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Secondary investors and the enactment of governance under structural constraints

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Abstract: Secondary markets have grown rapidly as a distinct segment of the private equity landscape, providing liquidity in otherwise illiquid settings. From a corporate governance perspective, fund managers in this segment face structural constraints, particularly related to illiquidity and minority ownership, a context that remains largely unexplored in the literature. Drawing on semi-structured interviews with investment managers in this strategy, we examine how governance is conducted under such conditions. Our findings show that secondary investors deviate from existing approaches, instead adopting a purpose-driven and adaptive form of governance shaped by these constraints, thereby extending the corporate governance literature to secondary investors and positioning them between control- and exit-based governance logics.

Keywords: corporate governance, accountability, monitoring & control, venture capital, secondaries, liquidity, informal governance

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1. Introduction

Research on corporate governance in for-profit firms has been predominantly developed through the lens of its most prominent contexts – specifically public institutional investors and private equity, including venture capital. This has, in turn, given rise to two predominant lenses through which corporate governance is understood; namely governance through "voice"- associated with control and active ownership – and governance through "exit," where investors refrain from engaging and instead exert discipline through the credible threat of withdrawing their investment (McNulty & Nordberg, 2016; Hellman, 2005).

This focus is natural given the scale and historical prominence of public equity markets, where institutional investors have become the dominant ownership group, as they own approximately 47% of the 175 trillion overall market capitalization of listed equities (LSEG, 2024; OECD, 2025). These markets are characterized by dispersed ownership and high liquidity, conditions that fundamentally shape how corporate governance is exercised. Literature on these settings has, most importantly, shown to be more motivated to utilize the abundant investment opportunities and liquidity to exit their investment, as opposed to formally engaging in the corporate governance of the firm (Hendry et al., 2006; Hellman, 2005).

In contrast, private markets including private equity and venture capital, operate under markedly different structural conditions. These markets comprise investments in non-listed companies, spanning startups, middle-market companies, distressed opportunities, and public-to-private buyouts (Meuleman et al., 2009). In recent years, the scale of this asset class has grown substantially, with assets under management reaching approximately USD 5.3 trillion in 2023 (S&P Global, 2023). Unlike in listed settings, private markets are typically characterized by concentrated ownership structures and limited liquidity. As a result, corporate governance in these settings is instead typically exercised through control-based mechanisms, including active ownership, board participation, and contractual rights (Bedford & Ditillo, 2022; Metrick & Yasuda, 2011).

However, a central and increasingly salient issue within private markets is that of liquidity. The inherent illiquidity of venture capital and private equity investments has contributed to the rapid growth of secondary markets, which have become an increasingly important component of the broader private capital ecosystem. These markets serve a critical function by enabling liquidity for existing investors without requiring a full exit of the underlying company (Andrieu & Groh, 2021).

Despite their growing importance, academic research on secondary markets remains limited and has primarily focused on market characteristics, transaction structures, pricing mechanisms, and the liquidity function of such transactions (Nadauld et al., 2019; Wang, 2012; Ibrahim, 2012). As a result, the question of how secondary investors shape and influence the corporate governance of underlying portfolio companies remains largely unexplored within the literature.

This segment represents an especially interesting research intersection, not only due to its growing practical relevance, but more so from a theoretical perspective. This stems from the fact that secondary investors operate in a context characterized by illiquidity and minority ownership positions, conditions under which neither the control-oriented logic of private markets nor the exit-based logic of public markets can be readily applied. Consequently, existing corporate governance literature remains insufficient to explain how governance is conducted under such structural constraints. This gap provides the foundation for our research question:

> *How do secondary investors conduct corporate governance under structural constraints such as illiquidity and minority ownership positions?*

To explore the research question, we employed a qualitative, cross-sectional research design based on semi-structured interviews with managers at secondary investment funds. In total, we conducted interviews with seven investors from secondary VC funds and three industry experts, focusing on how corporate governance is exercised in practice. The empirical insights are subsequently analyzed through the lens of an analytical framework developed for this study.

Our findings suggest that, contrary to initial expectations informed by adjacent private market governance and accounting literature, secondary investors place limited emphasis on formal governance and control structures. At the same time, unlike public market investors, they cannot easily rely on "exit" as an alternative.

Instead, our findings suggest that secondary investors adopt what can best be described as an adaptive approach to corporate governance, aimed at mitigating governance risks and securing the prospects of their investments. This approach is shaped not by the ability to exert control, but by the need to operate within pre-existing structural constraints. In practice, this translates into a set of interrelated mechanisms across the investment lifecycle. In the pre-investment phase, investors place, in relative terms, stronger emphasis on a multi-dimensional screening process, access to the *right* deals, and due diligence to ensure sufficient alignment ex-ante. During transactions, given their limited ability to renegotiate governance terms, meticulous pricing emerges as a central mechanism through which risks are compensated. Finally, in the post-investment phase, investors rely primarily on informal engagement and stakeholder alignment to support the investment, in particular to navigate towards a credible exit.

As a result, the study's primary theoretical contributions are directed towards broader corporate governance discussions across ownership contexts. At the same time, the findings are equally relevant to accounting and management control research, as they outline how monitoring, accountability, and control are exercised in practice in the pursuit of corporate governance by secondary investors and other investors operating in contexts characterised by illiquidity and minority ownership (Roberts & Scapens, 1985).

Beyond the individual theoretical contributions outlined in the discussion-section, an initial broader contribution of the study lies in the novel insights it provides into the governance of the increasingly prominent secondary market segment. While operating as part of the same private equity sector, this segment has remained largely absent from existing research, and our study provides an initial foundation for understanding how governance is conducted in such settings.

Secondly, our study extends existing theoretical perspectives on corporate governance, where they are currently incomplete, by highlighting how governance is conducted under persistent structural constraints, particularly in contexts characterized by illiquid minority ownership positions (Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002; Islam & Akroyd, 2024; Hellman, 2005; Hendry et al., 2006; Useem & Gager, 1996; Holland, 2001). In doing so, we show that corporate governance practices exhibit both similarities and differences across established contexts.

In addition, we contribute by challenging the prevailing dichotomy between control-based and exit-based governance. Rather than conforming to these distinct logics, our findings suggest support for a more nuanced governance-continuum shaped, not least, by market structures and ownership characteristics, within which secondary investors occupy an intermediary position. In this sense, we provide granularity to discussions on how corporate governance practices evolve across different organizational and market settings.

Finally, our findings offer practical implications for practitioners, particularly in private equity and venture capital, by shedding light on the motivations, constraints, and governance approaches of secondary investors as an increasingly important segment in these markets.

2. Literature review

The literature review is organized as follows. It begins by outlining the relevant market contexts, including adjacent private and public institutional settings, given limited research on secondary markets. It then turns to a review of the corporate governance literature within these contexts. Subsequently, it narrows to examine how public and private investors employ three core governance mechanisms, namely boards, contractual arrangements, and informal measures, thereby providing a basis for a more systematic and in-depth comparison of how corporate governance is practiced across contexts.

2.1 Public, Private and Secondary Capital Markets

Beginning with public markets, equities listed on stock exchanges represent the second largest asset class globally, accounting for approximately USD 175 trillion as of 2023 (LSEG, 2024). Institutional investors constitute the largest owners of publicly listed companies, holding around 47% of total market capitalization. These markets are characterized by dispersed ownership, liquidity and provide access to capital (OECD, 2025).

Private equity is an asset class focused on investing in non-listed companies, including startups, middle-market firms, distressed opportunities, and public-to-private buyouts (Meuleman, 2009). In 2023, assets under management reached approximately USD 5.3 trillion (S&P Global, citing Prequin Database), with around two-thirds allocated to leveraged buyouts and the remainder to venture capital and growth equity. Venture capital, a subset of private equity, focuses on maximizing financial returns by investing in young startup companies, aiming to build successful businesses and exit at higher valuations (Wright, 1998; Chen et al., 2012; Heughebaert & Manigard, 2012). In 2024, startups raised a total of USD 333.4 billion (Dealroom, 2025).

Private equity and venture capital funds are typically organized as partnerships, consisting of investors as Limited Partners (LPs) and a fund manager as General Partner (GP). These structures entail specific constraints, including LPs being restricted from active management, a limited number of partners, and capital lock-in commitments in exchange for favorable tax and regulatory treatment. GPs are compensated through a management fee, typically around 2% of assets under management, and carried interest, usually around 20% of fund profits (Bedford & Ditillo, 2022; Wright, 1998; Heughebaert & Manigard, 2012). Investments are made during an initial "investment period," followed by a "liquidation period" during which positions are exited, for instance through IPOs, M&A transactions, or secondary sales. Investors typically commit capital for extended periods, often around ten years, with limited liquidity options, enabling GPs to act as long-term partners to their portfolio companies (Andrieu & Groh, 2021; Wright, 1998).

This market structure gives rise to a need for secondary transactions. At the company level, funds may require liquidity before underlying portfolio companies reach a natural exit point, or seek to demonstrate their ability to generate distributions in order to raise subsequent funds (Wang, 2012; Andrieu & Groh, 2012; Cumming & MacIntosh, 2003).

At the fund level, early redemptions are typically not permitted for LPs, instead, "*LPs requiring an early exit from the partnership must turn to the secondary market to sell their stakes, usually at a substantial discount from fund NAV.*" (Bollen & Sensoy, 2021). These transactions are also driven by portfolio rebalancing considerations, as LPs adjust and reshape their overall investment portfolios (Nadauld et al., 2019).

On the buyer side, however, such transactions are subject to information asymmetries, creating a risk of acquiring lower-quality assets. Without full knowledge of the seller's liquidity situation, buyers cannot rule out the presence of "lemons" (Andrieu & Groh, 2021; Aghion, et al., 2004). Furthermore, secondary transactions introduce transaction costs and relational complexity, as the entry of a new investor creates a relationship with existing management, with no guarantee that this relationship will function effectively (Cumming & MacIntosh, 2003; Nadauld et al., 2018). This may lead to hesitancy among incumbent investors and management to engage in secondary transactions or to share sensitive private information with prospective buyers.

