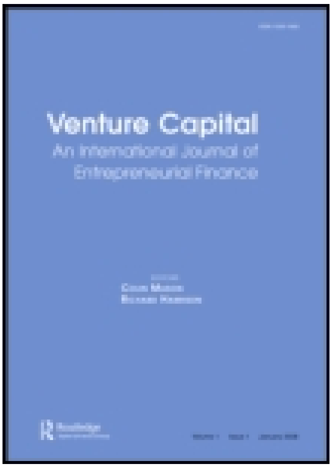

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Relational norms and entrepreneurs' confidence in venture capitalists' cooperation: the mediating role of venture capitalists' strategic and managerial involvement

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Relational norms and entrepreneurs' confidence in venture capitalists' cooperation: the mediating role of venture capitalists' strategic and managerial involvement

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This study examines the relationships between relational norms and entrepreneurs' confidence in the cooperation of their venture capitalist (VC) investors. Based on quantitative data collected from 120 Israeli high tech entrepreneurs, the findings indicate that relational norms between entrepreneurs and VCs (i.e., shared beliefs and perceived similarities) are positively associated with entrepreneurs' confidence in their VCs' cooperation. However, it was found that VCs' strategic involvement mediates the positive relationship between relational norms and entrepreneurs confidence in their VCs' cooperation, whereas VCs' managerial involvement mediates the negative relationship between relational norms and entrepreneurs' confidence in VCs' cooperation. These findings are supported by six interviews made with entrepreneurs. The findings extend the current literature by indicating that although relational norms serve as a prime criterion for selecting between investment opportunities by VCs, they cannot ensure relational continuity over time as entrepreneurs' confidence in their VCs' cooperation is mediated by VCs' involvement. The findings also suggest that entrepreneurs consider 'the optimal balance' between relational norms and control as aligned with strategic rather managerial involvement.

Keywords: relational norms; VCs'; involvement; entrepreneurs'; confidence in VCs'; cooperation

1. Introduction

Venture capitalists' (VCs) perception of their relations with their portfolio companies is well-examined in the literature (Sapienza and Korsgaard 1996; De Clercq and Sapienza 2001, 2006; Neergaard and Ulhøi 2006). In contrast to these studies, this study focuses on examining entrepreneurs' perceptions about the interrelations between relational norms and relational continuity as expressed by their confidence in VCs' cooperation. This paper seeks to extend insights from other studies (Shepherd and Zacharakis 2001) by making an empirical examination of how relational norms between VCs and entrepreneurs (Joshi and Arnold 1997; Macaulay 2000) impact entrepreneurs' confidence in their VCs' cooperation. More specifically, this paper focus on examining how VCs' strategic and managerial mediate the

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relations between relational norms (i.e., shared beliefs and perceived similarities) and entrepreneurs' confidence in VCs' cooperation.

Agency theory suggests that the VC–entrepreneur relationship is best managed by employing formal contracts to defend the interests of the VCs from potentially deleterious activity on the part of those receiving the funding. In the context of venture capital investments, agency theory (Jensen and Meckling 1976) in particular emphasizes how VCs can best formally govern their relations with entrepreneurs through the use of monitoring, bonding, and incentives (Amit, Glosten, and Muller 1990; Ruhnka and Young 1991; Sapienza, Manigart, and Vermeir 1996; Amit, Brander, and Christoph 1998). Following the agency theory perspective, the relations between VCs and entrepreneurs are managed and controlled formally (Sahlman 1990). However, it is argued that this perspective tends to neglect the potential upside available in this relationship (Arthurs and Busenitz 2003), particularly after the formal contract has been established.

Alternatively, the 'prisoner's dilemma' perspective suggests that the relations between VCs and entrepreneurs are examined from the aspect of the parties' motivation to cooperate, rather than to act opportunistically in order to maximize their gain (Cable and Shane 1997). However, under conditions of high interdependence between the unique capital and knowledge of both parties as well as process and outcome uncertainty, confidence in cooperation becomes crucial, as relations cannot be fully controlled formally (Cable and Shane 1997). Previous studies suggest that the venture capitalists and entrepreneurs (VC-E) relationship is impacted more significantly through reciprocal relations and interaction, rather than through formal control mechanisms (Sapienza and Korsgaard 1996; De Clercq and Sapienza 2001, 2006; Busenitz, Fiet, and Moesel 2004; Weber and Göbel 2005).

