-operation (Zacharakis et al. 2010; Kaiser et al. 2007) or if the entrepreneur, who are often more emotionally attached to the company (Baron 1998), sees the conflict as threatening and the investor's involvement as negative and as a way of taking more control over the company (Kaiser et al. 2007). To lower this risk, and decrease the investor's need for control, previous research has highlighted the importance of the entrepreneurs actively working to establish aligned views and understanding shared by both parties (Ibid).

2.1.4 Summary of the investment process

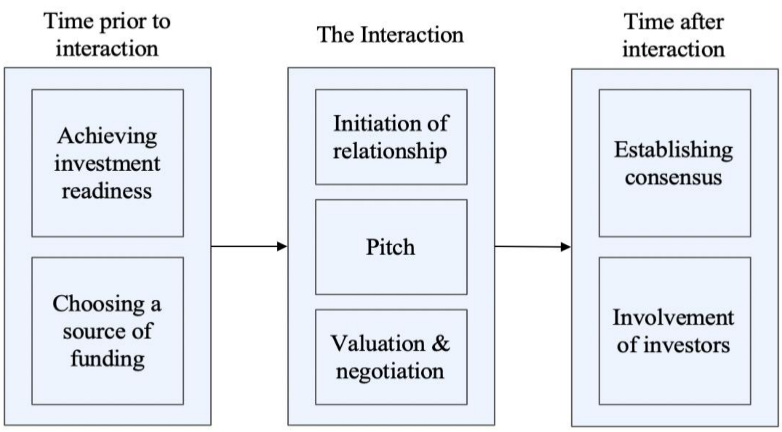

Figure 1. Identified stages and activities in the investment process

To summarize the literature review, research has focused on the investors' perspective on the investment process. However, the research regarding the entrepreneurial perspective is still fragmented and the field therefore lacks a holistic understanding. For this study, it has been assumed that the consolidated stages in the investors' investment process can be used to illustrate a corresponding investment process for the entrepreneur. Figure 1 is representing the stages that the entrepreneur is going through, when trying to obtain external capital. These steps are time prior to interaction, interaction and time after interaction – where the entrepreneur is, among other things, choosing source of funding, preparing the business to achieve investment readiness, initiating contact with investors, pitching and setting a value to the company. After the negotiation, the entrepreneur is focusing on establishing consensus and managing the involvement of the investors. This also presents the foundation for the theoretical framework, which will be elaborated in the coming section.

2.2 Theoretical Framework

2.2.1 The model of confidence in partner co-operation

Previous literature emphasises the importance of building and maintaining entrepreneur-investor relationships (Van Osnabrugge 2000) and in the model of confidence in partner co-operation, Shepherd and Zacharakis (2001) describes that this type of relationship involves a lot of uncertainty, and therefore is governed by both control and trust. The control is to a large extent exercised by the investors, while the main focus for entrepreneurs, although they are also pursuing control to a certain degree, is building trust (Maxwell & Lévesque 2014).

The model is presented as a conceptual framework drawing on theories regarding the social judgment perspective, the agency theory and the prisoner's dilemma. In the social judgement perspective, Shepherd and Zacharakis (2001) draw on the study by Sapienza and Korsgaard (1996) which states that procedural justice is an important determinant of attitudes and behaviours, and is positively related to trust, commitment and co-operative behaviours. This contributes to the trust factor in the relationship by describing how to maintain a relationship when the factor of control is low (Shepherd & Zacharakis 2001). Agency theory describes the relationship between the principal (the investor) and the agent (the entrepreneur), where the agent is representing the principal in its actions. There is hence a risk of opportunistic behaviour through moral hazard or adverse selection, where the agent might act in his or her own self-interest rather than according to what would benefit the principal (Mitnick 1975), and therefore the investor needs to monitor the entrepreneur's behaviour (Shepherd & Zacharakis 2001). The prisoner's dilemma is describing how, when two parties cannot know how the other party is acting, both parties are incentivised to act in their own self-interest to ensure that they are not in a situation of *'the suckers payoff'*, even though they would both benefit from co-operation (Cable & Shane 1997). The prisoners' dilemma is taken into account by Shepherd and Zacharakis (2001) since it is part of the explanation to the parties' decision of their use of control and co-operative behaviours.

In the model of confidence in partner co-operation, the trust factor is built up by the model of building trust (see *2.2.1.1 Building trust*), which entrepreneurs can use in order to build trust and this, together with the factor of control, provides the basis for managing the relationship (Shepherd & Zacharakis 2001). In Shepherd and Zacharakis' (2001) study, the model was applied to the entrepreneur-VC relationship. However, they conclude that it can still be considered applicable to the relationship between a business angel and an entrepreneur, but that the emphasis of the factors might vary (Shepherd & Zacharakis 2001). Therefore, the model is considered usable for this study as well.

Since the purpose of this study is to investigate how entrepreneurs with growth ambitions perceive the investment process in the expansion phase, and previous literature has shown that managing relationships is a critical part of the entrepreneurs job in the investment process, the theoretical lens of trust building and control, as defined in Shepherd and Zacharakis (2001) model of confidence in partner co-operation, will be applied as an analytical lens of the entrepreneurs perceptions of the investment process.

2.2.1.1 Building trust

The model of building trust emphasises the importance of the entrepreneur pursuing four trust building activities to create investor trust. The four critical factors are: signalling commitment and consistency, being fair and just, obtaining a good fit with the partner, and frequent and open communication. These four factors can be utilized by the entrepreneur to establish and maintain trust during the investment process (Shepherd & Zacharakis 2001) (see figure 2 for the model of building trust).

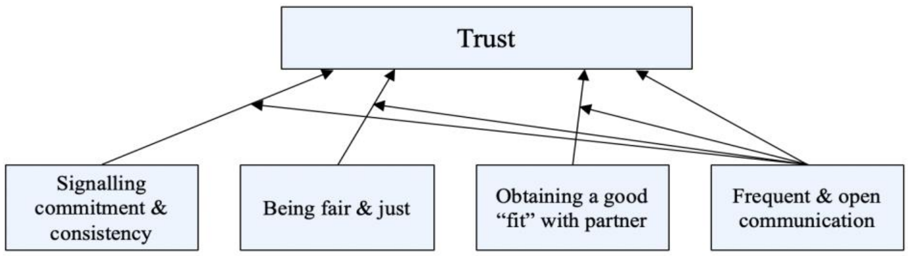

Figure 2. The model of building trust

Signalling commitment and consistency is one important factor for entrepreneurs in trust building. The entrepreneur can do this by highlighting what they have done before, for example by showing past records of achievements or experiences or provide evidence of trustworthiness in other relationships with investors (Shepherd & Zacharakis 2001). They can also highlight their own, the team or current investors characteristics and knowledge (Paul et al. 2007a; Mason & Stark 2016; Van Osnabrugge & Robinson 2000) and show the business plan and financial expectations to emphasise their future plans, actions and predicted outcomes (Sudek 2006; Feeney, Haines & Riding 1999). But the commitment can also be signalled by emphasising what they are willing to give up when pursuing the new venture, for example a high paying job (Shepherd & Zacharakis 2001; Paul et al. 2007a). By showing the commitment through an incremental and gradual process, the investor's trust will be further strengthened throughout the relationship. However, it is also important that the commitment of the entrepreneurs is followed by behavioural consistency which is characterized by reliability and predictability in order for the trust to be established and maintained (Shepherd & Zacharakis 2001).

Showing genuine interest in and being open and honest with the investor will also contribute to the trust building. It is important for the entrepreneur to establish a sense of fairness since this will add to the investor's trust. One critical stage when fairness can be considered especially important is during the valuation, where it is particularly important for the entrepreneur to be transparent with how the valuation has been determined to show that he or she acts in a fair way and thereby increase the perception of fairness. Being fair and just also includes that the entrepreneur should always be honest and keep his or her promises to create a feeling that the words of the entrepreneur can be trusted. Even before the relationship is established this factor is important since a reputation of an entrepreneur being honest, trustworthy and fair can provide evidence to take initial risks (Shepherd & Zacharakis 2001).

Having a good fit with the investor is important since the trust increases with similar beliefs, values and internalized views (Paul et al. 2007a; Shepherd & Zacharakis 2001; Mason & Stark 2016). If the entrepreneur makes adjustments to fit the needs of the investor both the fit and the trust will increase since this signals willingness to co-operate. If the entrepreneur is already similar to the investor and the fit is good, it will make the process of establishing trust faster. Another way to facilitate the process of obtaining a fit with the investors is to have a common network with the investor. Being introduced to a new investor by someone that they know and trusts will increase the likelihood that trust is being established since the risk of opportunistic behaviour is perceived to be lower and the fit is already identified (Shepherd & Zacharakis 2001).

Trust also increases with timely feedback and adequate explanations and having an open communication will accelerate the process of the investors' assessment of the entrepreneur as trustworthy. Furthermore, communicating frequently with the investors will establish a confidence of co-operation and reliability of the entrepreneur. The communication factor also acts as a catalyst for the previous described factors, since it acts as a vehicle for all by enhancing and facilitating the execution (Shepherd & Zacharakis 2001).

2.2.1.2 Control

According to Shepherd and Zacharakis (2001), when there is a low degree of trust in the relationships, the investors often feel a higher need to exercise control to ensure that the entrepreneurs does not act in an opportunistic way, and correspondingly, when the trust is high the need for control is lower. Control is a regulatory process where the actions are made more predictable by establishing standards for reaching predetermined goals or states (Leifer & Mills 1996). The control can be pursued by for example introducing penalties (Sahlman 1990), replacing the entrepreneurs with professional management (Barney, Busenitz, Fiet & Moesel 1996) setting up compensation structures (Sahlman 1990), and/or the entrepreneurs being closely monitored (Whitener, Brodt, Korsgaard & Werner 1998). An important distinction between control and trust is that the investors' control will directly influence the actions of the entrepreneurs, while their trust in the entrepreneurs will not (Das & Teng 1998).

Shepherd and Zacharakis (2001) further describes that different types of investors have different optimal levels of control and trust. VCs tend to establish more formal control through, for example, term sheets and contracts, while in the relationship with business angels, more trust tends to be involved and the business angel thereby does not feel the same need for formal control (Shepherd & Zacharakis 2001). This study will investigate the control factor by looking at the entrepreneurs' exercised control and the entrepreneurial perspective of the control exercised by the investors. Control is therefore added to the theoretical framework and the balancing relationship between trust and control is illustrated in the model through the dotted line, see figure 3.

