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THE JOINT INFLUENCE OF INTERACTION HISTORY AND TIME HORIZON ON VENTURE-CAPITALIST/NEW-VENTURE TEAM COOPERATION

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ABSTRACT

This paper investigates post investment cooperation between new venture teams and venture capitalists a propos the longevity of the relationship. Due to the structure of venture capital funds, the authors of this piece argue that the joint effect of the history of interaction between the parties, and time horizon of the relationship, is an especially important determinant of the cooperation within venture-capitalist/new-venture team relationships. The hypotheses were developed and tested empirically on a sample consisting of 70 venture capital backed companies. Both history of interaction and the time horizon of the relationship are found to significantly affect the new venture team's confidence in cooperation.

INTRODUCTION

The recognized importance of providing risk capital to high growth start-up companies has increased focus on the venture capital industry. This focus has called for a greater scholarly understanding of the relationships between venture capitalists and the new venture teams of their portfolio companies. Due to the high failure rates of venture capital backed companies (Sahlman, 1990) as well as the high levels of management turnover actively triggered by venture capitalists (Schefczyk & Gerpott, 2000; Gorman & Sahlman, 1989), the issue of structuring the relationship to promote cooperation has become highly relevant for both researchers and practitioners. Although prior researchers have studied different issues of the venture-capitalist/new-venture team relationship, the majority has focused on the pre-investment stages. Less attention has been given to the nature of the cooperation between the parties after the investment is made; and no research known to the authors has especially explored the time dimension of the cooperation.

Venture capital research has, basically, followed two distinct paths regarding the post investment behaviour of venture capitalists. The most dominant path is that of venture capitalists' employment of governance mechanisms to control the new venture teams. This research has, to a great extent, been rooted in agency theory, contending that contracting and monitoring efforts can improve portfolio firm performance by increasing effort and reducing the probability of moral hazard (e.g. Sapienza & Gupta, 1994; Reid, 1996, 1999). The second school of thought is rooted in resource dependence logic. This latter group of venture capital research scholars study the relationship between the venture capitalist as a provider of resources beyond the capital provided (e.g. obtaining alternative sources of equity financing, serving as a sounding board to the new venture team, and formulating business strategy) and portfolio firm performance (e.g. Fredriksen, Olofsson, & Wahlbin, 1991, 1997; Sapienza, 1992; Sapienza, Manigart, & Vermeir, 1996). Focus in this research has been on both human capital (the venture capitalist's experience and expertise) and social capital (the venture capitalist's access to resources from other firms/organizations due to their network).

These research streams provide important insight about venture-capitalist/new-venture team cooperation and conditions leading to successful outcomes for both parties. Indeed, they may contribute to decisions regarding alternative governance designs and incentive schemes for venture capital funds as well as more effective partnering between new venture teams and venture capitalists in terms of competence and resource demands. However, with few exceptions (e.g. Sapienza & Korsgaard, 1996;

Sapienza, Korsgaard, Goulet, & Hoogendam, 2000; Steier & Greenwood, 1995), scholars from these research streams have ignored process. That is, this body of research does not tell us how the venture-capitalist/new-venture team relationship might unfold over time. Process, however, is central to managing the venture-capitalist/new-venture team relationship. Little attention has been given to the consequences of the underlying time frame of the relationship. That is, research has not explored how the duration of the venture-capitalist/new-venture team relationship will affect the relevance of control mechanisms, monitoring efforts, and social issues within the cooperation. Does the structure of the relationship facilitate or impede the development of confidence in cooperation? Does the nature of the relationship suggest that different governance logics should be utilized in different phases of the relationship? When should the parties rely on trust and when should they rely on control?

The influences of a past history of interaction and the time horizon on the robustness of cooperation have been widely recognized by different social science research streams. Despite this, the different research streams have emphasized the constructs differently. A past history of interaction as an antecedent of trust in general, has received considerable attention within disciplines such as sociology, psychology, political science, as well as organization theory and strategic management; while relatively less attention has been given to these issues within economics. However, the time horizon of cooperative arrangements plays a central role in economics when analyzing cooperation as repeated games (e.g. Kreps, Milgrom, Robers, & Wilson, 1982).