Overall, however, secondary markets are generally viewed as beneficial for investors. As noted in (Nadauld et al., 2018, p. 177), *"the secondary market for private equity investments has developed for the same reason as any market, because buyers and sellers wish to transact."* This underlying market logic has contributed to substantial growth in secondary transactions in recent years. The global VC secondary market reached approximately USD 130 billion in 2023, according to Industry Ventures, with a 40/60 split between direct secondaries and LP-led transactions, marking roughly a fivefold growth over the past decade (Swildens & Meyercord, n.d.).

Secondary transactions can take multiple forms, including stakes in entire funds, portfolios of companies, or individual companies, and may be structured either as continuation vehicles managed by existing GPs or as direct transactions where ownership changes on the cap table (Easton et al., 2024). While acknowledging the broader spectrum of secondary transaction types, we will in this study primarily focus on direct secondaries due to their more immediate implications for corporate governance at the portfolio company level.

2.2 Corporate Governance

"The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private company frequently watch over their own." – Adam Smith, Wealth of Nations, 1776.

Corporate governance has, since the statement of Adam Smith, largely focused on the mechanisms through which providers of capital ensure that firms are managed in ways that protect their investments (Shleifer & Vishny, 1997). At its core lies the separation of ownership and control, whereby shareholders delegate decision-making authority to professional managers. This delegation gives rise to agency problems, enabling managers to pursue actions that may not align with shareholders' interests (Dey, 2008). Consequently, managing these conflicts has become a central concern in corporate governance research (Dalton et al., 2007, cited in Nicholson et al., 2017).

Failures to mitigate such agency problems have been linked to a range of adverse outcomes. Brennan & Solomon (2008) highlight a number of papers examining weak governance and corporate failure, as well as fraud. Beyond firm-level consequences, weak governance structures may also undermine investor confidence and impair capital allocation, producing broader societal economic consequences (Shleifer & Vishny, 1997).

To address these agency problems, corporate governance literature has typically organized governance mechanisms into a number of broad categories through which accountability and control are established. A central stream examines the boards of directors and their supporting subcommittees, as core monitoring, advisory and decision-making forum. A second category focuses on incentive and contracting mechanisms, such as executive remuneration, control rights and other arrangements intended to align managerial actions with owners' interests. A third stream emphasizes external monitoring factors, including institutional shareholders, market competition and reputation. Additionally, transparency and assurance mechanisms such as financial reporting, disclosure practices, and auditing arrangements have been highlighted as critical complements to governance structures by strengthening verifiability and accountability (Brennan & Solomon, 2008; Schoenfeld, 2020).

In more recent literature, the understanding of corporate governance has broadened beyond its traditional focus on mitigating agency conflicts. While monitoring and control remain central, governance is increasingly seen as encompassing activities that support long-term performance and value creation, including strategic guidance and consideration of broader stakeholder interests such as social responsibility and environmental sustainability (Brennan & Solomon, 2008; Van den Berghe & Levrau, 2002).

Building on this general understanding of corporate governance, governance practices across different investor contexts appear to vary systematically. In particular, public markets and private equity settings represent two adjacent yet distinct environments that give rise to different governance approaches.

Beginning with the private market, the literature presents a relatively clear and coherent governance logic, highlighting that concentrated ownership substantially increases investors' ability and incentives to take a more hands-on approach to corporate governance (Metrick & Yasuda, 2011; Van den Berghe & Levrau, 2002). More specifically, private equity firms employ a range of governance mechanisms, including direct board participation, stronger contractual control rights, and tighter financial controls. In addition, they rely on behavioural and social controls to influence managerial decision-making and strategic direction (Bedford & Ditillo, 2022; Islam & Akroyd, 2022).

Turning to the public institutional context, with improved liquidity conditions, the governance logic is considerably more ambiguous. In this setting, Hirschman's (1970) framework of exit versus voice is widely drawn upon in the literature and can describe the underlying governance approach in public institutional contexts (Hellman, 2005). This literature partly emphasizes the role of "investor capitalism", where institutional investors take on a more active role in influencing firms through "voice" (Holland, 2001; Useem & Gager 1996; as cited in Hellman, 2005). Survey evidence further suggests that a substantial proportion of institutional investors engage in voice-based activities (McCahery et al., 2016).

However, despite evidence of voice-based engagement, a substantial part of the literature puts considerable weight on exit-oriented behaviour. McCahery et al., (2016) states that some 49% of respondents believe in exit as a strategy. More specifically, a financial logic centered on maximizing expected returns tends to favour rapid capital reallocation, thereby encouraging "exit" over sustained involvement in firm-level governance (Hellman, 2005). This perspective is further supported by research examining how institutional investors conceptualize their role in relation to corporate management. Both investors and managers tend to perceive investors' primary activity as trading rather than long-term ownership, reinforcing the centrality of exit over active engagement (Hendry et al., 2006).

Both Hellman (2005) and Hendry et al., (2006) suggest that this orientation can be partly explained by the prioritization of financial performance vis-à-vis their investors, but also that the threat of exit itself functions as a disciplinary mechanism. Furthermore, they also highlight constraints, as institutional investors operate within diversified portfolios and face limitations in dedicating time and resources to developing firm-specific knowledge and maintaining sustained engagement with individual portfolio companies. In sum, the literature suggests that institutional investors are less likely to engage directly in company operations than private market investors, instead focusing on due diligence and expressing views from the outside, informally or through voting, as opposed to close operational involvement with the company.

2.2.1 Board of directors

Among the core governance mechanisms identified in the literature, the board of directors is a central element and typically a mandated structure in incorporated firms (Hermalin & Weisbach, 2003). Boards contribute to governance primarily through two interrelated functions: monitoring and advising. Monitoring involves overseeing managerial actions and performance, incentives and compensation, and, when necessary, replacing underperforming executives, while advising reflects the board's role in supporting management in strategic and operational decisions through the use of experience, information-gathering, and judgment (Aghamolla, 2021; Jiang & Laux 2023).

In practice, however, effective boardrooms are not characterized by simple, one-directional control between directors and management, but rather through collective discussion, established routines, and shared norms (Nicholson et al, 2017). Boards also delegate responsibilities to specialized subcommittees, such as audit, remuneration, and nomination committees, allowing for more focused oversight in specific areas (Shaukat & Trojanowski, 2017). As boards retain ultimate responsibility for disciplining management, their effectiveness depends critically on independence from the executives they oversee (Drymiotes & Sivaramakrishnan, 2021; Laux, 2008).

As a result, a substantial part of the literature has focused on board characteristics such as independence, composition, size, and the use of subcommittees (Hermalin & Weisbach, 2003; Adams & Ferreira, 2009; Gray & Nowland, 2015).

To add, the literature also highlights how the use of boards evolves over time. When companies perform well, particularly in earlier stages, governance tends to rely more on informal "investor check-ins" rather than formal board meetings. As firms mature, more structured interactions emerge, including additional one-on-one meetings between management and individual directors to secure early alignment (Fan, 2022).

In private markets, it is evident that boards remain a central governance mechanism. PE and VC investors typically seek to attain a desired degree of control over their investments, including majority board representation. As a result, private equity investors actively reshape board structures to support this involvement. This includes reducing board size, appointing directors with relevant expertise or firm affiliation, and intensifying board activity through more frequent meetings and revised governance procedures (Bedford & Ditillo, 2022; Metrick & Yasuda, 2011; Van Den Berghe & Levrau, 2001).

However, this governance approach remains context-dependent. In firms led by strong entrepreneurs, particularly in early-stage or innovation-driven settings, both PE and VC investors may instead adopt more supportive and advisory board roles, emphasizing monitoring, mentoring, and access to networks rather than immediate managerial replacement. Quality of board engagement also depends on human capital of the involved investment funds. (Botazzi et al., 2008; Bedford & Ditillo, 2022).

With regards to public institutional investors, Hendry et al., (2006) highlighted that their interactions with boards and senior management are primarily informational, aimed at improving investment assessments rather than enabling direct participation in governance. (Hellman, 2005) supported this in stating that they often lack organizational capacity for sustained, in-depth involvement in board governance, and that it is often more financially motivated to exit the position. Instead, most of the research points to the fact that institutional investors typically act through external governance mechanisms, such as shareholder proposals, voting on board composition and compensation, and other forms of engagement including direct dialogue and public pressure (Velte, 2023; McCahery et al. 2016; Holland, 2001).

2.2.2 Contracts and control rights

Together with the board of directors, contracts between investors and managers constitute a central governance mechanism, shaping subsequent engagement between the parties. Investors secure their rights through bilateral agreements (Schoenfield, 2020), which typically allocate three key types of rights: cash flow rights, control rights, and liquidation rights (Bedford & Ditillo, 2022; Kaplan & Stromberg, 2003; Sahlman, 1990).

Cash flow rights determine when and how investors receive returns, depending on ownership structure and the type of security held, and are closely linked to exit outcomes and liquidation preferences. These may also include provisions related to dividends and redemptions (Ewens et al., 2022; Kaplan & Stronberg, 2003). An important aspect is the distribution of exit proceeds, which follows a priority structure of claims, typically starting with preferred shares and progressing towards common equity and lower-priority claims. Investors can influence their payouts through mechanisms such as liquidation preferences and accumulated dividends (Kaplan & Stromberg, 2003).

Board size, structure, and composition, together with voting provisions, also constitute key components of the governance structure in venture capital contracts (Kaplan & Stromberg, 2001). These mechanisms shape decision-making over important reserved matters and enable investors to influence firm-level outcomes (Kaplan & Stromberg, 2003).

In addition, investors may exert control through contractual provisions such as compensation design, including vesting arrangements, which align incentives and discipline managerial behaviour. Historically, mechanisms such as CEO replacement have also been part of the investor toolkit (Hellman, 1998), although contracts have become more founder-friendly over time (Fan, 2022). Beyond direct control, contracts also serve as a sorting mechanism, whereby entrepreneurs with greater confidence in their abilities are more willing to accept agreements that offer higher payoffs contingent on future success. In this sense, contracts also shift downside risk towards entrepreneurs (Sahlman, 1990).