A recent study (Murnieks et al. 2011) indicates that VCs' investment decisions are interaction-biased as their perceived cognitive similarity with the venture founders influence the attractiveness of investment opportunities. However, relational management requires cognitive similarities over time in order to obtain relational continuity. The current literature indicates that VCs' and entrepreneurs' relations can be best managed based on relational norms as well as by control actions (Shepherd and Zacharakis 2001). Therefore, although relational norms constitute cognitive understanding and expectations for the nature of cooperation at the pre-investment stage, they may be influenced by VCs' actual involvement. Furthermore, while high relational norms between VCs and entrepreneurs may decrease opportunistic behavior and therefore the need of formal control (Joshi and Arnold 1997), low relational norms may be associated with high formal control that can inhibit relational continuity (Macaulay 2000).

Based on quantitative data collected from 120 Israeli high tech entrepreneurs and qualitative data based on six interviews, the findings indicate that entrepreneurs' confidence in VCs' cooperation is mediated by the nature of the VCs' involvement. It was found that VCs' strategic involvement mediates the positive relations between relational norms (i.e., shared beliefs and perceived similarities) and entrepreneurs' confidence in their VCs' cooperation. On the other hand, the findings indicate that VCs' managerial involvement mediates the negative relations between relational norms and entrepreneurs' confidence in VCs' cooperation.

The findings of this study extend the current literature regarding relational management between VCs and entrepreneurs and relational continuity. Although relational norms serve VCs as a prime consideration for investment selection

(Murnieks et al. 2011), low relational norms over time are negatively associated with relational continuity. In addition, the findings also contribute to the venture capital literature by indicating that entrepreneurs consider 'the optimal balance' (Shepherd and Zacharakis 2001) between relational norms and control as aligned with strategic rather managerial involvement.

In the next section, the relations between relational norms and entrepreneurs' confidence in their VCs' cooperation are discussed. Then, the literature on relational norms and VCs' involvement is integrated and the research hypotheses are presented. Finally the findings of this study are presented and discussed.

2. The VC–entrepreneur relationship

2.1. Relational norms and confidence in cooperation

Previous studies have shown that economic activities are embedded within the social context, in which interpersonal obligations reduce transaction costs and the need for formal monitoring (Larson 1992; Uzzi 1997; Neergaard and Ulhøi 2006). Accordingly, economic actors may establish relational norms that embody perceptions, beliefs, and attributions of the other party's goodwill, benevolence, and integrity (Whitener et al. 1998) as well as flexibility, information exchange, and solidarity (Joshi and Arnold 1997). Usually, actors establish cognitive share and trust relations with people whom they perceive to be similar to them (DiMaggio 1992; Nohria 1992; Das and Teng 1998; Nahapiet and Ghoshal 1998), because they set up expectations about behaviors and intentions (McEvily, Perrone, and Zaheer 2003). Thus, cognitive sharing may contribute to identification with a particular reference group (Tsai and Ghoshal 1998; Levin, Whitener, and Cross 2006). Furthermore, the relationship between shared perspectives and trust tends to be stronger in relationships that have been managed over time (Levin, Whitener, and Cross 2006).

In contrast to contractual covenants that serve as formal mechanism to ensure cooperation, relational norms construct normative and cognitive shares that constitute a mutual obligation to cooperate and share resources to achieve common goals based on similar perceptions. These expectations about another's intentions and behavior set up a basis for commitment and reciprocity relations (Gambetta 1988; McEvily, Perrone, and Zaheer 2003; Welter and Smallbone 2006). Hence, relational norms may increase the probability of relational continuity (Joshi and Arnold 1997; Macaulay 2000) and decrease the need for control over opportunistic behavior (Macaulay 2000). It was suggested that relational norms are developed over time as the result of obligatory and reciprocal behaviors between the parties (Ring and Van de Ven 1994). However, both parties also have considerations for noncooperative behavior (Bowden 1994; Cable and Shane 1997). In addition, they may face conflicts that may undermine cooperation (Busenitz et al. 1997; Harrison, Dibben, and Mason 1997; Yitshaki 2008; Zacharakis, Erikson, and George 2010).

VCs pay great attention to interpersonal chemistry and similarities with entrepreneurs as a criterion for making new investments (Shepherd and Zacharakis 2001; Franke et al. 2006; Murnieks et al. 2011). Recent studies have shown that venture capital investments rely on relational norms (Sapienza and Korsgaard 1996; De Clercq and Sapienza 2001, 2006; Shepherd and Zacharakis 2001; Busenitz, Fiet, and Moesel 2004; Weber and Göbel 2005). In addition, it has also been found that VCs' confidence in their portfolio firms' cooperation is based on the level of the interpersonal relations and the degree to which the VCs assume mutual commitment to these relationships (Neergaard and Ulhøi 2006).

The relations between VCs and entrepreneurs depend of both parties' motivation to cooperate (Timmons and Bygrave 1986; Sahlman 1990; Sapienza and Korsgaard 1996; Cable and Shane 1997). Thus, confidence in relations is crucial due to the high interdependence between parties (Cable and Shane 1997). Accordingly, high relational norms may obtain relational continuity (Joshi and Arnold 1997; Macaulay 2000), as it constitutes cognitive share and expectations for commitment to the relations over time (McEvily, Perrone, and Zaheer 2003). It is therefore hypothesized that:

Hypothesis 1: Entrepreneurs' perceived relational norms will be positively associated with their confidence in VCs' cooperation.