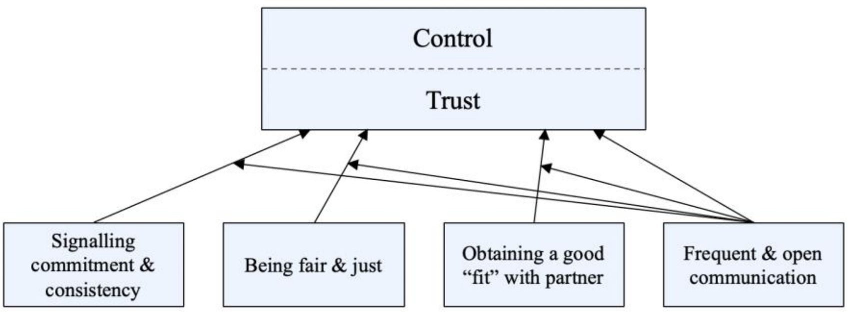

Figure 3. The model of building trust with the added factor of control

2.2.2 Summary of theoretical framework

According to Shepherd and Zacharakis (2001), the entrepreneur-investor relationships are governed by trust and control and their model of confidence in partner co-operation provides a framework for how entrepreneurs can use these two factors to manage their relationships with investors. Managing the relationships has been shown to be a critical activity for the entrepreneurs during the entire investment process (Steier 2001; Shepherd & Zacharakis 2001; Maxwell et al. 2011). Therefore, drawing from previous literature, this study will investigate entrepreneurs' perceptions of the investment process in the expansion phase by applying the theoretical lens of control and trust as described in the model of confidence in partner co-operation (Shepherd & Zacharakis 2001). The synthesized theoretical framework used for the study is presented in figure 4 below.

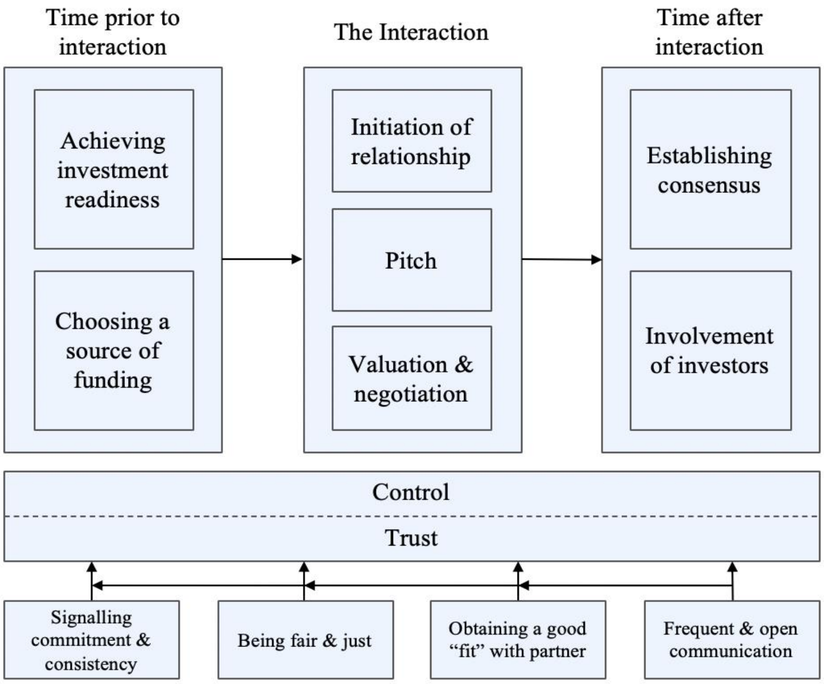

Figure 4. Theoretical framework

3. Methodology

In this chapter the methodological approach, grounded in the interpretivist paradigm and with an abductive approach, is presented. Further, the qualitative method of the study is discussed, followed by a description and deliberation of the gathering and analysis of the empirical data. The section ends with a discussion regarding the qualitative rigor of the study and the ethical considerations that have been taken.

3.1 Scientific Approach

3.1.1 Research considerations

The epistemological considerations in this research are accounting for subjective matters of social actions, and thus place the study in the interpretivist paradigmatic position (Bryman & Bell 2015). The entrepreneurs and investors are considered to, through their subjective individuality, form the case of start-up funding (Bryman & Bell 2015). This is specifically important as the study is focusing on the entrepreneurs, who are a heterogeneous group where the differences within the group should be seen as an asset that enriches the knowledge generated from the study. The entrepreneurs' actions are considered through the entrepreneurs' perspective, in accordance with the notion of Max Weber's *Verstehen* approach (Bryman & Bell 2015:30-31).

The phenomenon of entrepreneurship in general, and the entrepreneur-investor interaction in particular, is seen as a dynamic process that is affected by the context and the individuals in the specific situation. Therefore, it is seen as important to acknowledge that the context and the social interaction is under continuous development, and it should not be seen as independent from the people involved in it. This can be translated to that the social actors take part in forming the social phenomena according to the ontological position of constructionism (Bryman & Bell 2015). However, it is also critical to acknowledge that in this study this argument is not taken to the extreme. Instead it is accepted that there is an objective reality in the form of norms and cultures that constrain the actors and thus form the process in accordance with a more objectivist position (Bryman & Bell 2015).

3.1.2 Research approach

The purpose of the study is to investigate how entrepreneurs with growth ambitions perceive the investment process in the expansion phase. Therefore, a qualitative method was considered most suitable since this allows for an in-depth understanding of the phenomenon from the entrepreneurs' perspective and enables collection of rich data. It is also suitable since the area covered in this study is under-researched (Bryman & Bell 2015).

The qualitative research was conducted through an abductive approach, moving between induction and deduction as well as between collection of empirical data and selection of theory for the theoretical framework. Abduction is preferable when conducting interpretive research since it is a way of avoiding the limitations of both selecting a theory, as associated with deductive reasoning, and limiting the amount of empirical data that can be collected, which is a problem in inductive studies (Bryman & Bell 2015). Furthermore, the process has iteratively allowed the empirical observations to form the theoretical framework and vice versa. The interview-guide (described in *3.2.2.1 Interview Guide* and found in Appendix A) used for the study has through the iterative process been continuously updated based on the results that have been found.

3.2 Research Design

The study is designed as a multiple-case study where semi-structured interviews were conducted to ensure the depth needed for understanding the standpoint of entrepreneurs, and still provide a relative width through comparing multiple cases. Due to the heterogeneity of entrepreneurs and the importance of the context the variation between the cases is of interest (Bryman & Bell 2015).

3.2.1 Sampling

The sampling was done using a purposive sampling method to ensure a selection of information-rich cases related to the research question. Data was collected by successively conducting interviews and analysing the empirical findings until no new patterns emerged and theoretical saturation was considered achieved (Bryman & Bell 2015). This resulted in 21 conducted interviews (full list presented in Table 1).

As business sample criteria, an upper age limit of 10 years was set to ensure a high enough growth rate through excluding companies that have taken more than 10 years to reach the expansion phase. No lower age limit was set since the age is not considered to determine the phase of the company. Instead, that the business was on the market and is generating substantial sales was set as a criterion. Another criterion was the industries of the companies since it was considered important to account for the variations in capital intensity and the different needs for high research and development expenditures in the early years of the company.

The gender of the entrepreneur was also considered important since it has been shown that gender stereotypes and biases affect the access to finance (Malmström, Johansson, Wincent 2017). Therefore, the objective was to reach an equal distribution to exclude that the result was affected by the genders of the entrepreneurs. To ensure this, the 60/40 rule was applied, stating that a sample is quantitatively equal when no gender has a higher representation than 60% (Berge 2011). All interviewees were founders of the case-companies, who still remained operative and have been active in the financing of the firm. In one case two founders were interviewed as both worked with the funding of the company and wished to be able to piggyback on each other’s answers, resulting in 21 interviews with 22 interviewees.

	Company	Founded	Industry	Role in company
Erik	A	2013	Media	COO
Lars	B	2015	Healthtech	CEO
Karl	C	2010	Cleantech	CTO
Maria	D	2018	Edtech	CEO
Anna	E	2017	Medtech	CCO
Eva	F	2016	Healthtech	CEO
Karin	G	2017	E-commerce	CEO
Sofia	G	2017	E-commerce	COO
Anders	H	2015	Medtech	CEO
Lena	I	2014	Edtech	CEO
Emma	J	2017	Insuretech	CEO
Sara	K	2018	Healthtech	CEO
Elin	L	2016	Mobility	CMO
Johan	M	2018	Medtech	CEO
Per	N	2016	Communication	CEO
Ida	O	2016	Greentech	CPO
Nils	P	2011	Edtech	CEO
Linda	Q	2016	Beautytech	COO
Hanna	R	2015	E-commerce	CEO
Peter	S	2015	Fintech	CEO
Gustav	T	2012	E-commerce	CMO
Malin	U	2016	E-commerce	CEO

Table 1. Interview subjects

3.2.2 Semi-structured interviews

In accordance with the purpose of the study, interviews were considered the most appropriate empirical method since this allows for deep insights into the phenomenon from the respondents' own experiences and perceptions (Yin 2016; Lantz 2013). Furthermore, the interviews were semi-structured to allow for detailed and discursive responses by having the respondents' thoughts and experiences guiding the interview and thereby go deeper into important areas (Adams 2015). However, an interview guide was used as a basis to cover the topics of interest. Using semi-structured interviews also allowed for inductive probing and thereby following up on the respondents' answers, while at the same time connecting it to the research purpose. This method will lead to a richer set of data which was considered important since the aim was to get an in-depth understanding of the phenomenon (Guest, Namey & Mitchell 2012).

The potential interviewees were contacted through an email introducing the study and they were asked if they wanted to anonymously participate in the study. Because of difficulties in identifying high-growth companies and the expansion phase, this was discussed with the entrepreneurs when considered necessary. When they accepted the participation, a second email was sent with information regarding what areas the interview would cover. However, the information was only presented briefly to lower the risk of biased answers (Seale 2006).

The aim was to conduct all interviews face-to-face at the offices of the respondents to make them feel more comfortable in a known environment and to be able to see the respondent's facial expressions and reactions, which can lower the risk of misunderstandings (Bryman & Bell 2015). Because of worldwide circumstances at the time of the study, the last 10 interviews had to be conducted through video calls. The video calls still allowed for the face-to-face interaction but could have affected the comfortability of the respondents and thereby their openness (Bryman & Bell 2015). The average time of the interviews was 55 minutes.