The relationship between entrepreneurs and investors evolves over time, often in ways that cannot be fully anticipated at the time of the initial investment -*"Economists (and lawyers) therefore use the term that contracts are "incomplete" to refer to a contract that does not lay out all future contingencies."* (Hart, 2001, p. 1083) Rather than prescribing all outcomes, contracts instead define governance mechanisms that guide decision-making as new circumstances arise (Hart, 2001).

In private equity and venture capital, formal contracts constitute a central component of the governance package. While most firms rely on a relatively standardized set of contractual clauses, the perceived importance of different provisions varies. In particular, exit and liquidity rights play a prominent role, reflecting the closed-ended structure of private equity funds. More broadly, the design of contractual governance arrangements depends on both the "equity arrangement" of the investment and a "perceived cognitive style" or personality of the CEO of the company. This implies that private equity firms tailor contractual terms to the context, particularly in minority investments where formal control is more limited, and where more entrepreneurial managers may be harder to discipline through contractual enforcement (Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002).

In private markets, each new investment is accompanied by a specific, bilateral contract tailored to the transaction. In contrast, public markets rely on standardized contracts and trading infrastructures, where the identities of transacting parties are largely irrelevant. Instead of establishing governance through bespoke agreements, the legal and regulatory framework is largely predefined and enforced at the market level. As a result, interactions between investors and companies in public markets are shaped within these established institutional and operational structures, rather than through direct contractual design (Pagano, 2000).

2.2.3 Informal governance mechanisms

While some behavioural elements can be specified during contract negotiation, such as rules, regulations, and procedures, contracts are unable to fully capture all future contingencies (Hart, 2001; Botazzi et al., 2008). At the same time, formal governance mechanisms may be overly formalized and insufficient for addressing complex, strategic, and sensitive discussions between investors and portfolio companies (Holland, 2001).

As a result, firms rely on a broader set of governance mechanisms beyond formal and contractual controls, including social, behavioural, and other measures referred to jointly as "informal mechanisms", which play a central role in shaping interactions within organisations and inter-organisational relationships (Bedford & Ditillo, 2022). However, these forms of governance have received comparatively limited attention in the existing literature (Dekker, 2004).

Within this context, trust emerges as a central coordinating mechanism. Trust can be understood as a willingness to accept vulnerability based on positive expectations of another party's actions. This notion forms a foundation for social control mechanisms in investor–company relationships, which rely on mutual trust between the investor and the investee. Over time, this dynamic is reflected in how governance practices evolve, becoming increasingly informal and interaction-based as firms perform well (Fan, 2022).

In the ex-ante phase, trust is primarily established through assessments of reputation, prior interactions, and signals from broader social networks, including intermediaries such as investment bankers and auditors. Following the investment, trust is reinforced through ongoing interaction, including joint decision-making, shared risk-taking, and informal conflict resolution (Rousseau et al., 1998; Bedford & Ditillo, 2022; Dekker, 2004). Prior research further suggests that maintaining alignment between shareholders and management is critical, as excessive or unwanted intervention by investors may undermine trust and lead to resistance from current management (Useem & Gager, 1996).

In this context, pre-investment screening plays a critical role in private market investments, as investors seek to mitigate potential sources of misalignment while establishing trust and alignment with key stakeholders (Islam & Akroyd, 2024). In addition to ensuring alignment and control at the outset, private market investors continue to exercise governance post-investment through behavioural controls, including joint planning, the specification of procedures, rules, and regulations, and the ongoing monitoring of investee behaviour through continuous interaction between the two parties, such as on-site visits and management meetings (Dekker, 2004; Bedford & Ditillo, 2022). Furthermore, they also also actively contribute to value creation through strategic support, network access, and the facilitation of subsequent financing rounds, while leveraging their networks to identify potential exit opportunities (Islam & Akroyd, 2024; Van den Berghe & Levrau, 2002).

In public institutional contexts, informal governance mechanisms also play a role, primarily through continuous private dialogue and information exchange, particularly concerning intangible value drivers such as strategy, management quality, and future performance, and more intensively when adverse changes or external risk signals justify it (Holland, 2001). Furthermore, a related stream of research suggests that these interactions facilitate the internalization of investor expectations within company operations, thereby acting as a subtle but effective disciplining mechanism (Roberts et al., 2006; Hendry et al., 2006).

3. Analytical framework

To define the lens through which we organise and analyse our empirical material, we develop an analytical framework that assumes governance mechanisms are implemented differently across distinct phases of the investment process. Similar phase-based approaches have been adopted in prior research. For instance, Islam, Akroyd, 2024 analyse control strategies across the investment lifecycle, while Nama & Lowe (2014) examine how accounting practices vary across different stages of private equity investments. Related work by Anderson, Graaf, Hellman (2020) applies a similar temporal perspective, showing how sell-side equity analysts adjust parts of their work before, during, and after acquisition announcements.

Adapting the framework of Nama & Lowe (2014) to our context, we exclude general fund-level activities, such as fundraising, that do not directly interact with the underlying portfolio company. Instead, we define a set of stages that capture the investor–company relationship throughout the investment lifecycle.

The first stage, *deal sourcing*, focuses on identifying, attracting and selecting deals aligned with the fund's objectives. This is followed by the *investment and due diligence* stage, which encompasses the evaluation process leading up to the investment decision, as well as the design of financial and contractual terms. While legal contracting is not always explicitly separated in such frameworks, it plays a central role as both a screening mechanism and a means of allocating cash flow, control, and liquidation rights (Sahlman, 1990; Kaplan & Strömberg, 2003).

The subsequent stage, *managing investments*, encompasses both monitoring and value-adding activities, as well as the gradual preparation for exit, and is considered no less important for value creation than the initial investment decision. The final stage, *distribution*, captures the realization of returns and the formal exit from the investment.

This phase-based structure is consistent with prior literature, which distinguishes between investment selection, portfolio management, and exit (Gompers & Lerner, 2001; Kollmann & Kuckertz, 2010). Importantly, however, exit preparation is not confined to the final stage but constitutes an integral part of ongoing portfolio oversight.

Islam & Akroyd (2024) adopt a similar phase-based structure, where their "at the time of investment" stage corresponds to our *investment execution* step, focused on transaction structuring. However, they distinguish between two additional phases, "at the time of exit" and "after exit." In contrast, our framework incorporates exit-related activities within the *post-investment* stage, reflecting the perspective of financially driven investors, for whom preparing for exit is an integral part of ongoing portfolio engagement rather than a separate phase.

Based on this, we structure corporate governance interventions chronologically across three stages. The *pre-investment* stage includes sourcing, screening, and selection of investment opportunities. The *investment execution* stage captures contracting and transaction structuring. Finally, the *post-investment* stage encompasses monitoring, value-adding activities, and managing towards liquidity in portfolio companies.

	Pre-investment	Investment Process	Post-investment
Contracts			
Boards			
Behavioural controls			
Social controls			

Along the vertical dimension of our framework, we consider different types of governance mechanisms employed by investors in their portfolio companies, as motivated by our literature review.

During the formation of the investor–investee relationship, contracts define the fundamental structure of the engagement (Islam & Akroyd, 2024; Bedford & Ditillo, 2022). In practice, this involves specifying the allocation of control, cash flow, and liquidation rights, as well as access to information across different stakeholders. Contracts also serve a sorting function, shaping ex-ante alignment between investors and entrepreneurs and influencing both exit outcomes and broader governance practices. However, despite their formal role, contractual provisions are rarely enforced through legal action in practice, highlighting the limits of purely formal governance mechanisms (Bedford & Ditillo, 2022).

Boards are a central instrument of decision making and exercising control in organizations across for-profit organisations in general (Hermalin & Weisbach 2003), in startups (Amornsiripanitch, Gompers, Xuan, 2019), private equity-controlled firms (Bedford & Ditillo, 2022) as well as in inter-company decision-making processes (Dekker, 2004). Elements of board governance are defined in the contractual agreements and their processes touch upon the other areas of behavioural and social controls. As Nicholson, Pugliese, Bezemer, 2017, show, they provide for multi-directional interaction and lead to socialized accountability. In contrast to contractual controls, boards are less ex ante and more ongoing governance mechanisms, but still with an outlined procedural setting and formal composition.

Subsequently, we consider behavioural controls as means of corporate governance. They are of particular importance in situations with *"goal incongruence and performance ambiguity"* (Dekker, 2004, p. 32) For investors, this means defining procedures, dispute resolution mechanisms and planning together in order to track whether the underlying company is departing from the pre-approved trajectory (Dekker, 2004; Bedford & Ditillo, 2022). This category is unique in its explicit attempt to influence behaviours to fit with the desired operating process by the investor, as opposed to the emphasis on formal mantinels of decisions in the previous control measures.

The social controls rely on the establishment of mutual trust, achieved through repeated interactions with positive outcomes, *"frequent and open dialogue"* (Bedford & Ditillo, p. 856). Social controls act as a complement to formal measures, but as a consequence, their repeated use, the need for formal intervention and dispute resolution decreases. Importantly, social controls begin already at the stage of selecting an investee with whom trust can be established (Dekker, 2004; Bedford & Ditillo, 2022). Rather than being imposed top-down, these controls emerge through ongoing interaction between the investor and the portfolio company, making them inherently relational and embedded in the governance process. Collectively, social and behavioural controls can be jointly referred to as "informal".

4. Methodology

4.1 Research Design

We base our research design on our unique access to investors in secondary venture capital markets, combined with an interest in examining how their approach to corporate governance addresses an underexplored area in the existing literature. To investigate this, we employ a qualitative, interview-based, cross-sectional research design. This approach is particularly suitable given the relatively non-transparent nature of secondaries and corporate governance in venture-backed companies, which limits the applicability of quantitative methods.

Moreover, governance in this context is partly enacted through informal interactions, such as engagements with management and board processes, which are difficult to capture through traditional survey-based approaches. Through our interviews, we aim to capture not only observable practices, but also the underlying reasoning and contextual nuances that shape governance in this setting.