2.2. Relational norms and VCs' involvement

Following the agency theory perspective, economic actors may face risks of moral hazard and opportunistic behavior (Jensen and Meckling 1976; Gulati 1995). Accordingly, the relationships between VCs and entrepreneurs are formally established through contractual arrangements that include stipulations and governance mechanisms to control opportunistic behavior (Amit, Glosten, and Muller 1990; Ruhnka and Young 1991; Amit, Brander, and Christoph 1998). Usually, VCs seek to secure a higher proportion of seats on the board to increase their control over strategic decision-making (Sapienza, Manigart, and Vermeir 1996; Smith 2005; Williams, Duncan, and Ginter 2006), with the aim of ensuring that entrepreneurs act according to their expectations (Floyd and Lane 2000). VCs use the board as a mechanism for aligning managers' and shareholders' interests by employing formal governance and by using their voting, board, and liquidation rights (Kaplan and Strömberg 2003), as well as by means of monitoring management decisions (Busenitz et al. 1997; Hillman, Cannella, and Paetzold 2000).

Previous studies have shown that these formal contractual stipulations are contingent on the financial and non-financial measures of venture performance. VCs especially want full control if the venture performs poorly. According to Kaplan and Strömberg (2003) 'as performance improves, the entrepreneurs retain/obtain more control rights. If the firm performs well, the VCs retain their cash flow rights, but relinquish most of their control and liquidation rights' (282). This tendency is supported by other studies' findings that show that VCs decrease their formal involvement when the venture performs as expected (Sapienza 1992; Sapienza and Gupta 1994; Sapienza and Korsgaard 1996; Sapienza, Manigart, and Vermeir 1996).

Previous studies have shown that VCs add value to their portfolio firms by assisting in financing, formulating business strategy, building managerial teams, serving as sounding boards, managing crises, and developing networks (MacMillan, Kulow, and Khoylian 1988; Gorman and Sahlman 1989; Gomez-Mejia, Balkin, and Welbourne 1990; Sapienza, Manigart, and Vermeir 1996; Morris, Watling, and Schindehutte 2000). Based on the above-mentioned studies, it is suggested that VCs' involvement can be seen as varying between strategic and managerial involvement.

From the entrepreneurs' point of view, strategic involvement can be seen as a set of actions that relates to VCs' added value and therefore may increase entrepreneurs' confidence in their VCs' cooperation. A similar expectation was found among VCs that preferred to focus on strategically oriented issues, such as developing business plans, assisting with acquisitions, and facilitating strategic relationships with other companies (Kaplan and Strömberg 2001). Although managerial involvement in expanding the managerial team may be considered as beneficial to the entrepreneurial management team (Kaplan and Strömberg 2001), high involvement in monitoring activities (financial and operational), as well as managerial involvement, is less expected by entrepreneurs, as it might interrupt the balance between control and cooperation (Busenitz et al. 1997) as well as undermine their expectation for autonomy.

It has been further suggested that VCs' involvement is also influenced by their interactions with the entrepreneurs (Sapienza and Korsgaard 1996; Sapienza, Manigart, and Vermeir 1996; De Clercq and Sapienza 2006). However, while relational norms contribute to a decision to collaborate because it set up mutual expectations for cooperation and commitment (Franke et al. 2006), maintaining relational norms is influenced by the VCs' involvement. Therefore, when VCs' involvement is focused primarily on strategic issues such as formulating and evaluating marketing plans or formulating business strategy (MacMillan, Kulow, and Khoylian 1988; Rosenstein et al. 1993), these actions will likely be perceived as consistent with the entrepreneurs' beliefs and expectations for mutual cooperation. Moreover, strategic involvement may be considered by entrepreneurs as beneficial because VCs' strategic involvement may have a positive effect upon the firm's performance (Gifford 1997; Fried, Bruton, and Hisrich 1998; Yoshikawa, Phan, and Linton 2004). Thus, high relational norms is suggested to be associated with low levels of risk that derive from opportunistic behavior (Joshi and Arnold 1997) and may contribute to the development of confidence in cooperative relations (Sapienza and Korsgaard 1996; Whitener et al. 1998; Shepherd and Zacharakis 2001; McEvily, Perrone, and Zaheer 2003).