The purpose of this paper is to examine the joint influence of the interaction history and time horizon on the cooperation between venture capitalists and the new venture teams. In particular, we argue that together, past history of interaction and time horizon, affect the parties' concerns for being victimized by the other party and the temptation to act opportunistically in the relationship. Based on insights from both game theory as well as the literature on trust, we explain how the peculiar structure of the venture-capitalist/new-venture team relationship affects the parties' propensity to cooperate. The structure of our paper is as follows. First, the theoretical point of departure of this paper is described. Secondly, theoretical arguments and past research findings are used to develop hypotheses regarding venture-capitalist/new-venture cooperation. Thirdly, the hypotheses are tested through regression analysis based on survey data. Finally, our findings are discussed and the implications for both researchers and practitioners are outlined.

THEORY DEVELOPMENT

Researchers studying interorganizational cooperation have focused on various antecedents to cooperative attitudes. Whereas most research has focused on dependencies and shared assets among cooperating partners (e.g. Pfeffer & Salancik, 1978; Williamson, 1985), other scholars have suggested that cooperating partners become committed to each other due to a common history of interaction (e.g. Levinthal & Fichman, 1988; Ring & Van de Ven, 1994). Another stream of research, most precisely developed within the study of iterated games, has emphasized that also anticipations regarding future interaction may affect cooperation (e.g. Axelrod, 1984; Telser, 1980). Drawing on the two latter research streams, this paper takes an interactive approach by focusing on two of the structural dimensions tied to the continuity of interorganisational relationships. These are: 1) past interaction and 2) time horizon. To illustrate how these concepts serve both as proximate explanations of cooperation as well as strategies to promote cooperation, the payoff structure to cooperation is illustrated through the Prisoner's Dilemma framework.

History of Interaction

Due to the continuity of inter-organisational relationships, the history of prior interactions among organizations has an important effect on the nature of future relations (Levinthal & Fichman, 1988). The importance of such prior interaction is often related to the concept of trust. Although research has identified many determinants of cooperation, trust is widely regarded as an especially immediate

antecedent (La Porta, Lopez-de-Silanes, Schleifer, & Vishny, 1997; Smith, Carrol, & Ashford, 1995). Trust, it is argued, has (an unknown but possible) capacity to curb opportunism, restrain risk, and reduce transaction costs (e.g. Huemer, 1998).

Definitions for trust are often categorized into two main views: a) the predictability of one's expectation (Zucker, 1986), a business risk view; and b) an individual's confidence in the good will of the others (Ring & Van de Ven, 1992, 1994). These views differ, however, concerning the comprehensiveness of the concept. Whereas the first definition often includes the structuring of contracts or rewards and punishment so that individuals behave in a pre-specified manner (Bhattacharya, Devinney, & Pillutla, 1998), the latter view is a more restrictive definition viewing trust as the expectation of behaviour irrespective of the ability to monitor or control the other party (Mayer, Davis, & Shoorman, 1995). The business risk view on trust is often utilized by scholars working with transactions cost or agency perspectives. Hence, this view emphasizes the payoff structure as an important explanatory factor of behaviour. Telser (1980) contends that reliability is not an inherent personality trait: "A person is reliable only if it is more advantageous to him than being unreliable" (Telser, 1980: 28). Scholars focusing on how inter-organizational relationships unfold over time are to a greater extent advocating the restrictive view on trust (Ring & Van de Ven, 1992, 1994). That is, process scholars are more concerned about how the good will of individuals develops in an ongoing relationship. According to Ring and Van de Ven: "Reliance on trust by organizations can be expected to emerge between business partners only when they have successfully completed transactions in the past and they perceive each other as complying with norms of equity" (1992: 489). Although people may be willing to build reputations for altruisms (Andreoni & Miller, 1993: 582), past dealings will be more effective as trust-building mechanisms (Granovetter, 1985). Granovetter argues: "Better than the statement that someone is known to be reliable is information from a trusted informant that he has dealt with that individual and found him so. Even better is information from one's own past dealings with that person" (1985: 490).