Throughout the conduct of this study, we utilised an abductive research path, where we continuously collected new data through interviews and worked to "generate a plausible fit between the data, theory and data." (Ahrens & Chapman, 2006) We started with an initial literature review and a first round of interviews, after which we iteratively refined the interview guide, made minor adjustments to the interview process, and also to the literature review. Notably, while retaining a broad perspective, we focused in depth on three governance mechanisms in contracts, boards, and informal governance practices.

These were used as analytical proxies to develop a more comprehensive understanding of how corporate governance is enacted in practice, across both formal and informal dimensions. This focus is reflected in the literature review, analytical framework, and empirical findings sections of our study. The abductive research path enabled us to incorporate new stimuli from the interviews over time, to be complemented with theory and used to guide hypotheses and subsequent analysis of our phenomenon.

4.2 Data collection

The study targeted secondary investors within the venture capital domain. From an initial pool of potential respondents, we focused on individuals based in Europe to reduce cross-market and cultural variation in responses. We further prioritized senior professionals within these funds, as they are better positioned to discuss investment strategies, corporate governance matters, and interactions with portfolio company management teams, although this proved challenging due to their limited availability for in-depth interviews.

Overall, we conducted 10 interviews. Their overview can be found in a table in the Appendix I. Seven of them are General Partner-level investors or hold senior roles within investor relations or on the LP side. The majority of them are active in Europe. All of the meetings were conducted online and in English. The average length of the interview was 47 minutes, with the range being from 16 minutes to 90 minutes. For the first half of our interviews, we relied on internal transcription; for the latter portion, we utilized a non-invasive sound input transcription system. To access the interviewees, we relied on our personal networks, introductions from colleagues and direct outreach. All interviews were taken after informed consent.

After an initial introduction of ourselves, the thesis topic, and the purpose of the study, practical details were shared and online meetings were scheduled. The target interview length was approximately 45 minutes. We conducted semi-structured interviews and developed an initial interview guide based on our literature review, analytical framework, and research questions. As the study progressed, the interview guide was iteratively refined in line with our abductive research approach.

Early interviews included more explicit questions concerning whether, and in what ways, secondary investors attempted to influence or enforce accounting practices, reporting structures, and other control-related mechanisms within portfolio companies. However, initial findings indicated that respondents rarely described their governance approach in terms of direct intervention in accounting or reporting systems, particularly given their minority ownership positions. Consequently, subsequent interviews shifted towards exploring how corporate governance mechanisms were applied in practice throughout the investment lifecycle, particularly through boards, contractual arrangements, and informal governance mechanisms, among others. In addition, part of the interview process was devoted to building trust and ensuring that respondents felt comfortable sharing information, which, in retrospect, was warranted given the commercial, competitive, and regulatory sensitivities of the industry.

Methodologically, the interviews followed a deductive structure, initially relying on open-ended questions concerning how and why funds approached certain issues, before moving toward more specific follow-up questions regarding particular mechanisms, practices, and situations. We also relied extensively on follow-up questions, particularly when respondents initially provided limited or negative answers, in order to further explore the rationale behind the adoption, avoidance, or perceived effectiveness of certain approaches in practice.

4.3 Data Analysis

As common for qualitative research methods, we conducted our research with a highly iterative approach. During the first few interviews, we followed which questions resonate with our respondents and how the answers compare and differ to each other. Based on this, we redefined our theoretical approach, literature review, framework and the interview guide. Following each interview we would immediately follow-up with a touchbase to highlight which answers and conclusions are most relevant to our study. The method framework was utilized to organise the stream of sub-analyses. For direct quotes, we would add explainers and edit the responses for clarity and legibility.

We analysed the interview transcripts using an inductive coding approach. We progressed along the empirical materials and added codes in the comments alongside the text (Linneberg & Korsgaard, 2019). To each interviewee response, we added an annotation capturing the substantive content of the answer. In cases where there were multiple topics addressed in the passage, we added multiple codes. Following an inductive approach, we focused on the semantic meaning of the phrase rather than imposed codes from our existing model. This follows an effort to avoid pre-conceived notions affecting the research output (Dubois & Gadde, 2002). Following an iterative process, we revisited earlier codes as we progressed through our sample to ensure a consistency of interpretation throughout different interviews.

Following the initial coding cycle, the resulting codes were organised according to the analytical framework introduced in Section 3, which structures corporate governance mechanisms across two dimensions: control type (contracts, boards, behavioural controls and social controls) and transaction phase (pre-investment, investment process and post-investment). Rather than using this framework as a deductive coding instrument from the outset, we allowed themes to surface inductively from the data first and subsequently mapped them onto the grid. This represents a dual approach where we used both inductive coding and a theoretically-inspired structure based on our analytical framework.

During the analytical process, our existing pre-understanding of the research domain; acquired through our own professional experience in the field and tangential segment of literature review comes into effect. *The notion of pre-understanding stipulates that we never develop knowledge from 'ground zero' but always rely on some form of prior understanding* (Alvesson & Sandberg, 2021). Within the process of identifying themes from the inductive codes, we inherently engaged the empirical material with our own self understanding in a process similar to what (Bedford & Ditillo, 2022) mark as literal and theoretical replication. This comparative approach emerged in the interaction between theoretical review, empirical responses and their analysis.

5. Findings

This section presents the empirical findings derived from interviews with European secondary fund managers and industry experts. In line with our framework, the findings are structured according to the three phases of the investment lifecycle: pre-investment, investment process, and post-investment. Within each phase, key themes are identified to capture how governance is enacted in practice.

Pre-investment phase

The pre-investment phase concerns how secondary investors source, screen and conduct due diligence on investment opportunities.

Theme: Relationship-driven deal access

Respondents consistently emphasized that access to investment opportunities in secondary markets is highly dependent on networks and relationships, which fundamentally shapes how investors identify and engage with potential deals. In contrast to primary investment contexts, where investors often receive a large volume of inbound opportunities and information, secondary investors instead rely on actively building relationships to gain access to relevant information and counterparties. As one interviewee described:

> *"If you compare [secondaries] with early-stage investing, where you go to the startup conferences, you promote yourself and founders will come to you. You will get thousands of pitches and you need to go choose three of them to invest within a year. So for us, it's kind of a vice-versa model. We rather know the companies. Uh, we build a*

> *relationship. We want to get access to the right people, to the right information. And then sometimes it might even take one or two years before we execute the deal." -* **Interviewee 1**

This reliance on networks is not only important for identifying opportunities, but also for gaining proximity to relevant information and building trust with counterparties. As another interviewee noted:

> *"You need to know everyone. You need to know where there is an opportunity, you need to be close to the opportunity. You need to have a reputation as someone that people like to do business with." -* **Interviewee 2**

Theme: Multi-dimensional screening, due-dilligence and investment criteria

Building on the relationship-driven nature of deal access, respondents described how secondary investors engage in a structured but highly selective screening & due-dilligence process to evaluate potential investments. A key theme emerging from the interviews is that this process is multi-dimensional. encompassing not only financial criteria but also considerations of portfolio fit, shareholder alignment, and the feasibility of a clear exit pathway.

Several respondents described how the evaluation process begins with a broad set of potential opportunities, which is then progressively narrowed down based on the fund's investment criteria. As one interviewee explained:

> *"We have a long list of companies, more than 250, and then we prioritize probably 50 or 60 of them that appear more interesting. From there, we engage with the founders, the VCs, and other investors, and gradually build relationships."* **- Interviewee 3**

Financial and operational stability were consistently emphasized, with a preference for companies with established revenues, profitability, and strong market positions. However, respondents also highlighted that screening and due diligence extend beyond traditional financial metrics, with non-financial considerations often proving equally, if not more, important. In particular, respondents emphasized that investor alignment often functions as a threshold condition for whether an investment is pursued at all. While investment opportunities may appear financially attractive, misalignment among existing shareholders with regards to factors such as direction of the company and exit-intentions, is something that cannot be easily mitigated post-investment, making it a critical prerequisite. As one interviewee noted:

> *"If you go in, say, with a 20% stake and you don't know that the other 80% is a family office looking to inherit this to their kids, and you have a five-year horizon, then you're in big trouble."* - **Interviewee 5**

In addition to investor alignment, respondents emphasized the importance of ensuring that a potential investment fits within the fund's broader portfolio strategy and available resources. This included considerations such as whether the investment would be treated as a core holding, the level of involvement required, and whether the fund possessed the necessary expertise to engage with the asset effectively. Given the limited resources of secondary funds and their exposure across multiple investments of varying characteristics, a deliberate assessment was required to determine whether sufficient time, attention, and expertise could be allocated to the asset in order to safeguard its prospects.

> *"The second question is whether these deals fit the portfolio construction as we are screening them. You have core-holdings and tail-holdings, some meant to produce alpha, some more as diversification. Of course, some require more attention"* - **Interviewee 2**

Next, the evaluation of potential investments also extends to the underlying contractual structure. This involves assessing whether the terms of the deal align with the fund's investment criteria and risk profile, effectively serving as a threshold condition for investment eligibility. As one interviewee described, this process consists of:

> *"checking that it ticks the boxes they have to, to make sure that it is eligible. For example, if the preference stack is too high, we wouldn't do it"* - **Interviewee 6**

Finally, interviewees stressed the importance of having a clear and realistic path to exit already at the screening stage, highlighting that secondary investors typically avoid situations where exit visibility is limited or uncertain. As one participant explained, there must be

"A clear view on how to get the exit in a very reasonable and realistic timeframe." - **Interviewee 7.**

Investment Process phase

The investment execution phase differs from the pre-investment stage in that the central concern shifts from selection and due diligence to specificities of contracting, transaction and changes implemented immediately post-investment

Theme: Minority positioning and distinct structural constraints

Early in the interviews, a central characteristic of secondary investments was consistently emphasized: secondary investors operate under distinct structural conditions that shape their ability to engage with corporate governance. In particular, respondents highlighted how investments are typically made through minority positions within pre-existing ownership structures and contractual frameworks. As a result, governance conditions are largely set prior to entry, limiting the scope for direct intervention at the point of investment.