On the other hand, low relational norms may be negatively associated with VCs' managerial involvement because such involvement may indicate that VCs increase their control by limiting entrepreneurs' managerial autonomy (Cardon et al. 2005). It was found that entrepreneurs see managerial involvement negatively (Gomez-Mejia, Balkin, and Welbourne 1990), as extensive managerial involvement such as dismissal of the entrepreneur/CEO may indicate higher control action of VCs. In such cases, entrepreneurs perceive extensive managerial involvement as being contrary to their expectations. It is therefore hypothesized that:

Hypothesis 2a: Entrepreneurs' perceived relational norms will be positively associated with VCs' strategic involvement.

Hypothesis 2b: Entrepreneurs' perceived relational norms will be negatively associated with VCs' managerial involvement.

2.3. VCs' strategic involvement and entrepreneurs' confidence in cooperation

Previous studies have found that active monitoring by the VCs increases the return on investment (ROI) probability and has a positive effect upon the firm's performance, with this being ascribed to the parties' common compensation incentives (Gifford 1997; Fried, Bruton, and Hisrich 1998; Yoshikawa, Phan, and Linton 2004). In addition, it has also been found that entrepreneurs appreciate their VCs' strategic support, as it is found to predict performance (initial public offering or merger/acquisition; Miller 2003). Although the VCs' tendency to control board decisions is implicit in the VC–E relationship, VCs' strategic involvement can be seen as a fundamental part of their ability to add value (MacMillan, Kulow, and

Khoylian 1988; Gorman and Sahlman 1989). In addition, VCs' strategic involvement can be viewed as consistent with entrepreneurs' expectations of assistance, rather than being seen as intervention, since strategic involvement does not inhibit their managerial autonomy. This argument is aligned with previous studies' suggestions that high relational norms may be positively associated with relational continuity (Joshi and Arnold 1997; Macaulay 2000). It is therefore hypothesized that:

Hypothesis 3a: VCs' strategic involvement will be positively associated with entrepreneurs' confidence in their VCs' cooperation.

2.4. VCs' managerial involvement and entrepreneurs' confidence in cooperation

It was argued that portfolio firm's board composition reflects the established contractual covenants and provisions (Fiet et al. 1997; Smith 2005). Hence, VCs use the board of directors as a formal control mechanism (Amani, Wallace, and Fayez 2002; Daily et al. 2002; Williams, Duncan, and Ginter 2006). Previous studies indicate that VCs have a clear preference to reduce 'the concentration of executive power in the hands of owners and entrepreneurs as a condition for their participation' (Williams, Duncan, and Ginter 2006, 310). As such, they 'frequently have substantial power over other participants in the startup' (Fried and Ganor 2006, 971). Board control enables the VC to enforce changes in its portfolio management structure (Rosenstein et al. 1993; Gompers and Lerner 1996; Fiet et al. 1997). In such cases, VCs may consider dismissing entrepreneurs who they perceive as underperforming (Bruton, Fried, and Hisrich 1997, 2000; Fiet et al. 1997). When agency risks cannot be resolved by entrepreneur replacement, VCs may choose an exit strategy and defect (Amit, Brander, and Christoph 1998; Parhankangas and Landstrom 2004) or cease funding the venture (Sahlman 1990). Hence, VCs' managerial involvement can also be seen as a demonstration of concern and an escalation of commitment that serves them in protecting their initial decision to invest in faltering firms (Birmingham 2006).

From the entrepreneurs' point of view, involvement in internal management issues can be seen negatively (Gomez-Mejia, Balkin, and Welbourne 1990). It was found that when new venture teams had industry experience and longer team tenure they viewed business management advice and operational assistance offered by their VCs negatively (Barney et al. 1996). Accordingly it seems that managerial involvement by VCs might lead to entrepreneurs having less motivation to cooperate (Chua and Woodward 1993; Cable and Shane 1997), as entrepreneurs have less ability to influence strategic decision-making (Williams, Duncan, and Ginter 2006) and because some of the VCs' actions may be considered by entrepreneurs to be opportunistic, especially if the VCs take coercive actions and replace an entrepreneur (Bruton, Fried, and Hisrich 1997, 2000; Fiet et al. 1997; Shepherd and Zacharakis 2001). In addition, extensive managerial involvement may also be associated with conflicts between VCs and entrepreneurs, as VCs take actions that might be opposed to entrepreneurs' interests (Yitshaki 2008; Zacharakis, Erikson, and George 2010). Thus, the managerial involvement of VCs may indicate higher need for control and low relational norms that may inhibit relational continuity (Joshi and Arnold 1997; Macaulay 2000). It is therefore hypothesized that:

Hypothesis 3b: VCs' managerial involvement will be negatively associated with entrepreneurs' confidence in their VCs' cooperation.