Before the interviews they were asked if they were comfortable with the interviews being recorded and all interviewees accepted this. The recording allowed both interviewers to actively engage in the conversation instead of taking notes, which can enhance the quality of the interview (Adams 2015). However, since the recording could be perceived as a worrying factor (Bryman & Bell 2015), the recordings and transcriptions were ensured to only be used by the interviewers. Furthermore, the anonymization was discussed again, and they were ensured that they as individuals, the company and their investors would be anonymous in the study. During all the interviews, both authors were present to increase the credibility through enabling a discussion of the interpretation of the interview (further discussed in *3.3.1 Qualitative rigor*). During the interviews conducted at the offices, both interviewers had an active role and participated in the conversation to ensure that all topics were covered and that interesting probing questions were asked. However, during the video interviews, when the interviewers were not at the same physical place, one interviewer was leading the interview. This strategy was considered appropriate to lower the risks of interruptions and confusion for the respondent. The other interviewer still asked questions when needed.

To further increase the comfortability of the interviewees, all interviews were held in Swedish except for one interview where English was the preferred language. To enable the usage of quotes in the thesis, the Swedish interviews were translated. The quotes were translated with the aim to keep them as similar to the original as possible, minimizing the risk of the translation being affected by the interpretation of the one translating them. The quotes were also checked by both researchers to further lower the risk of misinterpretations.

3.2.2.1 Interview guide

An interview guide was developed to keep an interactive and flexible approach, but still ensure the coverage of the relevant topics (Adams 2015). The interview guide covered the main topics that were considered critical with regards to the purpose of the study, and some example questions were formulated that could help cover the areas if needed. Since the interviews were of semi-structured nature, additional questions and areas were covered as the conversations unfolded. Following the abductive approach (Bryman & Bell 2015), the interview guide was revised slightly as categories emerged from the empirical data. See appendix A for the interview guide.

3.2.3 Data analysis

The data was analysed in a systematic two-stage process where first- and second order constructs were formed. As soon as possible after the interviews, the recorded material was reviewed and transcribed. Both authors read and re-read the transcribed material and initiated an individual thematic analysis through coding of quotes (Ritchie, Lewis, McNaughton Nicholls & Ormston 2013). The codes were then grouped into themes and sub-themes based on the patterns and clusters found.

That the coding was done individually was to ensure consistency in the authors perceptions of the empirical material, achieve research triangulation and hence increase the dependability and credibility of the study (Bryman & Bell 2015; Ritchie et al. 2013). It was also important that both authors were truly familiar with all the material, to be able to go in depth in the further analysis, in accordance with

Braun and Clark (2006). Through comparing the two initiated analyses, axial coding (Strauss & Corbin 1998) was used to create the first order constructs. These constructs were later used to, in combination with the literature review, form a theoretical framework and through that also the basis for the second stage of the data analysis. The second order constructs were formed with the background of factors of building trust in the theoretical framework, combined with the identified stages in the investment process.

3.3 Qualitative Rigor & Ethical Considerations

3.3.1 Qualitative rigor

The research quality has been ensured by employing methods for assuring the trustworthiness, consisting of credibility, transferability, dependability and confirmability (Bryman & Bell 2015). To strengthen the *credibility*, the study has been conducted according to the methodological approach presented without exceptions. Furthermore, to lower the risk of misunderstandings of the material, follow-up questions have been asked when needed. The recorded material has also been transcribed and coded individually to ensure researcher triangulation and that both writers have the same perception of the interviews (Bryman & Bell 2015; Yin 2016). Since the study is of qualitative nature and has been using a small sample, the *transferability* to another context needs to be determined by the reader (Lincoln & Guba 1985). To allow for and facilitate this, thick descriptions of the empirical material are used, and the sampling is done purposely to ensure that the cases studied are of relevance (Bickman & Rog 2008). The *dependability* of the study has been strengthened by keeping all material about the research process to facilitate the evaluation of that proper methods have been taken (Bryman & Bell 2015). The study's *confirmability* was ensured by having open-ended questions to ensure that the findings are shaped by the participants and not by the researchers. Furthermore, during all interviews both interviewers were present to lower the risk of personal values affecting the results (Tracy 2010).

3.3.2 Ethical considerations

Since the questions asked were partly considered to be of sensitive nature it was vital to ensure anonymization to protect their integrity (Tracy 2010). Therefore, the entrepreneurs, their companies and their investors were all anonymized in the study to encourage the respondents to speak freely about their thoughts and perceptions (Tracy 2010). Furthermore, Adams (2015) emphasises the importance of anonymization when the goal is to bring out candid answers. Since the aim was to go in-depth and discover the genuine perceptions of the entrepreneurs it was therefore considered important to allow them to be anonymous to lower the anxiety of saying something that could hurt them or their relationships with investors. The respondents have therefore been given pseudonyms randomly, and the industries of their business has been described on a generic level to further lower the traceability.

4. Empirical Findings

The following section outlines the empirical findings. The section is structured to follow the three stages in the entrepreneurial investment process.

4.1 Time Prior to Interaction

4.1.1 Achieving investment readiness

Before searching for external funding, many entrepreneurs expressed how they used bootstrapping techniques and prepared in different ways to make the capital search less difficult. *"You need a maturity and a plan [before fundraising] of exactly why you need money and how much you will need"* (Maria). Lars explained *"we mapped out the business, what it looks like today and where we need support and then we did a corresponding mapping of potential investors"*.

To build up their businesses before approaching investors, two entrepreneurs chose to run crowdfunding campaigns, which offered people to pre-purchase the product. *"We managed to create some credibility. We had customers from all over the world, that was a proof of concept, that customers were willing to pay for the product"* (Lars). Some entrepreneurs have, before choosing to approach investors, used bootstrapping techniques to prepare their businesses as well as ensure the survival of the business without using external capital. Lena experienced that her operations have become more lean through the bootstrapping "*it ensured that we really could not build a lot of extra things, we have been forced to focus. Since we have not had that much money, we have had to be picky with what is working and not, so there has been a lot of iteration that probably would not have happened if I had had more money"*. Other entrepreneurs have personally pitched in big sums of money or personally sacrificed things for the wealth of the company. *"The investment was taking longer than planned, so when I sold my apartment, I lent money to [the company] to finance it"* (Erik). One bootstrapping strategy is to stay at your old job while starting the company, *"during the first year I worked as a consultant and saved money to start up as well as applied for patents and did market analyses"* (Karl). In one case the two founders had an agreement where one founder stayed at his job and they split the salary.

4.1.2 Choosing a source of funding

"As careful as the investors are when they choose what company and which entrepreneur they invest in, just as careful you have to be when choosing an investor" (Lars). Other entrepreneurs stated the same opinion, described how they set up criteria for the kind of investors they wanted and later also conducted their own due diligence processes to see if investors seemed legit. *"If you get the wrong investor, it can really damage the business rather than help. It has been important for us that all investors can contribute with something. Maybe their network, a good name and reputation or that they have a lot of resources"* (Eva). Erik described how he has seen other entrepreneurs *"get the wrong investor, who just wants to micromanage and change the strategy even though they do not understand the business"*. Lars described how they started using this approach when setting up investor criteria, they thought about the kind of resources, knowledge and networks they needed. Later they realized that they instead wanted to just get investors who believed in their case and wanted to support them. Other entrepreneurs experienced the reversed situation, Maria for example started with not being picky at all and later started focusing on who could be a good investor and have had her own due diligence processes to find the right investors. Even though the majority of the entrepreneurs stated that they first and

foremost wanted ‘smart money’ (capital invested by investors who have some kind of expert knowledge that the company can use), and explained its necessity for the business’ survival, they still stated that the capital per se is what is most important “*you say that you want smart money and not dumb money [...] but it is super difficult so at some point you just have to accept the money even if it is dumb money*” (Linda). Some entrepreneurs highlighted that the difficulty in obtaining financial capital is increasing as their businesses grow and they enter the expansion phase. This partly due to the size of the investments and partly due to the access to fewer investors “*there are few that actually invest in this phase and it is a risky phase to go in with money in. In earlier phases people ‘afford’ to lose the money, [...] now it is more money than people can lose*” (Eva) and Lars also said that they are in “*the valley of death, where you kind of need to speed up. I think it is the most difficult stage*”.

Some entrepreneurs said that they are choosing soft money when possible, instead of going to external equity. *“The best solution is soft money, grants or lending. It is easier to get, you do not need to work as hard as with external funding, and when you get external owners you could potentially get new requirements that you need to act on”* (Karl). Maria also said that *“the outcome can be very binary, you put in a lot of effort and then you can get nothing. [...] When you are a start-up you have to pick the right grants, and the right timing. You have to think about if you have the 50 hours to invest in the chance of success.”* Per, on the other hand, explained that he avoids applying for grants due to the time-consuming process. Ida said that they would have wanted to use bank loans for funding, *“but it is basically not possible as a start-up with negative numbers. We lost a lot of money and knew that we would continue losing money. Most banks are not open for lending you money then”.*

In the same way, some entrepreneurs have avoided working with VC-firms due to the complicated and time consuming process; *“it gets much more advanced with VCs, they are bigger and require advanced agreements”* (Sara), while someone investing their own money have a more simple investment process; *“[Business Angels] can be faster, they can base the decision on their gut feeling while bigger investors need to ensure the fit with the rest of their business or portfolio”* (Karl). Lena, who has been working with both business angels and VCs confirmed this view *“our contact is selling the idea upwards in the organization since they do not have the mandate, so each question took so long and there were many rounds”.* Some also said that they are worried that they would lose control if they take in a VC as an investor. *“When you take in a VC, they will have experts so you will lose the decision power but win the expert knowledge from them”* (Ida). Ida did contact VCs in an early round but did not get an investment. She said that she is happy today that it turned out like that *“VCs invest in a specific case, then they go through with that case almost no matter what. So, when going for VC you have to know how you want to expand the idea and the market. And it is important to have the same view on this”.*

Some entrepreneurs also expressed specific criteria when choosing what investors to approach. For example, Malin said *“since we are planning on taking in a new round in a year, where it will be a greater amount, we have the criteria that investors whom we approach have to be able to invest then as well”.* Anders also had requirements on the cultural fit, and Erik looked for an investor with experience of scaling global businesses. Some entrepreneurs also said that they are aiming for an equal distribution of men and women among their owners. However, all these criteria were seen as an initiating framework that could guide the search for investors, and not as requirements. *“I mean if we have to choose between closing down the company and taking a male investor, of course I will take the male investor”* (Sofia).