Both perspectives on trust seem to agree that past interaction influences a cooperating partner's reliance on cooperation. In the repeated Prisoner's Dilemma approach, strategies of cooperation are tightly linked to the past behaviour of ones counterpart. The well known tit-for-tat strategy implies that the actor chose to cooperate on the first move and thereafter do whatever—defect or cooperate—the other player did on the previous move. According to Axelrod; "An effective strategy must be able at any point to take into account the history of the interaction as it has developed so far" (1984: 30). This supports the notion made by Parkhe who emphasizes that interaction improves the prospects for cooperation by encouraging strategies of reciprocity (Parkhe, 1993: 799). Hence, past behaviour will make an impact on whether an actor is regarded as complying with norms of equity.

Research on venture capital indicates that repeated interaction between venture capitalists and new venture teams encourages cooperation. Bygrave and Timmons (1992) noted that more frequent and more open communication between new venture teams and venture capitalists appears to result in more cooperative strategy choices. Studying determinants of monitoring behaviour by venture capitalists, Sapienza et al. (1996) noted that longer venture-capitalist/new-venture team relationships mitigated agency concerns and reduced monitoring. Further, Cable and Shane (1997) proposed that the probability of cooperation in entrepreneur-venture capitalist relationships increases with the frequency of their communications. According to Busenitz et al. (1997), new venture team members are likely to be more willing to cooperate with future requests and advice from the venture capitalist when they perceive that they are receiving fair treatment. Further, Sapienza and Korsgaard put forth that "the more entrepreneurs share information, the more apt investors are to eschew monitoring, to trust that the entrepreneurs will be honest, and support the entrepreneurs' decisions" (Sapienza et al., 1996: 570). Hence, timely feedback promotes positive relations between entrepreneurs and investors. Recent research on the venture-capitalist/new-venture team relationship has used insight from social justice theory to explore which factors affect the perceived fairness of the parties within the relationship. Busenitz et al. (1997), in particular, examined how conditions in place at the time of first-round funding can frame the new venture team's perceptions of being treated fairly by the venture capitalist. This was followed up in another study

by Busenitz et al. (2004) which revealed that the perception of procedural justice increased the probability of a favourable venture exit. Thus, this research indicates that entrepreneurs' and venture capitalists' propensity to cooperate is affected by their history of interaction.

Theoretical arguments combined with venture capital research about the effects of prior interaction culminate in the following hypothesis:

Hypothesis 1. The greater the amount of past interactions among venture capitalists and new venture teams, the greater the level of confidence in cooperation between the parties will be.

Time Horizon

Time horizon represents another frequently studied variable in cooperation (Axelrod, 1984; Kreps et al., 1982; Parkhe, 1993; Telser, 1980). Whereas the nature of cooperative relationships may depend on the outcome of past interaction, expectations associated with the future behaviour of one's counterpart may also affect the current actions in a relationship. Axelrod (1984: 124) called this the "shadow of the future" and focused on the effect that future payoff has on the strategic situation within the prisoner's dilemma situation: "...choices made today not only determine the outcome of this move, but can also influence the later choices of the players" (Axelrod, 1984: 12).

In repetitive games, the players might reason that by cooperating in the first round, cooperation may be elicited in subsequent periods. Although it seems reasonable to anticipate that the players may build mutual trust through a history of interactions (Granovetter, 1985; Levinthal & Fichman, 1988; Ring & Van de Ven, 1992), backward induction logic shows that defection is the dominant strategy whenever we have a finitely repeated Prisoner's Dilemma game (Andreoni & Miller, 1993; Kreps et al., 1982). Accordingly, the outcome of such cooperation is clearly inefficient (Kreps et al., 1982). Kreps et al. (1982) showed, however, that in the case of incomplete information regarding the types of players, cooperation early in the game can then be consistent with rational behaviour.

In the case of an infinitely repeated game, that is, a relationship without a known termination, cooperation is the preferred strategy. Because of the discount factor of future payoffs, payoffs in the distant future are not considered important by today's decision makers. This means that when a nonzero probability of continuing a game exist the cooperation may be effective (Parkhe, 1993: 800). As stated by Telser (1980): "Although termination is certain to occur sooner or later, when this happens must be uncertain in order to sustain a self-enforcing agreement. Second, for a given sequence of gains, the expected horizon must be long enough or there can be no self-enforcing agreement" (Telser, 1980: 44). Still, although theoretical analysis indicates that cooperation in the first period is the optimal choice (Kreps et al., 1982), cooperation as a general strategy would lead to exploitation (Axelrod, 1984).