2.5. *The mediating role of VCs' involvement*

Previous studies have shown that the nature and scope of VCs' involvement depend on the venture capital firms' strategic orientation, as well as the context in which VC–E relations take place (MacMillan, Kulow, and Khoylian 1988; Gorman and Sahlman 1989; Gomez-Mejia, Balkin, and Welbourne 1990; Sapienza, Manigart, and Vermeir 1996; Morris, Watling, and Schindehutte 2000). While relational norms is important for VC–E relations management, entrepreneurs' confidence in VCs' cooperation takes into consideration the degree of VCs' involvement. Thus, low relational norms between VCs and entrepreneurs are expected to be associated with VCs' high formal control (Macaulay 2000), whereas high relational norms decrease opportunistic behavior and the need of formal control and therefore are expected to be associated with relational continuity (Joshi and Arnold 1997; Macaulay 2000). Accordingly, it is hypothesized that the scope of the VCs' involvement plays a mediating role between entrepreneurs' perceived relational norms and confidence in their VCs' cooperation.

Hypothesis 4: VCs' strategic involvement will mediate the positive relations between entrepreneurs' perceived relational norms and entrepreneurs' confidence in their VCs' cooperation.

Hypothesis 5: VCs' managerial involvement will mediate the negative relations between entrepreneurs' perceived relational norms and entrepreneurs' confidence in their VCs' cooperation.

Figure 1 summarizes the conceptual model.

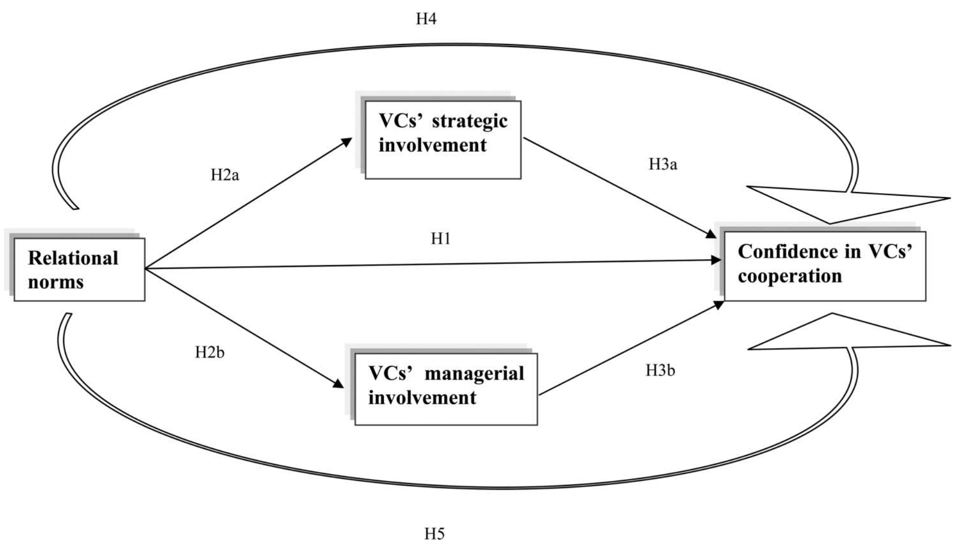

Figure 1. Relational norms and entrepreneurs' confidence in VCs' cooperation.

3. Methodology

3.1. *Data collection*

Data were collected from 120 Israeli entrepreneurs using a survey instrument developed by Shepherd and Zacharakis (2001). In addition, data were also collected regarding the scope of VCs' involvement using a questionnaire developed by

MacMillan, Kulow, and Khoylian (1988). These surveys were used in their original (English) format, as Israeli entrepreneurs regularly correspond in English.

The survey instrument was sent out in the winter of 2004 by email to entrepreneurs who were selected from 500 VC-backed entrepreneurial firms taken from the Israeli Venture Capital Research Center database. One hundred twenty entrepreneurs completed the survey instrument, representing a response rate of 24% that reflects the population in terms of age, size, and location.

Most of the entrepreneurs (82%) referred in their answers to the lead investor. In addition, most of the entrepreneurs (92%) indicated that the entrepreneurial team holds 50% or less of the equity shares, meaning that VCs had formal governance over most of the firms examined. Most entrepreneurs (64%) indicated that they had previous experience in the industry in which their venture operated.

3.2. *Measures*

3.2.1. Entrepreneurs perceived relational norms

This was measured by the survey instrument developed by Zacharakis (2002). Entrepreneurs were asked to rank their shared beliefs and perceived similarities, using a seven-point Likert scale (e.g., 'the VC is similar to you in that (s)he has the same belief structure' and 'the VC shares your beliefs about doing business'). This measure contains six items ($\alpha = .915$) and is aligned with the other studies indications for relational norms (Joshi and Arnold 1997; Macaulay 2000).