Interviewees consistently emphasized the small size of ownership stakes. One participant noted that they *"obtain a maximum of 10% of shares,"* - **Interviewee 8**, another emphasized that *"in most cases, our shareholding in a company is less than 1%."* - **Interviewee 1**. Such minority positioning limits the extent to which secondary investors can intervene directly in governance at the transactional stage.

In addition to ownership constraints, interviewees highlighted the importance of timing and responsiveness. Secondary opportunities are not in abundance, and often emerge within short timeframes, requiring investors to be embedded in relevant information networks and capable of acting quickly when shares become available. As one interviewee explained, *"if you manage to be involved in the flow of information, that already puts you in contention. If you add the fact that you specialize, you can evaluate and be able to make a quick offer."* **- Interviewee 2**

Furthermore, beyond access to information, being "in contention" was also closely linked to navigating transaction-specific constraints such as "rights of first refusal". Interviewees described how the ability to participate in transactions often depended on obtaining approval from existing shareholders and the company, again emphasizing the relational aspect as critical. In this context, investors emphasized the importance of building trust, being able to demonstrate value-add as a counterparty, and avoiding perceptions of disruptive or overly interventionist behavior in order to be allowed into deals.

In this context, transactions were described as materializing only when there is a mutual fit between buyer and seller at the point of execution.

Taken together, these conditions imply that secondary investors must operate within the constraints of existing governance structures and transactional conditions, rather than being in a position of strength to shape them directly.

> As summarized, *"secondary typically is not a controlling stake. So, the ability of a secondary buyer to really have so much impact on the company's direction is somewhat limited. You're more, as a buyer of a secondary holding, you are more guided by the potential of the opportunity than your ability to control its fate."* - **Interviewee 7**

Theme: Contractual constraints and limited ability to renegotiate

Following the time-sensitive and transaction-driven nature of secondary deals, we further examined how these conditions shape the contractual dimension of investment execution. In particular, we explored how contracts are structured in practice, what provisions they typically contain, and the extent to which secondary investors are able to influence or renegotiate these terms at the point of transaction.

When discussing the typical content of contracts, interviewees consistently described a set of recurring provisions that shape both the scope and nature of secondary transactions. As one interviewee explained, *"contracts commonly include restrictions related to prohibited sectors, predefined geographic allocations, such as limitations to EU-based investments, as well as requirements concerning pari passu treatment and the permitted share of private investors."*- **Interviewee 2.** Beyond preference-related considerations, interviewees also pointed to exit-related restrictions as potential sources of tension, such as limitations on permissible buyers, for example, constraints related to selling the company to non-European acquirers, and preference-stacks.

While modifying contractual terms was, in principle, described as possible in certain situations, this was not considered representative of typical secondary transactions. As one interviewee noted, *"such adjustments most commonly occur when secondary transactions are executed in combination with primary funding rounds, in which case shares may be converted into the most recent share class."* - **Interviewee 1**

However, interviewees emphasized that most secondary investments take place between funding rounds, where investors generally acquire the share class available at the time.

> *"you take on whatever properties come with the shares you are buying - preference shares, equity, etc. Ninety-nine percent of the time, we are not changing that."* - **Interviewee 7**
>
> Another participant expressed a similar stance, stating that they *"never re-negotiate shareholder agreements."* - **Interviewee 2**

Taken together, these findings indicate that secondary transactions are typically conducted on a "take-it-or-leave-it" basis, with limited scope for renegotiating contractual terms. One interviewee summarized, *"a secondary at heart is buying something that already exists, owning the same asset, just coming along later."* **- Interviewee 7**

Theme: Pricing as the central "compensating" governance mechanism

Given the limited scope for direct governance intervention and the constrained ability to renegotiate contractual terms, interviewees described pricing as the primary mechanism through which secondary investors can manage potential governance risks at the point of investment.

Rather than treating contractual risk as a separate dimension, interviewees consistently emphasized that such risks can be managed directly through the pricing of the transaction. As one interviewee explained, *"you buy the share class you can get, and you just need to price it right,"* - **Interviewee 8**

Interviewees further described how this approach requires a high degree of selectivity. Rather than renegotiating contractual terms, investors emphasized that if the assessed level of risk cannot be adequately reflected in the pricing of the transaction, the typical response is to refrain from investing. As one participant noted, *"it's a question of pricing and a question of risk. So if it's not right, we wouldn't do it."* - **Interviewee 1**

In addition, given that pricing constitutes the primary mechanism through which secondary investors can compensate for the lack of contractual control, respondents emphasized the importance of actively assessing and exploiting transaction-specific conditions. In particular, considerable attention was paid to the existing ownership structure, including cap table composition, investor horizons, and the relative supply of shares. As one interviewee explained, *"important is long cap tables so that you have quite high supply, and you can kind of choose what to negotiate and get the best deal."* **- Interviewee 1**

<u>Post-Investment Phase</u>

The post-investment phase concerns how investors monitor, support, and manage the investment throughout the period leading up to an eventual exit event.

Theme: Secondary investors as liquidity providers

When turning to the operational and managerial dimensions of corporate governance, interviewees consistently emphasized their primary role as liquidity providers.

> As one interviewee explained, *"Once companies reach a certain level of maturity and development, business models are typically established, products validated, and revenues generated, their primary need is no longer operational support, but rather access to liquidity and pathways to exit."* - **Interviewee 5**This role orientation was reinforced by broader market dynamics. Several interviewees linked the function of secondary investors to structural developments within the venture capital ecosystem, highlighting an increasing number of funds and participants, alongside a growing demand for liquidity. As one expert noted, *"one major issue for everyone is liquidity, this is where secondaries are key"* **- Interviewee 6**

Consequently, interviewees described secondary investors as occupying a distinct position within the ownership structure. Rather than engaging in distressed situations or turnaround efforts, their role was consistently characterized as supporting companies in later stages and facilitating progression toward an eventual exit. As one participant summarized, *"secondaries are supposed to be the last ones accompanying companies towards an exit."* - **Interviewee 5**

Theme: Reasons and conditions for increased investor involvement

While the role of secondary investors was predominantly described as hands-off and centered around liquidity provision, interviewees specified a limited number of conditions under which a more active approach could emerge. These were consistently framed as selective and context-dependent, rather than part of a systematic governance strategy.

<u>Reason 1: Investment size and strategic importance (core holdings)</u>

A first condition relates to the size and strategic importance of the investment. Interviewees emphasized that more active involvement was primarily considered in cases where the investment constituted a large position or a core asset within the fund's portfolio. In such situations, the potential impact on overall fund performance justified a higher degree of engagement. As one participant noted, *"maybe if it's a huge bet, well, that's different."* - ***Interviewee 5***

Respondents highlighted that meaningful active ownership is closely tied to the size of the ownership stake. As one interviewee explained, *"to be active, you need to own 20 to 30 percent of the company, otherwise it's not worth it."* - ***Interviewee 4.*** This reinforces the notion that the typical minority positions held in secondary transactions limit both the feasibility and attractiveness of active involvement.

In contrast, smaller "tail" investments were consistently associated with minimal engagement. As **Interviewee 1** explained, *"we will not be active owners, because if you're a minority shareholder, we will not be running the company strategy and improvement."* Instead, responsibility for strategic direction was expected to remain with other, more influential shareholders.

In this context, investors effectively assumed a more passive, at times "free-riding," position, relying on the presence and actions of stronger owners to drive the company forward. As described by the same interviewee, *"hopefully there will be other stronger owners that will take responsibility for the company."* - ***Interviewee 4***. This positioning was enabled by a rigorous upfront due diligence process, ensuring that such reliance on other shareholders was considered acceptable ex ante.

<u>Reason 2: Reactive involvement</u>

However, despite board participation and active involvement not forming part of the formal investment strategy, interviewees explained that situations could arise in which secondary investors nevertheless assumed a more active role. Such involvement was described as circumstantial rather than intentional. As one interviewee explained, *"they're committed, of course. But secondaries seldom intentionally look for control, it's rather accidental, when you fall into a problem."* - ***Interviewee 5*** This most often occurred in isolated situations where intervention was perceived as both necessary and feasible.

As one interviewee further explained, when governance structures were perceived to be ineffective, responsibility could shift toward investors, noting that *"if the governance is bad, then the fingers would be pointed to go change stuff."*- ***Interviewee 8*** Within this context, it was not always the case that the situation had to be "bad", but these instances were described as exceptions where the secondary fund was requested to be more engaged, as opposed to part of a deliberate governance strategy.

Theme: Limited formal governance and board involvement

Respondents consistently emphasized that board seats were not viewed as essential in most situations. As one interviewee explained,

> *"If you really want it, then okay, only buy where you have a board seat. But it doesn't really make that much of a difference. Get your hands on the best merchandise (i.e companies), that's far more important."* - **Interviewee 5**

This perspective was closely linked to how investors defined their role. Already during due diligence, interviewees stressed the importance of assessing whether the existing management structure was appropriate for the company's current stage of growth, noting that they *"completely disagree with a more activist approach and going on the board."* - **Interviewee 3**

In line with this, several respondents emphasized that their role is explicitly defined as that of a minority and largely passive investor. As one interviewee summarized, *"always minority investors. Always passive. Except for ad-hoc tasks."* **- Interviewee 3**

When board participation did occur, it was described as highly selective and purpose-driven. Rather than seeking broad operational or strategic control, involvement at the board level was primarily oriented toward supporting the company's path toward exit. As one interviewee explained, the role was to *"steer the company towards exit"* and to *"map out potential buyers."* - ***Interviewee 8***

Theme: Informal governance as the primary mode of influence

As a result of minority ownership positions and limited formal influence, secondary investors described informal approaches to corporate governance as more effective means of influence. One interviewee explained,

> *"very important given that you're the secondary, particularly in situations where you do not hold a board position. In many cases, you don't have a board position, and in at least 90 percent of the cases, you don't have a majority on the board."* **- Interviewee 5**

Interviewees described how secondary investors primarily exert influence through informal engagement across a range of areas. In particular, they contribute through experience, networks, and transaction-related expertise, including strategic discussions and selective value-add initiatives. This is especially evident in areas such as M&A processes, exit preparation, and regulatory matters.