Though the discussion above is based on the two-player Prisoner's Dilemma game, the game is easily extended to include several players. This is demonstrated by Elitzur and Gavious (2003) who include both the entrepreneur, the business angel, and the venture capitalist when modelling their relationship as a game. The nature of the multi-person Prisoner's Dilemma, also known as a social dilemma, is generally more competitive than the two-person game because the costs of defection are spread out (Thompson, 2001).

The multi-period nature of the venture-capitalist/new-venture team game creates strong incentives to forego opportunistic behaviour (Sahlman 1990: 513). In essence, "the unknown longevity of the business relationship and the unknown future strategy of one's counterpart ensure that entrepreneur's and venture capitalists' cooperation-defection decisions during one stage have implications for their future relationship" (Cable and Shane 1997: 164). However, as unknown longevity may be the case in the early phases of the venture-capitalist/new-venture team relation, the structure of the venture capital fund make the cooperation certain to be terminated at some future date due to the venture capitalist's obligation to

exit from their investment (Sahlman, 1990). Even though the timing of the exit for the investors is not predetermined initially in the relationship, the time consuming nature of the exit process means the termination of the cooperation will be known to the cooperating partners during the last phase of the relationship. Consequently, this makes the importance of future transactions decrease as the exit process emerges. As discussed above, when termination will occur must be an uncertainty in order to maintain a self-enforcing agreement (Telser, 1980). This means that the initiation of the exit process transforms the situation from an indefinite repeated Prisoner's Dilemma game into a definite game, fundamentally altering the characteristics of the relationship. Hence, whereas it is rational for venture capitalists and new venture teams to cooperate as long as the termination date of the relationship remains unknown, it will be rational for the parties to defect after the exit process is initiated.

This suggests that although the parties may rely on trust in the first phases of the relationship, control issues may be more important when the exit is initiated. Hence, we propose:

Hypothesis 2. The longer the (unknown) future of the relationship is, the higher the level of confidence in cooperation between venture capitalists and new venture teams will be.

METHOD

The data set originates from a survey mailed to 240 current and newly exited portfolio companies of Norwegian venture capital funds. This sample constitutes the portfolios of the primary members of the Norwegian Venture Capital Association as of March 2004. Seventy companies returned their questionnaires resulting in a response rate of 29%. The majority of the respondents were CEOs (77%). *Confidence in cooperation* was measured based on the "Reliance on relational norm" construct used by Heide and John (1992) and Zhang, Cavusgil and Roath (2003). Modifications were made for the nature of venture capital settings. A five-item scale was used for the measurement of confidence in cooperation.

History of interaction was computed from two variables: tenure of the relationship and frequency of interaction. The tenure of the relationship was computed using the first year of investment as starting point and 2004 (the year the survey was conducted) as an ending point. For those companies that had experienced exit, the year of exit was used as an ending point. Frequency of interaction was originally measured in terms of number of contacts per week, per month, per quarter, and per year. This variable was recoded into a per year measure. The two variables, tenure of the relationship and frequency of interaction, were then multiplied together to get accumulated history of interaction measure. Because this variable was not normally distributed, we transformed the variable by taking the natural logarithm before entering it into the regression. *Time horizon* was determined by the expected time to exit as estimated by the respondents. This was measured using a 7-point scale (1 = Exit has taken place; 2 = The exit process has been initiated; 3 = Within the next six months; 4 = Within one year; 5 = Within two years; 6 = Within 3-5 years; 7 = More than 5 years from now).

Results

Once the unidimensionality of the confidence in cooperation measure was established, a composite score was used to test the hypotheses in a linear regression model.