3.2.2. Confidence in VCs' cooperation

Entrepreneurs were asked to what extent VCs act according to mutual interest rather than opportunistically, using a seven-point Likert scale (e.g., 'the VC pressures you to seek short-term profits to the detriment of long-term profitability'). This measure contains two items, indicating that entrepreneurs perceive confidence in VCs' cooperation via two aspects that related to VCs' commitment over time: the degree to which VCs are willing to provide subsequent investments and the pressure from VCs toward long-term profitability. These items were averaged to produce a scale score ($\alpha = .726$). This measure is aligned with previous indications of relational continuity (Joshi and Arnold 1997; Macaulay 2000).

As presented in Table 1 exploratory factor analysis (EFA) has been employed to identify the constructs of relational norms and entrepreneurs' confidence in VCs' cooperation. The purpose of EFA was to identify the factor structure (Stevens 1996; Stapleton 1997) as this survey instrument has not been used extensively.

3.2.3. VCs' involvement

The scope of VCs' involvement was measured by the questionnaire developed by MacMillan, Kulow, and Khoylian (1988). This questionnaire examined the scope and level of VCs' involvement in 20 activities. This questionnaire has been used in related studies (see, for example, Morris, Watling, and Schindehutte 2000; Yitshaki 2008). Entrepreneurs were asked to indicate to what extent their VC is involved in each activity, using a seven-point Likert scale. This survey instrument was originally

Table 1. Results of EFA for key variables factor loadings ($n = 120$).

	Relational norms	Confidence in VCs' cooperation
The VC is similar to you in that (s)he has the same belief structure	**.886**	.172
The VC shares your beliefs about doing business	**.838**	.121
You share with your investor the same ambitions and vision	**.826**	.199
Your attitude toward HR recruitment and retention is similar	**.776**	.183
If it were not for work, you would have very little in common with the VC*	**.762**	.230
The VC is willing to make adjustments to accommodate your needs	**.665**	.472
The VC has not invested sufficient funds in your venture – (s)he has underinvested	.294	**.831**
The VC pressures you to seek short-term profits to the detriment of long-term profitability	.242	**.813**

Note: *Question was recoded.

used to ascertain levels of involvement. Given the additional questions used to aid in identifying the nature and scope of VCs' involvement, EFA using principal factors extraction with varimax rotation was performed on all items. The larger scale resulted in two dimensions of VC involvement: strategic and managerial (see Table 2).

Table 2. Results of EFA for scope of VCs' involvement variables factor loadings ($n = 120$).

	VCs' strategic involvement	VCs' managerial involvement
Adding value by strategic involvement	**.880**	−.150
Formulating and evaluating marketing plans	**.823**	.208
Formulating business strategy	**.810**	.140
Developing a social network	**.782**	−.127
Developing a professional support group	**.774**	−.109
Management replacement	−.039	**.860**
Hiring/firing key managers	−.129	**.845**
Operational monitoring	−.084	**.800**
Hiring/firing key employees	−.025	**.758**
Managing crises and problems	−.299	**.732**

3.2.4. VCs' strategic involvement

Strategic involvement of VCs was found to be related to the degree to which entrepreneurs perceive their added value as being strategic. In addition, entrepreneurs also assessed their VCs' strategic involvement by the degree to which they were involved in formulating and evaluating marketing plans, developing business strategy, developing professional support groups, and developing social networks. As shown in Table 2, this measure contains five items ($\alpha = .870$).

3.2.5. VCs' managerial involvement

Entrepreneurs were asked to describe to what extent VCs are involved in hiring key managers, management replacement, management crises and problems, as well as to what extent VCs are involved in setting priorities and financial monitoring. As shown in Table 2, this measure contains five items ($\alpha = .860$).

3.3. Control variables

3.3.1. Entrepreneurs' contractual covenants

Based on measured developed by Zacharakis (2002), entrepreneurs were asked to what extent the contractual arrangements include control over VCs cooperation, using a seven-point Likert scale (e.g., 'the venture capital contract protects you from inappropriate actions of the VC'). This measure contains three items ($\alpha = .744$).

3.3.2. Perceived performance

Previous studies have shown that VC–E relations are influenced by the context that these relations take place (MacMillan, Kulow, and Khoylian 1988; Gorman and Sahlman 1989; Gomez-Mejia, Balkin, and Welbourne 1990; Sapienza, Manigart, and Vermeir 1996; Morris, Watling, and Schindehutte 2000). Therefore the mediation model controlled for performance. Following the performance scale proposed by MacMillan, Kulow, and Khoylian (1988), entrepreneurs were asked to assess their venture performance with respect to market share, degree of competition and innovativeness, and profit and ROI using a five-point Likert scale, ranging between 'far below average' and 'far above average.' These items were averaged to produce a scale score ($\alpha = .876$).