4.2 The Interaction

4.2.1 Initiation of relationship

There are different strategies when approaching investors. Some entrepreneurs focused on contacting as many investors as possible. Linda explained that, after moving back to Sweden after years abroad: *"we had to start from scratch, we did not have a network here. We started to contact people on LinkedIn. We were searching for 'start-up investor' or 'angel investor Stockholm' and started to write to people."* Hanna also described the fundraising process *"in one way it is like any kind of sales - a quantity game. You have to go to many meetings, get several no's and keep going"*. Some entrepreneurs chose another strategy and narrowed down the focus before approaching investors, *"we had a list of people who would be nice to have as investors. It was entrepreneurs, business angels and people we just thought had a nice brand that we wanted to be associated with"* (Eva).

When approaching investors many entrepreneurs started through contacting people in their networks or used their networks to get introductions to investors. *"It is about activating your network, ask people if they want to invest or if they know someone who may want to"* (Sara). Many also met future investors through incubator programs or start-up bootcamps. *"I have met investors at start-up competitions [...] it starts with that you meet one angel investor and usually one leads to another, and they introduce you to someone"* (Maria). Some entrepreneurs expressed that they thought investors saw the introduction as critical and did not want to use cold calling. Lena used other entrepreneurs to get introductions, where she sometimes pitched to an entrepreneur who could later bring it up with their investors. Anders also contacted other entrepreneurs, who had investors that he was interested in; *"they hear hundreds of pitches a week, a warm intro will make a difference. Sometimes it is an unspoken qualifier. If you are not good enough to achieve a warm intro you are not interesting for the investment. It is a simple gatekeeper"* (Anders).

Even though many entrepreneurs stated that it is important to go for investors who invest in their corresponding phase they also expressed that they have met investors who are investing in later stages in early investment rounds. Some because they were not aware that it was the wrong phase; *"we talked to big VC-firms already in the first round. They were nice and treated us like anyone else but now I can see that we were never an investment case for them"* (Ida), and some to build relationships for the future; *"take a meeting without preconceptions just to build the relationships. Then you can contact the person and say that you want to brainstorm or need advice. I learned that pretty early, you should never ask for money, ask for advice. Build the relationship, ask for advice, involve someone and then the money will come later"* (Hanna). Ida also described relationship building in the process, related to meeting investors that would be interested in investing in later rounds; "*we really got the impression that this is a relationship industry [...] and I think that has been important because in the next round we will go for VCs and now we have two year old relationships with them, so now we can start pulling those strings*".

4.2.2 Pitch

Before starting to pitch for potential investors, Elin test-pitched for an advisor, *"we got input on what to change, where we needed to be more convincing, or make it simpler, or what parts to scrap completely".* Maria explained that they instead did this continuously during the pitching process, where they got feedback from the people they pitched for and were rethinking the way they presented the company continuously.

"You start through building a pitch deck. Then you take a meeting which can take anything from a few minutes to hours, where you discuss the business" (Emma). Karin and Sofia also described the pitch deck and how they built a case to pitch for investors. This included a budget, business plan, and a forecast for the coming years. The pitching was then pursued in different ways and some entrepreneurs adjusted it to different investors. Linda especially described how they pitched a completely new concept for one of their investors, where they would create synergies between their businesses and could hence, present the business as a more attractive investment case. Many entrepreneurs started pitching for investors at pitch- or matchmaking events organized by incubators or network organizations. Elin and her co-founders were pitching for many people *"it is tricky, because you have to build your company, at the same time as you are selling it".* This was also experienced by Lena, who said that it was more difficult to go through later investment processes than the first since *"the business is up and running, we have customers who put pressure on us. The workload is normally high, and then I had to work 'full-time' fundraising at the same time as I worked 'full-time' with the day-to-day operations".*

It was highlighted that the pitching has changed in the expansion phase since the entrepreneurs can argue for their business more efficiently since "*we could prove that even if they do not understand the business, we had numbers that spoke for themselves*" (Linda). Some also stated that they have become more transparent in their way of pitching "*you dare to be more transparent than earlier towards people you have never met and say that this is what we have, this is what we do not have, what do you need and what can you give us?*" (Johan), and that they can argue for why they want a specific investor "*now we are also able to say why we want to work with them particularly. 'So, we think that you are smart money, we want to work with you because of this and this and we think you can help us with this and this'. It gets more personal and thought through than that we just approach them to get money*" (Malin).

Many entrepreneurs also expressed that they think that investors base a lot of the investment decision on whether they believe in the team or not. *"I believe it is based mostly on the founders and that you are able to execute on the vision as well"* (Anna). Several entrepreneurs expressed this focus on the team and how they are working to establish trust early on in the relationship. Per said that several investors had "*invested in a PowerPoint and my words, and that they trust me and my team"*. Hanna also said that the investors "*are betting on the people that they believe that we can realize the vision. You enter this type of relationship with trust already from the beginning*".

Emma also talked about the importance of the team for investors and suspected that part of their problem with finding investors is related to this. *"They might see us as fat and happy",* this since both of the founders had earned a lot of money earlier in their careers, owned houses in nice areas in Stockholm and were therefore maybe not seen as *"hungry entrepreneurs who were young and could live on oatmeal for a month or two if necessary".* She also stated the contradiction in this since she sees them as experienced people who have been fighting for their entire careers and learned a lot that they can use for succeeding in their business.

Gustav also highlighted the importance of experience in that he and his co-founder have had the chance to prove themselves as entrepreneurs through their earlier companies as well as during the first years of running their current business, which he believed is making it easier to raise money now. *"It is about what history we have, so we could prove that we had done something previously and that we are able to handle external money in a good way. [...] It makes it a lot easier when you are fundraising, if you can show this kind of history [...] that you have followed your goals".* Furthermore, Gustav mentioned that when his company was about to get an investment from a VC-firm, they evaluated the founding team through extensive IQ and EQ tests to see how he and his co-founder complemented each other and also to make sure that they were "*at least fairly intelligent*".

4.2.3 Valuation & negotiation

Many respondents described the valuation as difficult since it is hard to put a value on the company and often the investors and the entrepreneurs both value the company differently and also have different agendas with the valuation. One entrepreneur said that "*it is super difficult to set a valuation [...] none of the valuations will even be close to a reality*" (Erik). When negotiating with investors Lars said that they focused on valuation and the company's strategy. The stakeholder management and contract development is one of the more time consuming parts of the investment process according to Anders; *"in the three months from term sheet to contract, you have to get 35 stakeholders to agree on the 120-130 pages of the contract. Every detail [...] if there is anything you do not agree on, there is no investment round".* The contract and shareholder agreement were also described as the main controlling mechanisms and Karin said that there is "*a lot of contract development so they can protect themselves so we for example do not start the business, take the money and disappear*". One respondent also described that their shareholder agreement contained information about veto power regarding decisions that exceeds a certain financial threshold.

Some also mentioned that the negotiation can differ depending on the type of investor, since for example *"business angels do not care as much about ownership percentage as they do about valuation, while for VC it is the other way around; ownership percentage is more important than the valuation"* (Peter) and that this could cause the entrepreneurs to prefer one type of investor. Eva also stated that in one of their later rounds, where one of the investors was a bigger company's investment branch, the process took a long time and was complicated; *"they were going through many different investment committees and instances, where it was reviewed in a very detailed way".*

Compared to previous rounds some of the entrepreneurs have now become more decisive in their way of negotiating and how they organize the investment rounds. Ida said *"in the beginning we were open for anything at any time, we could go for investment meetings all the time. Now we limit ourselves to three months, and then we close the rounds".* Elin also described how they choose a date for closing the round, and uses that in their negotiation *"if you do not invest now you will have to wait for the next round, where our valuation will be much higher and you will get a lower stake. That will affect the negotiation".* Malin further described the fact that when you already have covered big parts of the round it usually gets easier to cover up the last part. *"It is like any kind of sales; it is based mostly on feeling. There is an element of fear of missing out, so it is always easier to get money when you have covered maybe 80% of your round, and they see that it is close to closing. We oversubscribed our round during the last week after working on it for 6 months".* This view is confirmed by Karl, *"in the beginning it is really difficult and then when you have one or two investors, you will find many more. They do not want to invest alone, they are herding".*

Many respondents described the importance of the negotiation stage and Linda highlighted that it is important to not accept a valuation that is too low since "*we do not want to be too diluted*". Furthermore, she said *"I believe many entrepreneurs accept a too low valuation in the early stages. One reason [that we had a hard time finding funding] might have been that we did not want to accept a too low valuation, so we stuck to what we thought the value should be".* On the other hand, Lars believed they could have got a higher valuation *"then we would have got other kinds of investors, we would have owned way less of the company ourselves. That is just another path you can take".* In the same way, Gustav said that *"if you take in a VC with a high valuation, and they want to have a return of five times the money in around 3-4 years. Then that means that you have to make sure that the company can achieve this valuation. That is nothing you just do; it is not that simple. So that creates a lock in where you cannot get out if you want to".*

Some entrepreneurs described a valuation conflict, especially between current investors and the founders. Nils described how they have asked existing investors to protect their stake in the company in future rounds, where different agendas have appeared. "*The founders want to drive up the valuation and the existing investors want the opposite. They do not want a high valuation until they are doing their exit".* To solve the problem of valuation they have looked at valuations of similar companies, and the multiples used on the market. *"Every time we have said that it is worth for example 200 million SEK, and the investors have said that it is not worth more than 80 million. So, we have said that 'let us go out to the market and try to sell it at our valuation. If it appears to be 80 million, we will go for that. But if we can get 200 or 180, then let us prove that'".* Lars also described similar conflicts when doing internal rounds, where previous investors invest again. *"The founders always want to sell as little as possible of the company, they want a high valuation. The investors might on the other hand feel like they did not get as much as they were promised in previous investments, in accordance with the 'perfect world' that you illustrate in a business plan. So, they want a lower valuation or a bigger stake since they are now taking a bigger risk. At the same time, we are all in the same boat and want the company to succeed".*

The negotiation was also described by some as important in seeing if the entrepreneur-investor fit is good. Sara said that *"it did not feel like a good person to have on board that early, he had a lot of opinions in the negotiation about the valuation, we were very far apart from each other"* and Hanna said that "*if you meet someone that starts to bargain about the price [...] it does not feel right, you can get money from somewhere else*". Overall, the entrepreneur-investor relationship was emphasised by many respondents as an important criterion for choosing investors and Nils even described it as "*more important than the valuation or the amount of money*". Some entrepreneurs also explained how valuation and negotiation is important for establishing a good way of working together. Lars said that *"good investors should know that they are taking away too much of an incentive from the entrepreneur if they are lowering the valuation too much".* Malin also described how negotiations can be very tough, where the investor is trying to strike a bargain; *"be careful, because if you are in a liquidity crisis and have liquidity for a month, then the negotiation gets tough. And suddenly you can find yourself in a situation where someone is negotiating down the price so much from the initial, reasonable, valuation - and you go into an agreement where you from the start feel super disappointed. That is not the best way to start a collaboration with someone, that you feel like they fooled you".*

4.3 Time After Interaction

4.3.1 Establishing consensus

When the investment has been made, the entrepreneurs mentioned that managing the established entrepreneur-investor relationships is a critical and time-consuming part of their jobs. They also described that, the main focus in the time after interaction is to continuously maintain the relationship to make it valuable either for future investments or for utilization of other resources than only financials.