The results of the regression analysis are reported in Table 1. For the regression performed in this analysis, 18 cases were rejected because of missing values, so the analysis was performed on 52 cases. The regression analyses were conducted in three steps where variables were added stepwise to display their contribution to the regression. The first block consists of the control variables. In the second block the history of interaction measure is included. As the F-test indicates, including this variable makes a significant contribution to the regression. The time horizon measure enters in block three and do also contribute significantly. The overall regression, with all three blocks included, is significant at the 0.05 level, with $R^2 = .319$ and adjusted R^2 of .230, which supports our main proposition that the longevity of

the relationship between venture capitalists and new venture teams affects the parties confidence in cooperation.

Hypothesis 1 stated that the greater the level of past interactions between venture capitalists and new venture teams is, the greater the level of confidence in cooperation between the parties will be. Table 1 shows that this parameter is statistically significant at the 0.05 level. Hypothesis 2 stated that the longer the unknown future of the relationship is, the higher the level of confidence in cooperation between venture capitalists and new venture teams will be. This hypothesis is supported in the analysis at the 0.05 level.

Among the control variables *exit agreement* was found to influence confidence in cooperation significantly (although only at the 0.10 level in the Full model).

DISCUSSION

In general, our results render support for the notion that the duration of inter-firm cooperation does influence the parties' confidence in cooperation. Especially, the particular time structure of the venture-capitalist/new-venture team relationship does influence the robustness of the cooperation.

This study supports the hypothesis derived from game theory that the time horizon of cooperation has a significant effect on the new venture team's confidence in venture capitalist cooperation. The analyses also found support regarding the hypothesis derived from organization theory, strategic management, and economic sociology suggesting that the history of interaction between the parties positively influences a new venture team's confidence in venture capitalist cooperation. This indicates that the parties develop mutual confidence in cooperation as the relationship evolves. However, the structure of the relationship may embed an incentive for the parties to act in a non cooperative manner during the late stages of their cooperation.

Our findings that the level of past interactions increases confidence in cooperation render support to the social embeddedness arguments (Granovetter, 1985) as well as previous venture capital research regarding the importance of relational issues for cooperative behaviour (e.g. Busenitz et al., 1997; Fiet et al., 1997; Sapienza et al., 2000). Hence, frequent interactions over time between the cooperating partners may serve the purpose of decreasing temptations of opportunism and reduce the apprehension of being victimized. However, this study did not support the couching of relational governance as a self-enforcing mechanism as found in most empirical and theoretical work in the field of strategic management (Poppo & Zenger, 2002). Our finding that time horizon also affects confidence in cooperation suggests that relational governance is not enough. In line with predictions from game theory, the new venture teams have less confidence in their venture capitalist as the relationship is approaching termination. Hence, this study supports the view espoused by Telser (1980) that the expected horizon must be long enough or there can be no self-enforcing agreement.

This has theoretical implications that may add to the debate regarding appropriate frameworks for analysing the relationship between venture capitalists and new venture teams (e.g. Arthurs & Busenitz, 2003; Cable & and Shane, 1997; De Clercq & Sapienza, 2001; Shepherd & Zacharakis, 2001). This debate has to a significant extent been characterized by critics of agency theory, especially regarding its limitations to incorporate social relations (e.g. Cable & Shane, 1997). Accordingly, several scholars have suggested that agency theory may be integrated with social rooted theories (e.g. Cable & Shane, 1997; Fiet et al., 1997; Sapienza et al., 2000; Shepherd & Zacharakis, 2001), while others have argued that contracts are a more costly substitute for relational governance (De Clercq & Sapienza). The contribution of our paper is that by superimposing game theory on top of these perspectives, we could argue more forcibly that the assumed tendencies about agency theory or embeddedness will actually eventuate, due to the finality of game-initiated end-game scenarios.