3.3.3. Investment rounds

The number of investment rounds that an entrepreneur obtains may indicate his ability to create relational norm and therefore attract venture capital investments (Murnieks et al. 2011). Therefore, entrepreneurs were asked how many times they raised venture capital (e.g., 'total number of rounds for all companies you have founded').

4. Findings

4.1. Descriptive analysis

Table 3 shows the correlations between model variables. As shown, relational norms (as examined by shared beliefs and entrepreneurs' perceived similarities) positively correlate with VCs' confidence in VCs' cooperation ($r = .585$ [$p < .01$]). In addition, relational norms are found to be positively correlated with VCs' strategic involvement ($r = .609$ [$p < .01$]) and negatively with VCs' managerial involvement ($r = -.381$ [$p < .01$]). Furthermore, VCs' strategic involvement positively correlates with entrepreneurs' confidence in their VCs' cooperation ($r = .578$ [$p < .01$]), whereas VCs' managerial involvement correlates negatively with entrepreneurs' confidence ($r = -.358$ [$p < .01$]). The findings also show that entrepreneurs' contractual covenants and perceived performance are positively correlated with entrepreneurs confidence in their VCs' cooperation; however, this correlation become non-significant in the regression analysis.

Table 3. Means, standard deviations, and correlations for study variables ($n = 120$).

	Mean	SD	1	2	3	4	5	6
Contractual covenants	3.11	1.35						
Perceived performance	1.43	.49	.247*					
Investment rounds	2.89	1.42	−.345**	−.256**				
Relational norms	4.4	1.34	.338**	.387**	−.075			
VCs' strategic involvement	3.96	1.26	.402**	.289**	−.087	.609**		
VCs' managerial involvement	3.26	1.35	−.074	−.360**	.142	−.381**	−.019	
Confidence in VCs' cooperation	4.62	1.54	.321**	.409**	−.087	.585**	.578**	−358**

Note: *$p < .05$, **$p < .01$.

Table 4. Results of regressions testing the mediated role of VCs' strategic and managerial involvement with entrepreneurs' confidence in VCs' cooperation ($n = 120$).

	Control and independent dependent variables	VCs' strategic involvement	VCs' managerial involvement	Full mediation model
Control variables				
Contractual covenants	.110	.240**	.022	.013
Perceived performance	.181*	−.009	−.199	.123
Investment rounds	−.013	.054	.113	.001
Independent variable				
Relational norms	.526***	.580***	−.303**	.185
Mediators				
VCs' strategic involvement				.487***
VCs' managerial involvement				−.222**
Model *F*	19.377***	21.063***	6.031***	21.275***
R^2	.449	.473	.204	.581
Adj-R^2	.426	.450	.170	.554

Note: *$p < .05$, **$p < .01$, ***$p < .001$.

4.2. *Testing the model*

Table 4 shows the results of the mediation model. The mediation model follows the condition set up by Baron and Kenny (1986) for mediation. In addition, following Holmbeck (1997) 'the nature of the mediated relationships is such that the independent variable influences the mediator which, in turn, influences the outcome' (600).

The findings indicate that relational norms are positively associated with confidence in VCs' cooperation ($\beta = .53$***) thus supporting Hypothesis 1. In addition, relational norms are positively associated with VCs' strategic involvement ($\beta = .58$***), and negatively with VCs' managerial involvement ($\beta = -.30$**) thus supporting Hypotheses 2a and 2b.

VCs' strategic involvement is positively associated with entrepreneurs' confidence in VCs' cooperation ($\beta = .49$***), whereas VC's managerial involvement is negatively associated with entrepreneurs confidence in VCs' cooperation ($\beta = -.22^{**}$) thus supporting Hypotheses 3a and 3b.

As expected (column 4) relational norms become non-significant after considering VCs' strategic and managerial involvement. Sobel test (Baron and Kenny 1986) results show that VCs' strategic involvement mediates the positive relations between relational norms and entrepreneurs' confidence in their VCs' cooperation ($z = 4.03$, $p = .000$) thus supporting Hypothesis 4. On the other hand, VCs' managerial involvement mediates the negative relations between relational norms and entrepreneurs' confidence in their VCs' cooperation ($z = 2.01$, $p = .04$) thus supporting Hypothesis 5.

These findings are supported by the qualitative data. Entrepreneurs indicated that VCs' strategic involvement is seen as an indication of their commitment, as was explained by one of the entrepreneurs:

> '... their [the VCs'] valuable contribution to the venture is a result of trust relations and mainly of commitment. In our firm, VCs are involved as advisors and social, rather than coercive, partners. Throughout, I have been able to maintain my autonomy and to benefit from the VCs' added value.'