One thing highlighted as important for maintaining a good relationship and collaboration was that the investors and the entrepreneur had the same view of the business and its future strategy and goals "*you* *need good investors [...], and it is super important that you have consensus*" (Erik). Malin further emphasised this "*often the ones with an understanding of the business are much calmer and easier to work with compared to someone who goes crazy because they do not understand*". Several entrepreneurs mentioned that this could be because when the investors had better insights into the business, they had a better understanding of why certain actions were taken. This was also described as facilitating the utilization of the investors' knowledge and experience. For some, a few investors took an operative role in the company, but for the majority, the role of the investors was mainly advisory, "*all investors we take in should somehow be able to help us brainstorm*" (Johan). Many of the entrepreneurs also said that they want investors who complement each other "*we have different contacts for different areas. For example, we have one that knows logistics and one that is good at connecting us with other people*" (Sofia). It was also described that because of this, it is important to maintain the relationships for both current and future needs, since "*some of them might not be relevant right now, but it will probably progress over the years*" (Maria).

Erik also described that for some investors it is the access to their networks that is most relevant. This was highlighted as crucial since their current investors' networks were described as one of the best ways to reach new, relevant investors, "*networks are the best key for entrepreneurs when raising capital*" (Anna). It was also considered important for future rounds that the current investors reinvest, since "*if the current investors choose to reinvest, that is a super strong message*" (Karl). If they choose to not reinvest, this could instead indicate that they do not believe in the business and Nils said that "*the process actually gets very difficult when current investors choose not to reinvest [...] then people will ask why they do not reinvest since they have better insight*". The reinvestment, but also the experience and reputation of the current investors was something that the entrepreneurs said that they use as a marketing mechanism to attract potential future investors. Lena described that highlighting current investors could create trust, however she also said that the good reputation and recognizability of investors could scare off some potential investors; "*I believe that if you are an investor you want to feel like you are important to the company [...] if you feel like there are others who you see as 'more important' than yourself, then maybe you are not as excited anymore and think 'who am I compared to [famous investor]'".*

The entrepreneurs further described that the work of maintaining the relationships differs depending on the type of investors, since they perceive them to have different requirements regarding control. It was explained as easier to establish trust and mutual understanding with the business angels, while the VCs were described to demand more control over the company. The control mechanisms mentioned were primarily formal, but some also mentioned that they feel that the investors are practicing some informal control by giving a lot of input and trying to promote their ideas. Moreover, Johan mentioned that "*some investors get their close friends to also invest in the next round, so in that way they might also get more control*". A higher level of control was emphasised as something that could make decisions and actions more inefficient since more control leads to more input to take into consideration. Linda described that "*we had to go through many instances, it was pretty slow at [industrial investor]. A CEO needs to approve, which goes to a board, which goes to some other organ. So, it took a very long time and was very bureaucratic*". Therefore, having investors that practice a low degree of control was mentioned to sometimes be more important than getting access to resources and support. The investors' exercised control was further emphasised as something that could *"kill the entrepreneurial spirit"* (Peter).

4.3.2 Involvement of investors

To establish aligned views and understanding, many entrepreneurs said that it was important to make investors feel involved in the business by keeping them in the loop. One important way mentioned for doing this was having continuous communication with the investors. The communication was carried out in formal ways through board meetings, reports, newsletters or investor days but was also described as more informal through spontaneous meetings, calls or emails when there is a need for it, "*at the moment we call each other almost every day, and there are no restrictions with times or weekends or so*" (Johan). The efforts to make the investors feel involved and listened to was perceived by the entrepreneurs to lower the investors' control since "*the more involved investors trust me [...] they trust that everything goes as planned*" (Malin).

It was highlighted as especially important in the communication to be transparent and honest. Lena therefore described that if they do not meet a goal, or make a decision that the investors do not like the most important thing was to have thorough explanations of the underlying reasoning. Many also mentioned that this was extra critical in the expansion phase, since you have a track record that shows if and how you have delivered on the plans "*now it is more that you show your plans, products and sales, and then I think people get more confident in the company"* (Karl). It was also expressed that in this phase they experienced more pressure from investors to provide more insight in the business by presenting thoughtful plans and goals for the business as well as what the invested money will be used for. Emma described the difficulties of this pressure and said that "*it is important to show that you can deliver on the plans, [...] which makes it difficult because before we get the money we cannot deliver*". The increased demands from investors was also described as making the investment process in the expansion phase more difficult compared to earlier phases and that *"you are getting better; the strategy is better. But you grow out of your network and the challenges are growing. So, I would say that it gets more difficult, you are getting better at raising money, but it gets harder"* (Anders). But it was also described that they have more experience now and can get help from current investors to facilitate the process which makes it more effective and standardized compared to earlier when "*we did not have any experience at all of raising capital, so our process in the beginning was very amateurish*" (Peter).

The utilization of investors' competences was also described as affected by the level of involvement. Lars said that "*it is important that they do not get too distanced from the business, the more up to date they are, the better advice they can give*" and Anna mentioned that her investors had asked her to keep them in the loop as much as possible to facilitate the help they could provide. However, Lars also described that "*it is not that much the advice that you want, you want their support so they do not show up later and ask what we are doing, you want to anchor the reasoning with them*". This was further highlighted by the majority of the respondents that described that even though they value the investors' input they still perceive themselves to have the best knowledge of the company and therefore prefer to ask for help when needed rather than getting continuous feedback. Therefore, they said that they do not always follow the investors advice, but that it is still important to ensure that the investor feel listened to; "*it is a bit of a strategy, you say that it is a very good idea and you will look into it so that they feel listened to, but then you do not*" (Per). One reason for not utilizing the input was described by Elin as a fear that the investors do not have enough understanding of the business; "*there are a lot of people that have experience and want to convey it, but in reality they have no idea what they are talking about [...] in the end it is you that stands there and has done everything they told you to do but it does not work. And then there is no one there to take responsibility for it*" and that, therefore, "*you have to be sceptical as an entrepreneur about what you are doing, so you should not listen to much*".

Furthermore, some respondents said that the reason for not wanting input was that it could lead to disagreement. One entrepreneur mentioned that the disagreement could be positive since it could lead to new insights about the business, but the majority said that they wanted to avoid these types of discussions and that therefore the investors “*should respect that I am the CEO so they will not be able to decide what I will do”* (Per). The respondents also mentioned that in reality, the investors cannot practice that much control over the business since, in the end, it is still them as entrepreneurs who will make the decisions. This was for many due to the founders still owning the majority of the shares which was expressed as an active choice to keep the control since “*we are majority owners, so in the end we have all the decision power*” (Karin).

5. Analysis

In this section the empirical findings are analysed through the lens of the theoretical framework. The outline of the analysis follows a similar structure as the empirical findings. The three stages are analysed separately, with a short conclusion for each stage. In the end a conclusion of the full analysis is presented.

5.1 Time Prior to Interaction

5.1.1 Achieving investment readiness

The entrepreneurs prepare for the interaction with investors through analysing their business. Several entrepreneurs have analysed where the business needs support or built a proof of concept to make the company ready for investments. These are ways to build the factor of signalling commitment and consistency in Shepherd and Zacharakis model of confidence in partner co-operation (2001). They signal that they are committed to the company and to the relationship they are about to build with the investors. They also do this to signal to investors that they are trustworthy people, who will act in the benefit of the company rather than for themselves. Furthermore, the entrepreneurs work to obtain a good fit through evaluating what kind of investors that would be suitable for their investment case. This is a way to build the prerequisites needed to later build a genuine interest and belief in the relationship. Hence, the entrepreneurs' preparations can be argued to function as a foundation for achieving a fair and just relationship where both parties can benefit.

5.1.2 Choosing a source of funding

The entrepreneurs indicated the severe importance of choosing the right investor for their company. This is based on different criteria; they strive to achieve a good fit where they will be able to co-operate with each other, and they wish to benefit from the investors' competencies, networks and experiences. This is aligning with the theoretical stance of how a good fit between entrepreneur and investor is creating trust, and by extension creates partner co-operation (Shepherd & Zacharakis 2001). Furthermore, Shepherd and Zacharakis (2001) points out that obtaining a good fit in the initial stages and having investors with whom you already share similar beliefs, values and internalized views, will establish trust faster. It also enables the investor to contribute to the business in a better way with knowledge and experience.

In the empirical findings there is also a slight difference between the entrepreneurs view of the importance of smart money. Some entrepreneurs did point out that the most important aspect is to just get capital so that they can realize their plans for the business. They have also stated how they have put different weight on the 'smartness' of their investments in different phases. Specifically, many have said that in the expansion phase, they have put more time into making shortlists of potential investors, and hence, tried to obtain a good fit in accordance with the model of confidence in partner co-operation (Shepherd & Zacharakis 2001). The objective with this fit is not to build trust, but to be able to utilize the investors when the relationship is established. However, the fit between the business and the investor can still be of importance in the trust-building process that is going on in parallel, as it still provides a foundation for co-operative behaviour. The entrepreneurs are trying to obtain this fit, and find suitable investors based on their previous experience from working with investors and their growing networks within the investor sphere. The expansion phase also comes with fewer active investors, and due to the increasing amount of money needed in each investment round it requires more of the entrepreneur with regards to building a trustworthy case to obtain investments. Despite this contradiction, where some state that they just want an investor who can invest a lot of capital, all entrepreneurs also described the importance of smart money. These conflicting views can be compared to how some entrepreneurs point out how they need to have different kinds of relationships with different investors. For example, Anna points out that they are spending more time on some investors *"we do not want everyone to be active, because we will not be able to manage that"*, and that with some of their investors they signed the deal in fifteen minutes and have not had much contact since. The importance has hence been to achieve a balance, where some investors are working closer with the entrepreneurs, and these investors need to be 'smart'. On the other hand, it is of less importance that the investors who are less involved in the business can contribute with knowledge and experience. The entrepreneurs have expressed that the main reason is that it would be too time consuming to have all investors being highly active in the business. However, it can also be interpreted as a way of ensuring that there are less parties exercising control over the entrepreneur and the business.