Importantly, such involvement was not only viewed as a way to support individual investments, but also as a strategic mechanism for building relational and reputational capital. This, in turn, enhances access to future deal flow and helps alleviate transactional frictions, such as rights of first refusal, by positioning the investor as a credible and value-adding counterparty within existing ownership structures.

> *"We try to always offer something on top by contributing value-add. For example, in one case involving a secondary investment affected by the [a specific sector] market downturn, we supported the company by involving a consultancy firm to facilitate the divestment of its [specific ector]-related business. In another case, we assisted a portfolio company in obtaining a regulatory licence in a certain market."* **- Interviewee 3**

Furthermore, influence was further exercised through relational engagement, alignment, and continuous dialogue with both management and other shareholders. In this context, informal interaction enabled investors to shape discussions and address key issues early, before they reached formal decision-making forums. As one interviewee explained, *the objective was to "informally establish a strong and direct connection such that important matters could be discussed in advance, ensuring that decisions reaching advisory or board level were already broadly aligned."* - **Interviewee 6**

At the same time, informal involvement also served as a mechanism for ongoing monitoring and the exertion of subtle, non-formalized pressure. Rather than relying on formal governance rights or direct control, investors described how influence was exercised through recurring interactions with management. As one respondent explained, they *"do not dictate how monitoring should be done, but rather try to sit down with the management every quarter" to review financial performance and "keep a healthy pressure on."* - **Interviewee 3**

However, beyond these forms of involvement, interviewees again emphasized that the primary role of secondary investors is to ensure alignment among shareholders and facilitate a timely and executable exit. Rather than focusing on operational development, their involvement is directed toward coordinating interests, managing ownership transitions, and supporting exit-readiness. As one interviewee explained,

> *"secondaries are supposed to be the last ones accompanying companies towards an exit." - **Interviewee 5***

In this context, informal governance largely revolved around ensuring that management, lead investors, and co-shareholders shared compatible expectations regarding timing, valuation, and exit strategy. As one interviewee explained, "*aligning different stakeholders - ranging from management and co-investors to potential buyers - was essential, as "everyone involved will have different views,"* **- Interviewee 8**

This makes coordination and consensus-building a key part of the process. In this regard, the ability to bring relevant parties onboard early was viewed as valuable, particularly in shaping discussions around exit timing, valuation, and potential buyers. This form of alignment was considered,

"a much more meaningful, impactful, and relevant way to assure success than to sit on the board. Like mentioned earlier, even if being on board, primary responsibility would be to take the company towards exit." **- Interviewee 6**

6. Discussion

Throughout the discussion section, the analytical framework is applied to interpret our findings. In this section, we present the implications in written form, highlighting differences across the stages of the investment process. For visual comparison, a set of tables is provided in the Appendix.

Pre-investment phase

Across the literature, private equity and venture capital investors are generally characterised by a preference for taking control over corporate governance in their portfolio companies (Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002; Metrick & Yasuda, 2011). This places them in a position to directly shape governance structures and influence outcomes. Consequently, investors in the pre-investment phase can generally be conceptualised as evaluating opportunities with an underlying expectation of acquiring governance control over the investee.

In contrast, institutional investors in public markets primarily focus their due diligence on verifying that their investment thesis holds, without an expectation of assuming control post-investment (Hendry et al., 2006; Hellman, 2005). This is facilitated by the availability of liquid exit options and a broad set of alternative investment opportunities, which creates a tension between engaging to improve firm performance and reallocating capital, where the prevailing "financial logic" tends to favour exit.

Secondary investors, however, operate in a fundamentally different setting. Due to the sporadic and limited nature of available investment opportunities, they must utilize informal mechanisms to remain embedded in relational networks and continuously demonstrate their potential value-add in order to gain access to the *right* deals. At the same time, secondary investors typically possess limited ability to influence contractual arrangements or substantially reshape governance structures post-investment, constraining them to carefully evaluate existing governance conditions ex ante.

Furthermore, the inherent illiquidity of private markets limits their ability to exit investments in the same manner as public market investors. Consequently, governance considerations become increasingly important already during the investment selection process, where investors must assess not only financial attractiveness, but also the viability of existing governance arrangements, stakeholder alignment, and realistic exit pathways.

We identify a few patterns along the research on the private market side. The findings suggest that secondary investors operate within a governance setting that can be characterised as one of "heightened complexity." In line with Islam & Akroyd (2024), our findings support that more complex governance settings require evaluation beyond traditional financial considerations, extending also to governance and control considerations. Furthermore, Bedford and Ditillo (2022) argue that situations characterised by illiquidity and minority ownership increase the importance of relational alignment, stakeholder compatibility, and clearly established exit pathways already prior to investment. Our findings from secondary investors, operating permanently within precisely such conditions, strongly support and empirically reinforce this view.

At the same time, secondary investors share certain governance characteristics with the typical public institutional investor, particularly in their limited ability to directly control or substantially alter governance structures post-investment. Similar to findings within the public governance literature (Hendry et al., 2006; Hellman, 2005; Holland, 2001), this increases the importance of evaluating existing governance and management arrangements during the due-diligence process. However, unlike public institutional investors, secondary investors cannot rely on exit-liquidity and capital reallocation.

Concluding, our analysis suggests that these governance constraints make ex-ante governance evaluation significantly more important for secondary investors, as governance deficiencies cannot easily be mitigated through either post-investment intervention or an easy exit.

Investment process phase

Upon entering an investment, private equity and venture capital investors are commonly described in the literature as actively restructuring portfolio companies from a corporate governance perspective (Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002; Metrick & Yasuda, 2011). This typically involves establishing extensive contractual provisions intended to create monitoring structures, align incentives, and secure governance influence over the investee (Islam & Akroyd, 2024; Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002). Such arrangements commonly include board representation, control rights, cash flow rights, liquidation rights, and other governance mechanisms designed to support the investor's strategic and financial objectives (Kaplan & Strömberg, 2003; Sahlman, 1990; Hellmann, 1998).

Furthermore, prior literature suggests that these governance arrangements are not solely intended as enforcement mechanisms, but also as tools for incentive alignment and behavioural guidance throughout the investment relationship (Sahlman, 1990). Consequently, private market investors are often positioned to exert substantial influence over both boards and management teams, including the ability to replace CEOs or significantly reshape governance structures post-investment (Hellmann, 1998; Fan, 2022).

Public institutional investors, on the other hand, are generally neither positioned nor incentivised to implement comparable governance measures upon entering an investment. Similar to their approach during the pre-investment phase, their governance stance primarily relies on evaluating and operating within existing governance arrangements rather than actively restructuring them. Consequently, their engagement is typically governed by shareholder agreements and governance structures already in place, reducing the need for extensive contractual negotiations or governance redesign. Instead, greater emphasis is placed on the structural characteristics and functioning of the board, which will be further discussed in the subsequent post-investment phase.

For secondary investors, however, our empirical findings suggest that investors seldom impose substantial governance changes upon entering an investment, as they typically acquire minority positions within already established ownership and contractual structures. Board- or management-level interventions are generally not emphasised, as our findings indicate that secondary investors face a structural tension between exercising greater governance influence and preserving the relational embeddedness required to maintain reputation, network access, and future transaction opportunities within private market ecosystems. Consequently, attempts to substantially alter existing governance arrangements may jeopardise relationships with incumbent owners, management teams, and broader market counterparties, thereby potentially constraining future deal access.

In this regard, the findings resemble perspectives within the public institutional investor literature, particularly Useem & Geiger (1996), which highlights how existing management and ownership structures may act as counterweights to excessive investor intervention. Our findings extend this perspective into secondary private market investing but also show that excessive governance intervention may risk damaging relationships not only with incumbent owners and management teams, but also with future counterparties and transaction opportunities.

Our findings also challenge and extend significant parts of the traditional private market literature (Islam & Akroyd, 2024; Bedford & Ditillo, 2022; Van den Berghe & Levrau, 2002; Sahlman, 1990), where governance concerns are commonly assumed to be addressed primarily through contractual arrangements. In contrast, our findings suggest that secondary investors, operating within the same segments, frequently neither can nor seek to renegotiate contracts due to their minority positions and dependence on pre-existing ownership structures.

Instead, our findings indicate that secondary investors rely on "pricing" as the primary mechanism through which governance-related risks are managed at the point of investment. Rather than attempting to reshape governance structures or mitigate risks through increased control, interviewees consistently emphasised that governance deficiencies and contractual misalignments are incorporated directly into transaction valuations. Consequently, aligned governance conditions and stakeholder fit may justify higher valuations, whereas governance deficiencies, contractual misalignments, or weak exit conditions are more commonly addressed through valuation discounts or by refraining from investing altogether.

Post-investment Phase

In the post-investment phase, private market investors are generally characterised by a highly active and intervention-oriented governance approach. Prior literature describes how investors assume substantial influence over portfolio companies through direct involvement in management, board representation, reporting structures, and ongoing governance processes (Bedford & Ditillo, 2022; Islam & Akroyd, 2024). This may include replacing members of management teams, embedding investor personnel into boards, establishing rigorous reporting and monitoring routines, and continuously advising management on strategic and operational matters (Aghamolla, 2021; Jiang & Laux, 2023; Sahlman, 1990; Van den Berghe & Levrau, 2022).

With regards to boards specifically, the broader governance literature commonly emphasises structural characteristics such as independence, diversity, board composition, size, and the use of subcommittees (Hermalin & Weisbach, 2003; Adams & Ferreira, 2009; Gray & Nowland, 2015). Private market investors, as a reflection of their hands-on approach, but contrary to much of the literature, tend to reduce board independence, diversity, and size.

In contrast, public market investors are generally characterised by a more passive and externally oriented governance approach. Prior literature suggests that institutional public market investors primarily perceive themselves, and are perceived by the companies, as traders rather than interventionist owners, largely due to their limited organisational capacity for sustained and in-depth governance involvement, as well as their ability to exit investments relatively easily (Hendry et al., 2006; Hellman, 2005).