The findings are further supported by another entrepreneur who indicated that VCs' managerial involvement is seen as negatively associated with confidence in VCs' cooperation:

> 'I don't want any governance – we are too mature for that; I'm looking for involvement. Governance leads to suspicions and prevents practical management. From my point of view, they [the VCs] should abandon the perception of governance and adopt an attitude of mutual cooperation and real involvement, but not managerial involvement. I'm looking for another type of involvement: of guidance, mentoring, networking and professional assistance. I'm looking for the autonomy that is associated with mentoring [as opposed to controlling]. Autonomy indicates that the VCs trust me. Trust is the central premise in every relationship between VCs and entrepreneurs. If the VCs don't trust me, they should discontinue our relationship.'

5. Discussion

The findings of this study indicate that relational norms are positively associated with confidence in VCs' cooperation (Joshi and Arnold 1997; Macaulay 2000). However, it was found that VCs' strategic involvement mediates the positive relationship between relational norms and entrepreneurs' confidence in VCs' cooperation, whereas VCs' managerial involvement mediates the negative relationship between relational norms and entrepreneurs' confidence in VCs' cooperation.

The findings of this study have several implications for understanding the complexity of relational management between VCs and entrepreneurs. The findings extend the current literature by highlighting entrepreneurs' perceptions regarding relational continuity over time. Although VCs' attractiveness of investment opportunities is influenced by cognitive similarity with entrepreneurs (Murnieks et al. 2011) this interaction bias indicates that relational norms serve as *ex ante* consideration for screening investments' opportunities. However, VCs' *ex post* consideration for relational continuity is influenced by their need for control.

For entrepreneurs, confidence in their VCs' cooperation is related to the degree to which their investors will be committed to the relationships over time by obtaining subsequent funds and by demonstrating a long-term positive attitude toward the venture. As entrepreneurs usually have less diversified possibilities to raise funds than VCs have to seek ventures (Cable and Shane 1997), they face an uncertainty regarding the degree to which the venture capital firm is able to be committed to the venture over time. The findings indicate that relational norms contribute to relational continuity especially when VCs are strategically involved. However, when VCs are highly involved in managerial issues (i.e., managerial replacement), it might stifle the preservation of the relational norms and may be seen as inconsistent with entrepreneurs' expectations although VCs' managerial involvement might indicate commitment. This adds to the findings of other studies (Gomez-Mejia, Balkin, and Welbourne 1990; Chua and Woodward 1993; Cable and Shane 1997) by showing that VCs' managerial involvement is negatively associated with relational norms and by demonstrating that extensive managerial involvement mediates the negative relations between relational norms and entrepreneurs' confidence in their VCs' cooperation.

The findings of this study also extend the current literature regarding the optimal balance between relational norms and formal control. Following Shepherd and Zacharakis (2001), 'the entrepreneur and the VC need to balance the level of control and trust building mechanisms so that the optimal level of confidence in partner cooperation can be achieved' (129). However, relational norms depend on subjective and voluntary relations that cannot be enforced by formal contracts. Therefore, relational norms rely on the dynamic process of relational management that is based on different perceptions and expectations. The findings suggest that entrepreneurs consider 'the optimal balance' between relational norms and control as aligned with strategic rather managerial involvement.

Practically, the findings of this study call for VCs' and entrepreneurs' attention to the implications of the mediating role of VCs' involvement on entrepreneurs' confidence in cooperation. Actually, confidence in cooperation may change dynamically over time, due to subsequent investments and changes in board composition, unexpected environmental changes, managerial replacement, and interpersonal conflict. Therefore, entrepreneurs' confidence in their VCs' cooperation can be seen as contingent on certain circumstances. Consequently, it is suggested that both will occasionally reconstruct relational norms in order to clarify perceptual asymmetries and set up expectations for long-term cooperation. In addition, the findings of this study also indicate that VCs' managerial involvement is negatively associated with confidence in cooperation. However, higher managerial involvement may sometimes indicate higher commitment of VCs to the venture's survivability. It is therefore suggested that VCs need to clarify their expectations and joint interests, thereby increasing entrepreneurs' confidence in cooperation. A high degree of cooperation during crises might contribute to entrepreneurs' commitment to changes in management in a way that might reduce their uncertainty and increase their confidence in cooperation.

6. Limitations and future research directions

The limitation of this study relates to its reliance only on the perceptions of entrepreneurs. In order to understand VC–E relational management, further research should reflect both entrepreneurs' and VCs' perceptions of confidence in cooperation. In addition, as perceptions of confidence are subsequent to relational norms and to the inherent asymmetries that may have an impact on VC–E relations, it is important to obtain more in-depth insights to understand the differences in both parties' perceptions in different contexts. This can be examined by using qualitative methods, due to the complexity that is associated with quantitative examination of the dyadic relations between VCs and entrepreneurs (Higashide and Birley 2002; Yitshaki 2008). Further studies should also consider more contextual indicators such as time since VC investment, board composition, and share percentage of each party.

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