Apart from choosing what kind of person they want as an investor, and what kind of contribution they want from the investors, some entrepreneurs also avoided some sources of funding. In particular, some entrepreneurs pointed out that it would be too time consuming to take in a VC-firm as an investor, and that this kind of investor would come with an added layer of control. Based on Shepherd and Zacharakis (2001), added layers of control is a consequence from a lower level of trust and a notion that the entrepreneur would act opportunistically to benefit themselves rather than the other shareholders. Based on literature (Van Osnabrugge & Robinson 2000), VCs tend to invest and then monitor their investments from a distance rather than actively participate in running the business. However, the empirical findings show that some entrepreneurs are working closer with their VC investors than with their business angels. These actions are by all means representing a certain level of control; however, they are also closely connected to the factors of building trust as well as confidence in co-operative behaviour according to Shepherd and Zacharakis' (2001) model. This through increasing the collaboration between the parties where they get to signal commitment and be in close contact with each other.

5.1.3 Conclusion - time prior to interaction

In the time prior to interaction with potential investors, the entrepreneurs are conducting preparatory work, and are spending a considerable amount of time on activities that will simplify the process in later stages. From Shepherd and Zacharakis' (2001) model of confidence in partner co-operation the activities in this stage are primarily connected to the factors of building trust through signalling commitment and ensuring a good fit between the investor and the entrepreneurial team (see figure 5). They show the importance of both enabling a collaborative relationship in the later stages and the importance of getting the 'right' investor, specifically they point out that they want to be able to benefit from their investors' knowledge, experience, and network in later stages.

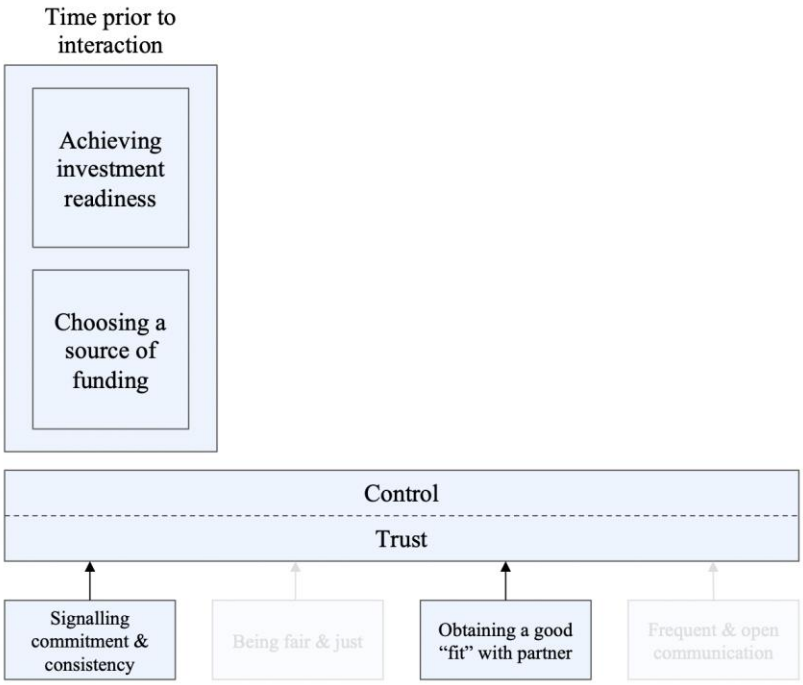

Figure 5. Time prior to interaction

5.2 The Interaction

5.2.1 Initiation of relationship

Following the work the entrepreneurs have done in the time prior to the interaction with potential investors, they can in this stage signal commitment and consistency through presenting the preparations done. Apart from increasing the level of trust, this signalling of their preparation is in itself increasing the probability of achieving an investment (Chen et al. 2009).

Shepherd and Zacharakis (2001) state that a relationship that is initiated through a common network facilitates the process of obtaining a good fit. Hence, the fact that the entrepreneurs reach out to investors within their own network is not only a tactic that simplifies the search for funding - it also strengthens the trust building. These established networks make it more probable that the investors can contribute to the businesses with competence and experience without there being a conflict. However, the entrepreneurs also indicate that it is good if the investor contributes with a network that they can later use, to expand the company's total network. Hence, there is a balance where you on one hand want to expand the network maximally through choosing investors with completely different networks than the entrepreneur, and on the other hand the entrepreneur wishes to initiate relationships with investors who share their beliefs and values, which is easiest found in someone who shares your network (Shepherd & Zacharakis 2001). In extension, many entrepreneurs are exploiting the existing investor networks to accelerate and facilitate future investment rounds through using their current investors to reach out to new potential investors. They are through this ensuring the good fit between the investors, as well as between the entrepreneur and the new investors, which becomes more difficult for each round due to the number of parties involved.

The empirical findings show that the willingness to contact potential investors through a common contact is strong, and that they are willing to create network ties where none exists. This way of avoiding cold calling is used by the entrepreneurs to show trustworthiness in the relationship to others and get someone else to vouch for their commitment. Furthermore, it shows commitment directly through the work they do to achieve this contact. Anders states that you can, through finding an introduction, signal that you believe that it will be a good fit. The entrepreneurs specifically use their network of other entrepreneurs to achieve this, which is part of the value for those who have been related to incubators or entrepreneurship programs. Furthermore, some entrepreneurs state that they are discussing potential investors with other entrepreneurs and can hence evaluate whether a certain investor would be a good fit for them or not.

Another empirical finding is that the entrepreneurs are knowingly approaching investors who are not investing in their corresponding phase. This even though they also state that it is important for the entrepreneur-investor fit that they are in the same phase, as it otherwise will lead to a lack of focus due to the extra work to adapt to the investor. This tactic is a way of building a relationship in advance, which might be particularly important in the expansion phase since many companies are attempting investment rounds that are much larger than earlier, which leads to a new set of investors to approach. They are through this communication building up a relationship, which will make it possible for both parties to assess the potential fit in advance. It also allows for frequent communication and an openness. The entrepreneurs get the chance to get feedback from investors whom they do not want to impress right now, but rather want to show improvements the next time they approach the same investor. This creates a unique situation where the openness is both making the investor see the entrepreneur as more trustworthy and gives the entrepreneur the chance to know in advance what to work on until the next investment round and hence show commitment.

5.2.2 Pitch

Linda declared how they have adjusted their way of pitching as well as the company's proposal to their larger investors. Making adjustments is a typical way to build trust through strengthening the entrepreneur-investor fit (Shepherd & Zacharakis 2001). They are showing that they are striving to be collaborative through creating a case where both parties are benefiting from working together. This is especially clear in Linda's case due to the willingness to adjust their business to fit this specific investor, however, the use of pitch material to signal commitment is used by all entrepreneurs. They are focusing on presenting their business plans, financial expectations, forecasts and strategic initiatives that will be executed with the capital raised. These are all measures that, according to Shepherd and Zacharakis (2001) are important signals to be seen as committed and trustworthy. This is strengthened in the expansion phase, where several entrepreneurs state that their sales numbers speak for themselves and makes it both more transparent and convincing.

Generally, the entrepreneurs state that this stage takes considerable time, which also helps them to expand their networks. It is creating a loop, where the entrepreneurs are building for future contacts with investors in their current relationship building. One could argue that the time spent on networking could be reduced through spending more time in the previous stages, where some entrepreneurs are working to make a qualitative screening before contacting investors. The time aspect presents an even bigger problem in the expansion phase, as several entrepreneurs point out that it is difficult to spend time on the financing of the company at the same time as they are building the company and running the daily operations. Some entrepreneurs even stated that, partly due to this, they have started to do a more strict screening of whom to pitch to, and are more transparent and personal in their pitch to achieve a self-sanitation where investors who would not be a good fit will not go further into the discussion with them.

The entrepreneurs are further pushing their past records of achievement to illustrate that they have the right characteristics and knowledge to run the business to success. This is especially important as many of them are expressing that the team is of outermost importance for investors, which is supported by literature (Paul et al. 2007a; Rasmussen & Sørheim 2012; Balachandra et al. 2013). That Gustav and his co-founder were going through IQ and EQ tests is both an indication that their investors considered the team to be of importance, and a way for their investors to practice control already in this early stage of the relationship. Through testing the founders, they get the feeling of being accepted by the investor, which could strengthen their confidence in the relationship. However, the testing itself could also indicate that the entrepreneurs are replaceable for people with higher IQ and EQ if necessary, which can affect the trust in the relationship.

Furthermore, the entrepreneurs are adding a sense of fairness to the relationship through showing themselves as honest when they are presenting how they in their previous or in their current businesses can handle the invested money to grow the company. They are also pointing out their experience as a signal, hoping that past success will increase the probability for future success. According to Shepherd and Zacharakis (2001), this kind of signalling is an important part of showing commitment and giving up a high paying job should be a good example. However, Emma suggests that this is part of why they are not receiving financing since the investors might see them as ‘fat and happy’. Due to the design of the study, and the absence of the investors’ view, this statement cannot be confirmed. Therefore, it could be argued that this is a rationalization to explain why they did not get the desired investment. However, it is also reasonable to believe that the signal of past experience could not overweigh the perceived risk that the entrepreneurs, due to their lifestyle, were not able to run the business cheap enough. Anders also points out the difference in different stages of life and the personal sacrifice of not having a salary, which can be reasonable for some people and not for others.

5.2.3 Valuation & negotiation

According to Shepherd and Zacharakis (2001), the valuation is one critical stage when considering the fairness in the entrepreneur-investor relationship which the analysis of the empirical findings supports. Similar to what previous literature states (White & Dumay 2017; Haines et al. 2003) the entrepreneurs consider this to be a very difficult stage, and many entrepreneurs are stating that the valuations will not be close to the real value of the company. Furthermore, the negotiation stage is used by the entrepreneurs to, as a last gatekeeper, ensure the fit with the investor before entering into the relationship. Both Hanna and Sara described how they have been in situations where they withdrew from investors due to the tone in the negotiation. Apart from showing that the parties were not sharing beliefs, values and views, this also shows the sense of fairness in agreeing on the term sheets, stares and valuation. This also connects to what Malin says about how you do not want to enter into a relationship and a collaboration where one party feels like the other took advantage of the situation and bargained down the price to unreasonable levels.