Consequently, governance influence is typically exercised from an external position rather than through direct board participation or operational involvement (Holland, 2001). Instead, public market governance tends to rely on external governance mechanisms such as shareholder proposals, voting on board composition and executive compensation, private dialogue with management, and, in certain situations, public pressure or activist engagement (Velte, 2023; McCahery et al., 2016; Holland, 2001).

For secondary investors in particular, their role as liquidity providers is strongly emphasised throughout the interviews, often outweighing both the desire and the ability to engage in extensive board-level governance. Even when represented on boards, investors typically assume a role focused on facilitating alignment and navigating the investment towards a successful exit, rather than actively reshaping governance structures. At the same time, contractual arrangements appear to play a relatively limited governance role during the post-investment phase, as most governance structures and agreements are already established upon entry.

Additionally, secondary investors contribute on a selective and largely non-operational basis through experience, networks, and transaction-related expertise, including strategic discussions and selective value-add initiatives. This is particularly evident in areas such as M&A processes, exit preparation, ownership transitions, and regulatory matters. Importantly, such involvement was not only viewed as a means of supporting individual investments, but also as a strategic mechanism for building relational and reputational capital. In turn, this strengthens access to future deal flow and helps alleviate transactional frictions, such as rights of first refusal, by positioning the investor as a credible and value-adding counterparty within existing private market networks.

These findings suggest that the governance role adopted by secondary investors is not merely a passive consequence of limited control, but rather reflects an adaptive specialisation shaped by the structural conditions of the private capital markets, where their primary competitive advantage within the ecosystem stems from their ability to provide liquidity solutions and facilitate ownership transitions. Consequently, secondary investors can therefore be conceptualised as occupying a distinct niche role within the cap table. This contrasts with much of the traditional private market literature, which commonly characterises private market investors as highly active governance actors exercising substantial control over boards, management, and governance structures (Van den Berghe & Levrau, 2002; Metrick & Yasuda, 2011).

In this regard, the findings align more closely with Bedford & Ditillo’s (2022) situational characterisation of minority private market investing, while extending the perspective by illustrating how such governance adaptations become embedded as a persistent strategic orientation rather than merely a situational response. Furthermore, the findings support Islam & Akroyd’s (2024) description of how investors contribute value-add through occupying distinct strategic roles within the cap table. In line with this, our findings suggest that secondary investors become specialised around their role as liquidity providers and ownership-transition facilitators within otherwise illiquid private market environments. In doing so, the study provides further granularity to the corporate governance literature by illustrating how governance roles may become considerably more heterogeneous under the influence of structurally constrained ownership conditions.

At the same time, the findings also resemble perspectives within the public institutional investor literature. Our findings support the perspectives of Hendry et al. (2006), Hellman (2005), and Holland (2001), suggesting that investors operating with limited organisational resources and minority ownership positions face both capability and prioritisation constraints with regards to extensive governance involvement. Consequently, secondary investors appear selective in assuming active governance responsibility, typically reserving more intervention-oriented governance measures for situations where governance conditions materially deteriorate or strategic circumstances explicitly require it.

Finally, our findings support Roberts et al., (2006) and Holland (2001) arguments that informal meetings constitute an effective and flexible mechanism through which minority investors can exercise influence despite limited formal control. Interviewees consistently described how ongoing meetings and continuous dialogue allow secondary investors to maintain monitoring and exert a form of consistent governance pressure, thereby facilitating an internalisation of investor expectations within the company and influencing management behaviour without requiring extensive formal governance intervention.

7. Conclusion

In this concluding section, we synthesise our analysis into two main conclusions that form the basis for answering our research question: *How do secondary investors conduct corporate governance in contexts characterised by constraints such as illiquidity and minority holdings?* Building on the more detailed article-specific contributions developed throughout the discussion section, the conclusion section seeks to abstract these findings and highlight their broader theoretical implications for the corporate governance literature. We then address the limitations of the study and identify directions for future research. Beginning with our first conclusion,

1. Structural constraints lead secondary investors to adopt an adaptive and purpose-driven form of corporate governance

Contrary to initial expectations informed by adjacent private market governance and accounting literature, the findings did not indicate a strong emphasis on formal governance and control structures, such as reporting systems, monitoring routines, or management control mechanisms. Instead, what we find is that secondary investors adopt what can best be described as an adaptive and purpose-driven approach to corporate governance aimed at mitigating governance risks and securing the prospects of their investments. This approach is not driven by the ability to exert control, but by the need to operate within pre-existing constraints.

In practice, this translates into a set of interrelated mechanisms across the investment lifecycle. First, governance is front-loaded into the pre-investment phase, where investors place, relatively speaking, stronger emphasis on gaining access to *right* deals, screening, and due diligence in order to secure sufficient alignment and understanding of the investment conditions. Second, given the limited ability to renegotiate governance terms post-entry, pricing emerges as a central mechanism through which risks are compensated. In the case where such risks cannot be adequately priced, investors typically refrain from investing altogether. Third, in the post-investment phase, investors rely on informal engagement to provide value-add initiatives, and alignment with key stakeholders to navigate and support the investment toward a credible exit pathway.

Furthermore, this approach reflects not only structural constraints, but also an inherent tension embedded in the characteristics of secondary transactions: even if investors would prefer to take a more active role, their ability to do so is restricted by internal resource limitations and by the need to preserve relationships with existing owners, as challenging them may jeopardise future deal access and reputation.

2. Structural constraints place secondary investors between control- and exit-based logics

Existing literature is largely structured around two dominant lenses: private market investors such as private equity and venture capital, who rely on control-based governance mechanisms (Van den Berghe & Levrau, 2002; Bedford & Ditillo, 2022; Islam & Akroyd, 2024; Metrick & Yasuda, 2011), and public institutional investors, who operate less interventionally, but importantly retain the option to exit their positions when governance risks arise (Hendry et al., 2006; Hellman, 2005). What these perspectives share is the implicit assumption of a “release valve” through which governance risks can be managed, either by exercising control or by exiting the investment.

Secondary investors, however, lack both of these mechanisms. As minority investors operating in illiquid markets, they are typically unable to substantially restructure governance arrangements ex post, while simultaneously facing limited exit flexibility.

The influence of these structural constraints becomes particularly evident throughout our findings. Rather than conforming to a strict dichotomy between control-based and exit-based governance, the findings suggest that secondary investors selectively adopt governance characteristics associated with both adjacent private market and public institutional investor settings. In doing so, secondary investors appear to occupy an intermediary position along a broader governance continuum, illustrating greater heterogeneity across corporate governance contexts than is typically characterised in existing literature, potentially even to the extent that investors occupy specialised niche roles within the broader governance ecosystem.

Taken together, the findings also give rise to several broader contributions extending beyond the individual theoretical perspectives discussed throughout the analytical discussion. Firstly, the study contributes with additional granularity to mentioned discussions on how corporate governance practices evolve across different organizational and market settings (e.g. Van den Berghe & Levrau, 2002). The findings support that corporate governance practices cannot be fully understood independently of the market structures and ownership characteristics. In this regard, governance appears not merely as a set of formal control mechanisms, but as an adaptive and context-dependent mode of engagement.

Secondly, a number of studies have examined corporate governance approaches within private equity and venture capital settings (Van den Berghe & Levrau, 2002; Bedford & Ditillo, 2022; Islam & Akroyd, 2024; Metrick & Yasuda, 2011). However, while secondary investors operate within this same private equity context, they remain largely absent from the literature. This omission represents a significant gap, particularly given the rapid growth and increasing prominence of the secondary market segment. In this regard, the existing literature provides an incomplete account of how corporate governance is conducted across the full spectrum of private market investors.

Thirdly, the study extends existing theoretical perspectives on private market governance by examining settings in which investors operate under conditions of illiquidity, minority ownership, and limited governance control on a more permanent basis. While prior literature (e.g. Bedford & Ditillo, 2022) often treats such conditions as situational deviations from otherwise control-oriented governance approaches, our study instead focuses on a setting where these conditions constitute a more permanent feature of the investment environment. Accordingly, compared to existing literature, this study better captures the context faced by secondary investors, as well as other investor groups operating under similar structural constraints, where such conditions shape not only specific governance mechanisms but also the investor's broader governance approach and strategic orientation more persistently.

Lastly, our findings offer practical implications for practitioners, particularly in private equity and venture capital, by shedding light on the motivations, constraints, and governance approaches of secondary investors as an increasingly important segment in these markets.

Research limitations & Future research

This study is subject to several limitations. First, the cross-sectional design primarily captures investor perspectives, excluding other stakeholders such as portfolio companies and shareholders, which limits a full multi-actor understanding of governance dynamics. However, this focus is intentional, reflecting data access constraints while enabling us to establish an initial foundation for understanding governance from the investor's perspective in an emerging and under-researched segment.

Second, the study relies on qualitative data from a relatively concentrated sample of European fund managers. While this enables in-depth insights, it also entails a risk of subjective interpretation. To mitigate this, we emphasize consistency and transparency in the analytical process by grounding our interpretations in the empirical material and relating them systematically to existing literature. Moreover, the limited sample size and potential heterogeneity in strategies, geographies, and control structures may constrain the generalisability of the findings. However, rather than aiming for broad generalisation across all contexts, the study seeks to generate insights that are informative and relevant to settings characterised by similar structural constraints. Finally, the study captures governance dynamics at a specific point in time. As secondary markets continue to evolve, these dynamics may develop in ways not fully reflected in the present analysis.

Providing guidance for future research, we identify three key areas that could be prioritized. First, future studies could incorporate multiple stakeholder perspectives to develop a more comprehensive understanding of governance dynamics. Second, further research could assess the relative importance of key structural determinants, such as ownership size, liquidity prospects, and resource constraints, to provide further nuance to what influences the corporate governance approach. Finally, as this study applies a structured, phase-based framework to analyse governance processes, future research could explore the use of alternative theoretical frameworks to capture these dynamics in different ways and further deepen understanding.