That some entrepreneurs say that the valuation cannot be proven or backed up can be seen as a sign that it is not fair and just. However, taking in the time that most entrepreneurs are spending in this stage, ensuring that everyone is on board with all the details, is increasing the fairness in the deals. Furthermore, since the risk lies on the investor, they are building in control in the contract development through for example ensuring that the entrepreneur will not leave, that they have a veto in specific questions, or that the money is spent on a certain project. Additionally, some entrepreneurs are using the market to test the valuation that they consider to be correct, which is another way of ensuring the sense of fairness.

Furthermore, some entrepreneurs are prompting for that you should not accept a too low valuation to avoid being diluted, while some entrepreneurs are seeing it as partly positive to have a low valuation. This both to be able to achieve the highly set objectives that some investors have, and to be able to take in the kind of investors that they want to work with. Furthermore, Maria states that through not taking in big investment rounds you can, instead of giving away big parts of your company now, prove yourself in between rounds and get a better valuation until the next time you raise money. These are ways for the entrepreneurs to take control over the relationship and set the standards for the agreement. It is also a way to handle the future control that they expect to have from investors, with regards to increasing the future valuation.

Additionally, the conflicts that arise between current investors and entrepreneurs with regards to driving up or down the valuation - where Lars states that investors might feel like they did not get what they were promised in the 'perfect world' illustrated in the business plan, is a case for the fairness of the valuation. It is then necessary to consider whether it is more fair to be honest with the limitations of the business and accept a lower valuation, or raising as much money as possible and through that increasing the probability that they can create the 'perfect world' from the business plan.

5.2.4 Conclusion - the interaction

During the interaction the entrepreneurs are building on the foundation they started in the time prior to interaction, to create trust and present themselves as trustworthy. All four factors from Shepherd and Zacharakis model of confidence in partner co-operation (2001) are visible in this stage (see figure 6). However, similar to the time prior to interaction the main focus is identified in how the entrepreneurs are signalling commitment and consistency, as well as obtaining a good fit with the investors they choose. The factor of being fair and just is specifically important in the valuation and negotiation stage, to build a foundation for collaboration in the relationship. The factor of frequent and open communication is present but is not central in this stage.

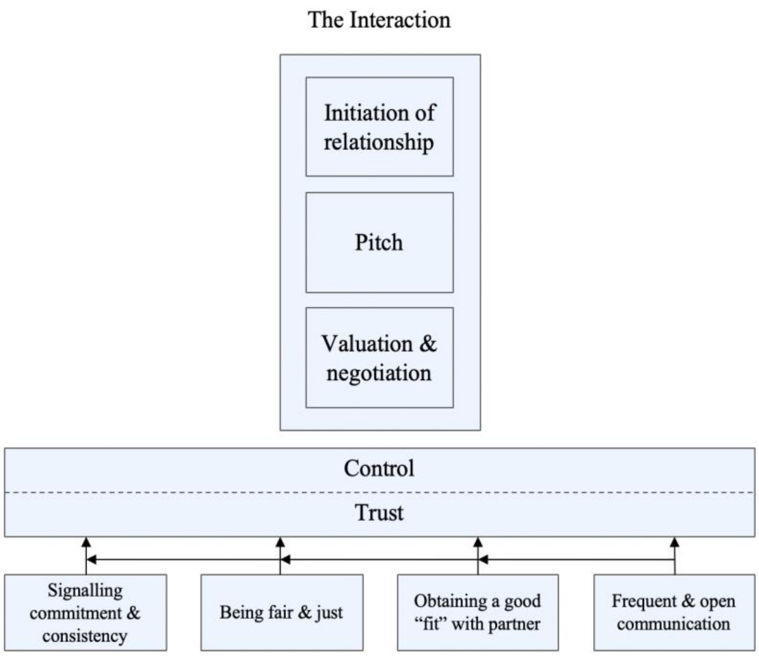

Figure 6. The interaction

5.3 Time After Interaction

5.3.1 Establishing consensus

The entrepreneurs described that after the interaction they spend a lot of time on maintaining the investor relationships and it is very important for them to continuously build a sense of trust and co-operation between them and their investors, which is supported by previous research in the field (Steier 2001). According to Shepherd and Zacharakis (2001) higher trust can lead to lower control and the empirical findings support this since one of the underlying reasons for the entrepreneurs' continuous work to establish and maintain trust was to lower the investors' control.

Research also highlights that establishing common goals and views of the business is important in the entrepreneur-investor relationship (Shepherd & Zacharakis 2001; Kaiser et al. 2007), which was also emphasised by the entrepreneurs. This is important since, according to the principal-agent theory, mutual goals and views lowers the information asymmetry between the parties (Mitnick 1975) this was also highlighted as desirable by the entrepreneurs who described that it is easier to work with investors who understand the business and have similar views as the entrepreneur. Furthermore, the entrepreneurs described that when their views were aligned, they experienced a relationship based more on trust. This is related to what Shepherd and Zacharakis (2001) describes, in that similar values, beliefs and internalized views is an important factor in obtaining a good fit. Another important part in building trust is that the behaviour of the entrepreneurs is consistent and characterized by reliability and predictability (Shepherd & Zacharakis 2001) and the entrepreneurs described that when the entrepreneur-investor fit was good, they perceived that the investors experienced the entrepreneurs to be more predictable and reliable. This since their views were already aligned and they had a greater understanding of the plans and hence the actions of the entrepreneurs.

Another empirical finding was that the entrepreneurs emphasise the importance of building trust for future needs, rather than current needs. This was partly with regards to future needs of experience and knowledge, but also to facilitate future investment rounds. Therefore, it was considered important to continuously maintain a good relationship with the investors since they described that they perceived the investors to be more willing to help the entrepreneurs when the relationship between them was good. Furthermore, providing evidence of trustworthiness in other investor relationships is a signal of commitment and consistency (Shepherd & Zacharakis 2001) and the empirical findings shows that the entrepreneurs utilizes this and tries to emphasise their strong relationships with current investors to attract future potential investors. It was mentioned that this signalling could be more passive when the investors choose to reinvest, thereby signalling that they believe in the business and the entrepreneur. But they also said that they actively use their current investors as promotion to potential new investors to provide evidence of trustworthiness in those relationships. However, in contrast to the theoretical framework, the empirical findings also show that highlighting current investors is not always positive since it can scare off potential investors and make them reluctant to invest.

5.3.2 Involvement of investors

The empirical findings show that one important thing for the entrepreneurs was to ensure that the investors felt involved, since they then perceived them to exercise less control. One of the most important ways for establishing a sense of involvement was to have honest and frequent communication. The communication, together with the factor of being fair and just, creates trust through making sure the investor feels that the entrepreneur is reliable (Shepherd & Zacharakis 2001). The honesty was, in line with the theoretical framework, perceived to contribute a lot to the trust building and therefore the entrepreneurs also stated that even in bad times it was important to not "*polish the numbers*" (Per) to signal that they do not hide anything from the investors.

Moreover, it was described as important to always be able to give adequate explanations and arguments, which is an important pillar in building trust (Shepherd & Zacharakis 2001). This was considered especially important in the expansion phase, since they now have a track record, but the numbers might still not be positive, or the initial goals and plans might not have been met. Thus, to not damage the trust, it was described as important to provide the investors with a reassuring reasoning for why things might not have turned out as expected. This also led to an increased pressure from investors to show what the money will be used for and what it will generate. This gives a perception of consistent behaviour by the entrepreneurs, and if not followed grounded explanations was described as important to maintain the trust in the relationship. However, some of the entrepreneurs also mentioned that they sometimes present the negative information in a more exciting way which goes against the factor of being fair and just to build trust in the model of confidence in partner co-operation (Shepherd & Zacharakis 2001).

Despite the importance of keeping the investors involved in the business through open and frequent communication and being fair and just (Shepherd & Zacharakis 2001), many entrepreneurs described that it was more important for them that the investors feel involved, than that they actually are involved. One reason mentioned for this was that they wanted to ensure that the investors knew what was happening in the business to reduce the risk of them questioning the entrepreneur later, but at the same time lower the continuous feedback, input and control from the investors. It was also mentioned that when the investors exercised a high degree of control, it could affect the business negatively since more input was needed to be taken into consideration which could make the business slow and ineffective. Furthermore, the investors' exercised control will have an impact on the actions of the entrepreneurs, while trust will not (Das & Teng 1998), and therefore, the investors' involvement and control can be perceived as negative according to previous research (Kaiser et al. 2007). The empirical findings strongly support this and shows that, for all the entrepreneurs, trust was preferred over control and that, therefore, the investors should not intervene too much. However, much of the formal control was described to be established in earlier stages and in this stage, they said that it was mostly the informal control that they could affect through the trust building.

Even though they said that they value the access to knowledge and experience from the investors, and put a lot of effort into obtaining a good fit with them both prior to, during and after the interaction, they also said that they preferred to be the ones reaching out for help when necessary. Previous research has emphasised the importance of utilizing the investor's knowledge and experience for the future success of the company (Huang & Knight 2017; Cumming 2012), but the empirical findings indicates that the entrepreneurs do not utilize this to a full extent. The reason for this was that the entrepreneurs perceived themselves to have the best knowledge about the business and therefore, they preferred not having too much input from investors to take into consideration. They also described that input and advice from the investors could lead to opposing opinions. One entrepreneur described this as beneficial for the business since the following discussion could lead to improvements that they had not thought of themselves, but the majority said that in these discussions it is important for them that the investors respect that they are the ones that know the business best and that runs it. Thus, they perceived it to be important that they as entrepreneurs and founders could make the final decisions and said that they wanted to keep the control over the business for as long as possible since, as long as they own the majority of the shares they perceived the investors to have no real power over the business. Another reason described for not utilizing the investors competence fully was that they did not trust everything the investors said, even if they had extensive knowledge in the field. Furthermore, many of the entrepreneurs also described that sometimes when they get unwanted input, they listen to it and tell the investor that they will take the input into consideration, while in the end, they never do. This implies that while it is still important for them that the investors perceive them to show interest in their input, this is not always the case in reality.

5.3.3 Conclusion – time after interaction

The time after interaction contains a lot of trust building to maintain the relationships. All four factors in the model of confidence in partner co-operation are used to build trust (see figure 7) and one of the strongest incentives for building trust was to lower the exercised control by the investors, since this is perceived as something intervening and negative.

However, one important finding is that the trust building in this stage is often mainly for facilitating the entrepreneurs' future needs, such as access to network, getting reinvestments and signalling trustworthiness to potential future investors. Furthermore, the analysis implies that it is more important for the entrepreneurs that their current investors feel that they are involved in and can contribute to the business, than that they actually are contributing. Therefore, they use various techniques to ensure that the investors feel involved and listened to, while in reality the entrepreneurs are often not taking their input into consideration to the extent that they could. This indicates that despite the effort throughout the stages in the investment process to find the right investor and establish and maintain a good relationship characterized by trust, they actually are not utilizing their investors as much as they could.

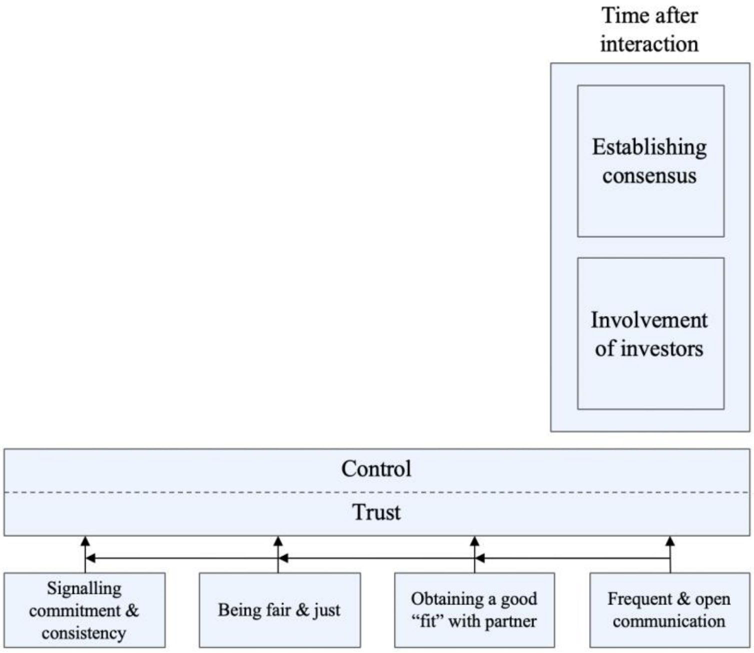

Figure 7. Time after interaction

5.4 Conclusion of Analysis

To summarize the analysis, the entrepreneurial perspective on the investment process is highly characterized by building and maintaining relationships. The entrepreneurs express that they were surprised by how time consuming the investment process is. They started their companies and expected that the focus would be on building the business, while tremendous time is spent on preparing for investor meetings, pitching, negotiating and maintaining the investor relationship. In the start-up phase, many entrepreneurs had a high degree of entrepreneurial freedom and could with their co-founders make all the strategic and operative decisions themselves. As the companies are growing and they have gone into the expansion phase, a higher need for structure is introduced, and there is a greater dependence on external resources. The entrepreneurs have built their expertise around starting up the company, and now the need for a wide array of competencies is growing with the company. This creates a dependence on investors, and the relationships with these are therefore taking a central role in the future development of the company. The entrepreneurs strongly highlight the will to work with the right investors, who can contribute with their competences. They want to achieve co-operative behaviour and have the trust and confidence that both parties will act according to this. At the same time, the investors have to control their holdings, and hence, the entrepreneurs have to handle the investors' control through building trust. Many entrepreneurs express a focus on retaining the entrepreneurial freedom, and while they do want to build the company through increased structure and involvement of stakeholders, they still feel an unwillingness to let go of the freedom and decision power. Furthermore, the relationships that the entrepreneurs are handling are many due to the extensive capital needed for development in this phase.

Because of the strong focus on relationships, the entrepreneurs are entering into the investment process with the focus of finding the right partner for this relationship, with competences that are matching the need of the business. This work requires a tremendous amount of time and effort to succeed. The contradiction is that, when they have established these relationships with investors, not as much focus is spent on utilizing the relationships. The focus is instead to maintain the entrepreneurial freedom through keeping the decision-making power, rather than letting investors influence the business too much. They are attempting to make the investors feel like they are involved and can contribute through close communication, and a large focus is on facilitating future investment rounds. Furthermore, the entrepreneurs still feel like they have the best knowledge about the business, which is the main reason why they are not utilizing the investors to the maximum, despite the time that they have spent on finding the right investor.

The investment process closely resembles what was described in the literature review. Nevertheless, one major thing that must be highlighted is the iterative loops between the stages. The findings also display a close connection between the time after interaction and the time prior to interaction in future investment rounds. Furthermore, the focus in the trust building process is shifting from mainly focusing on obtaining a good fit and partly signalling commitment to involve all four factors, with a concentration on the communication and signalling commitment and consistency. The factor of being fair and just is mainly active in the valuation process but is consistently underlying in the process with the importance of not violating it.

6. Discussion & Conclusion

This section starts with addressing the research question. Then, the theoretical contribution and empirical implications are presented and elaborated. Lastly, the limitations of the study are discussed and suggestions for future studies are presented.

6.1 Addressing the Research Question

The purpose of the study was to investigate how entrepreneurs with growth ambitions perceive the investment process in the expansion phase. To fulfil this, the research question set to guide the study was:

What is the entrepreneur's perspective on the process of financing their high-growth ventures in the expansion phase?

By establishing a synthesized theoretical framework based on previous literature and the model of confidence in partner co-operation (Shepherd & Zacharakis 2001), the entrepreneur's perspective on the investment process has been identified and the research question can be considered answered. The analysis showed that from the entrepreneurial perspective managing the relationships is a critical part of the investment process. They perceived that in the start-up phase they had a lot of entrepreneurial freedom and could make the decisions on their own. However, now in the expansion phase, where the need for financial capital and competence beyond their own requires them to involve many investors, they find the investment process to be more time consuming and structured. In this phase, their perspective is that it is a much bigger focus on building and maintaining the relationships. Another key finding is the ambiguity in the actions of the entrepreneurs throughout the stages in the investment process. While they in earlier stages put a lot of time and effort into finding and establishing relationships with investors with suitable knowledge, experience and competence that they can utilize for building the business, they in the later stage are not fully utilizing this. Instead the primary focus is on building trust to lower the control and involvement of the investors, and to facilitate future investment rounds.

6.2 Theoretical Contribution

The study's findings contribute to existing theory with regards to two identified areas. First, one of the identified research gaps is the lack of comprehensive understanding of the investment process in the expansion phase (Wilson et al. 2018; Mäkäräinen-Suni 2017). The findings show that the investment process is perceived to differ between the start-up phase and the expansion phase, which indicates that it could be of value to further explore the expansion phase to provide a clearer picture and ultimately fill the research gap. Second, scholars have called for more in-depth studies of the entrepreneur's perspective on the investment process, since much of the existing research on this topic is of quantitative nature or from the investor's perspective (Brush et al. 2012; Wright & Stigliani 2012). Therefore, this study presents qualitative data on the perspective of the entrepreneurs to provide a deeper knowledge in the area, showing that their perspective of the investment process and the usage of the trust-building factors differs between the stages which opens up for more in-depth research acknowledging and investigating the differing perceptions to further close the research gap.

6.3 Empirical Implication

The findings of the study contribute to a better understanding of how entrepreneurs are reasoning as they are going through the investment process. This enlightens how there is an incongruence in the time the entrepreneurs spend on finding and establishing relationships and how much they are utilizing these relationships. This specifically with regards to finding investors with knowledge that match the needs of the business, where the entrepreneurs tend not to maximally utilize this knowledge. Through being aware of this matter, active decisions can be made by entrepreneurs with regards to future investment decisions to optimize the time spent on finding the right investor according to how much this investor will be involved in the business. Due to the limited access to information about how to obtain financial resources, which was confirmed by some entrepreneurs participating in this study, the model of the investment process presented in this study can be considered a contribution in guiding new entrepreneurs without knowledge in how an investment process works. Furthermore, this study can be insightful for investors through creating an understanding for how their actions are perceived by the entrepreneurs, as well as how they best can act to enable collaboration in their work.

6.4 Limitations & Future Research

Considering the scope of the study, some limitations have been identified. These limitations could benefit from getting attention from future research. First, considering the purpose of the study, the resulting findings are consequently only from the entrepreneurial perspective. To provide a more holistic view and see how the investors perceive the investment process and the factors of trust and control in the relationship, an interesting area of research could be to investigate perspectives from both sides of the same relationship to see how the investors perceive the same investment process. Second, one of the research gaps this study addresses is the lack of studies regarding businesses in the expansion phase. This results in the findings and conclusion of the study only being applicable to companies in this phase. Therefore, it could be interesting to investigate other phases of the business development as well to see if the conclusions from this study are valid for entrepreneurs with less or more experience of the investment process compared to the entrepreneurs in this study. Third, considering the design of the study, the aim was to go in-depth and study the perceptions of the entrepreneurs, which leads to a limitation of the study since it is not generalizable. Therefore, scholars could utilize this study as a pre-study for conducting quantitative investigations to examine if the result can be generalized. Fourth, a key finding of the study is that they spend much time on finding the right investors and establishing trust in the relationship with them, but then they do not utilize them fully. However, the question regarding whether they should utilize their investors to a larger extent or not goes beyond the scope of this study. One interesting topic for future studies would be to extend the current study and investigate what added value the entrepreneurs could get from utilizing their investors to a larger extent compared to the time and effort they put into the relationships.

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Appendices

Appendix A. Interview Guide

About the entrepreneur and the company

- What does the company do?
- What role do you have at the company?
- What sources of funding have you used?

Process to fund the business

The first time you were raising external capital, tell us about the process.

- Why did you need capital?
- How did you find the investor? Who contacted who?
- How did you prepare for the first meeting?
- What happened after the first meeting? More meetings? Negotiations? Signing?
- Did you talk about the investors' plan to exit?
- Active or passive investor?

What does the process look like when raising capital today? Has it changed since the first time?

- Is it easier or more difficult to get capital now?
- Why have you chosen to do it in the same way this time? / Why did you choose to change the process?
- What source of funding and why?
- How do you find investors?
- How are you preparing for the first meetings? Is this different from the first time?
- How many meetings do you usually have to take? How long does it take?
- Do you think the process will be different the next time?
- How much of your time do you spend on working with the financing of the company?
- How is your role as the entrepreneur changing over time?

Communication with owners

- How are you communicating with potential investors?
- Are all owners active?
- How is the relationship between the owners and the company?
- How are you collaborating?
    - How often do you meet?
    - Are you updating the owners about what is happening in the company?
    - What kind of information are you sharing/not sharing?
    - Are the owners active in decision-making?
- How are you compromising if needed?
- Have you experienced that the owners have requirements on how you are working?
    - Requirements on what the money should be used for?

Have you started other companies before?

- Did you use the same kind of funding then?