8. Appendix

Appendix I: Methodology: interviewee list

Designation	designation	Length	Recording	Source
Interviewee #6	Expert 1	32 minutes	transcribed	Personal network
Interviewee	Expert 2	51 minutes	transcribed	Personal network
Interviewee #5	Expert 3	53 minutes	transcribed	Personal network
Interviewee #1	Investor 1	51 minutes	transcribed	Direct outreach
Interviewee #3	Investor 2	45 minutes	documented	Personal network
Interviewee #7	Investor 3	30 minutes	documented	Introduction
Interviewee #4	Investor 4	16 minutes	transcribed	Introduction
Interviewee #2	Investor 5	90 minutes	documented	Introduction
Interviewee	Investor 6	30 minutes	documented	Introduction
Interviewee #8	Investor 7	75 minutes	documented	Direct outreach

Appendix II: Sample Interview guide

Introduction	
Introduction to the investment vehicle	Please share about your background/role and your investment vehicle (AUM, geography, value creation, portfolio construction)
View on corporate governance	What is your perception of corporate governance; philosophy, objectives, key concerns, and how do you carry it out in practice?
Walk through the investment process	Can you walk us through your investment process from initial contact to divestment?
Pre-investment phase	
Corporate governance	Prior to making an investment, how do you evaluate and select investment opportunities from a corporate governance perspective, and which considerations are most important in this process?
Board, stakeholders, management	How do you assess existing board structures, management and governance arrangements prior to an investment, and what intentions or plans do you typically have for that following an investment?
Contracts	How do you evaluate existing contracts in place? What do you focus on?
Informal measures	Beyond formal governance mechanisms such as boards and contractual arrangements, what other informal measures or considerations do you work with to achieve intended influence during the pre-investment stage?
Investment process phase	
Corporate governance	Following an investment decision, how are governance mechanisms negotiated, implemented, or adapted in practice throughout the transaction process?
Contracts	To what extent do you seek to negotiate or adapt contractual arrangements during the transaction process, and which governance-related provisions are typically most important?
Board, stakeholders, management	Do you place demands on boards, management, or governance structures during the investment process, for example regarding board composition, governance procedures, reporting access, or management changes such as CEO replacement?
Post-investment phase	
Corporate governance	Following the investment, how is corporate governance typically exercised in practice throughout the ownership period?
Board, stakeholders, management	How do you typically interact with boards, management, and other stakeholders throughout the post-investment phase, and what role do these interactions play in your governance approach?
Informal measures	What types of informal measures and initiatives do you employ post-investment to mitigate agency issues, navigate the investment process, and contribute to value creation?

Appendix III: Comparative Overview of Corporate Governance Practices Across Investment Contexts

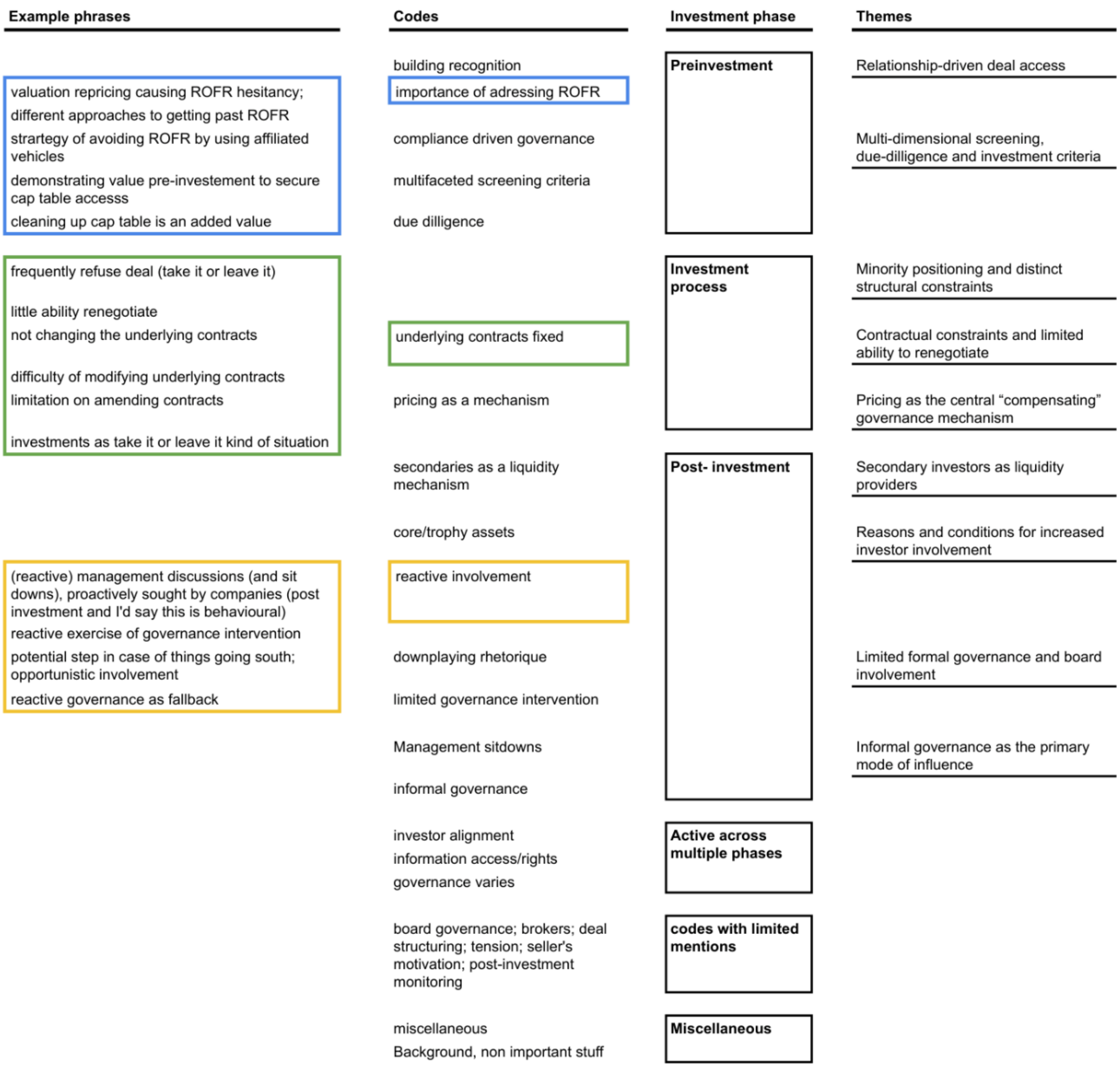
Pre-investment Phase			
	Private Markets	Secondaries	Institutional Public Markets
Contracts	Review of existing contracts	Review of the underlying contracts	
Boards	Consideration of board, management & governance restructuring	Review of the existing board, management & governance structures	Review of the existing board, management & governance structures
Behavioural		Review of the planned business and development trajectory, exit-route	
Social		Networking for deal-access	

Investment Process Phase			
	Private Markets	Secondaries	Institutional Public Markets
Contracts	Drafting and negotiating extensive contracts		
Boards	Defining board, management and governance setting post-investment		
Behavioural	Defining procedures, planning and roadmap		
Social			
Additional elements		Pricing deals appropriate to governance risks	

Post-Investment Phase			
	Private Markets	Secondaries	Institutional Public Markets
Contracts			
Boards	Investor engagement with board & management		
Behavioural	Joint planning and defining procedures with the management	Informal engagement for internalized pressure and ad-hoc value add initiatives	Informal meetings for due-dilligence and internalized pressure
Social	Informal support for the company	Networking with stakeholders on alignment	Exit if the reality of performance or management is misaligned with expectations
Additional elements		Liquidity provision and exit navigation	

Appendix IV: Coding tree

The figure below provides an illustrative overview of the coding process used in the analytical post-processing of the interview material. Rather than presenting a complete mapping of all excerpts and codes, the figure exemplifies one step of the coding logic by showing how selected interview excerpts ("example phrases") were translated into codes and subsequently aggregated into broader themes across different investment phases.



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10. The use of Generative AI

Throughout our thesis, we used multiple versions of ChatGPT (ChatGPT 4.0, 5.3, 5.4), Sonnet 4.6, Jamie and Grammarly.

Jamie has been used as an AI interview transcription tool. This has enabled us to save time on manually transcribing the interview as a pre-condition of their subsequent empirical analysis. We see no particular risks outside potential wrong transcription, but we found the transcripts to be accurate. For the interviews that were recorded, Interviewees provided informed consent to the recording and transcription of the interviews. Jamie generates files in the background which are deleted immediately after generating the transcript. Data is moved in an AES-encrypted, GDPR compliant way.

Grammarly has been used as a spell-check and grammar correction app. We still approved every correction manually, as the recommendations aren't always accurate for some language structures.

Sonnet 4.6 has been used in discussing how to strengthen the methodology section, in parallel to having reviewed the used sources ourselves. A particularly helpful recommendation was to use interviewee's own words to create the codes. Additional added value came from suggesting correct academic language for concepts we have identified ourselves, such as pre-understanding, inductive and abductive techniques.

As we've read the underlying sources, reviewed the concepts, conducted the analysis and written the sections, we consider AI has been a helpful tool without introducing incorrect answers, bias or blackbox risk. We relied on our own research and previous preparatory lectures prior to consulting an AI tool.

ChatGPT was mostly used to provide feedback on the language side of certain thesis sections; still, all text in the thesis has been formulated and approved by us.

Overall, the use of AI allowed us to redirect some attention from language control and manual transcription to the collection of data, its analysis and discussion without impairing our independent analysis. The use of AI tools has been useful, but only after the collection of the material and a substantial familiarization with literature.

ChatGPT 4.0, Open AI, https://chatgpt.com/; ChatGPT 5.3, OpenAI, https://chatgpt.com/

ChatGPT 5.4, OpenAI, https://chatgpt.com/; Sonnet 4.6, Anthropic, https://claude.ai/

Jamie, Jamie, https://www.meetjamie.ai/en; Grammarly, Grammarly, https://app.grammarly.com/