We raised the issue of whether the venture capital structure itself may put some limitation on the application of the theories. No previous studies known to the authors have taken into account how the time dimension of venture capital funds may contain incentives for the parties' behavior. Our finding that confidence in cooperation decreases as the relationship approaches termination lends support to the importance of agency theoretical considerations and formal control. That is, there is much room for violations of the cooperation also when the relationship becomes more prolonged. Although trust may evolve and reduce the probability of malfeasance, this is by no means a static condition that will pursue once developed. Indeed, the vulnerability of trusted partners may make the payoff of opportunism even greater than when trust is absent (Granovetter, 1985). Accordingly, our findings moderate the suggestion made by Arthurs and Busenitz (2003) that the post investment period of the venture-capitalist/entrepreneur relationship should be assumed to be characterized by goal congruence and trust. Although our analyses support the notion that interaction matters, it is an unknown empirical question as to whether trust or control is the appropriate tactic. Either could work but because we do not know which is appropriate, this is the challenge posed by incentive alignment in agency theory. As long as information asymmetries exist and the prospects of trust and opportunism remain unknown, theories focusing on protection against possible moral hazard or incentive problems may offer valuable insight into the venture-capitalist/new-venture team relationship. However, the highly uncertain conditions that underlie the terms of the agreement between venture capitalists and new venture teams may call for greater scholarly understanding regarding how mutually acceptable terms may be incorporated that also are appropriate when new conditions arise. Here, relational issues explaining procedural issues have been shown to have significant explanatory power (e.g. Busenitz et al., 1997; Sapienza & Korsgaard, 1996). In addition, recognizing that the venture-capitalist/new-venture team relationship is dynamic rather than static, and that imperfect foresight inhibit the possibility to include all possible eventualities in the contract, insight from financial contracting literature on decision (control) rights (Aghion & Bolton, 1992; Grossman & Hart, 1986; Hart, 2002) could be a promising avenue for future research.

Our findings also have significant practical implications for managers of venture capital-backed companies and for venture capitalists and their limited partners. First, although agency theory has been criticised for not describing the venture-capitalist/new-venture team relationship very well, the finding of this paper suggest that control structures are necessary to reduce the probability of malfeasance. As argued above, the obligation of the venture capitalists to exit from their portfolio ventures within a certain timeframe make the prospects for incentive problems and moral hazard greater than what can be expected in relationships with an unknown time horizon. This is especially the case when the venture-capitalist/new-venture team relationship approaches termination. Despite that the propensity to engage in opportunism is unknown and may vary throughout the relationship, our findings suggest that the venture capital structure provides fewer barriers to self-interested behaviour towards the end of the relationship. Interestingly, and in line with this reasoning, our control variable regarding exit agreement was found to impact confidence in cooperation positively. Hence, solving critical issues related to exit in advance, which is often done in practice when signing an exit agreement, may mediate the effect of time horizon by sorting out difficult questions in advance. Apparently, venture capitalists are much more conscious about having the necessary instruments at hand in case of changing conditions (Kaplan & Strömberg, 2003) than are new venture teams. Overly optimistic entrepreneurs may treat important issues, such as exit agreements, superficially. Our finding that new venture teams have less confidence in their venture capital backers when approaching exit suggests that both parties would profit from obtaining consensus regarding exit *ex ante*. For the venture capitalists' limited partners, this may also have practical implications as the investment horizon of the fund is affecting the cooperation between venture capitalists and their portfolio ventures. By increasing the investment horizon, the opportunities for the development of confidence in cooperation is increased and thus the temptation to engage in opportunism may be reduced. However, whether these possible positive effects exceed the increased costs associated with longer investment horizons is unknown and presumably highly individual.

This study has some limitations that, when considered, might help advance future research. First of all, though the analysis provides some support for our main proposition, our research design fails to detect

effects due to events in the pre-investment phase. Obviously the parties in the relationship have a history prior to that point when the investment takes place and it is likely there is some sort of confidence building activities during the negotiation phase, and a due diligence process that leads the parties to a contractual partnership. Second, we only viewed the relationship from the point of view of the CEOs of the portfolio companies. To build confidence in the findings and to explore the process issues further, the viewpoint of the venture capital investors should also be studied. The cross-sectional approach, although some effects were controlled for, only make possible comparisons across firms in different phases and does not investigate the process as it develops over time in a specific relationship. Further, we did not investigate whether the outcome of the interactions decide if the experiences from the history of interactions were positively or negatively assessed by the respondents. Hence, future research should aim to collect longitudinal data in order to track the relationships over time. With such data statistical methods other than ordinary linear regression analyses are also available. An interesting approach would be to employ methods with time dependent independent variables. One possible method would be to employ event history models (e.g. Cox regression) with time dependent covariates and a defection/cooperation measure as repeated events.

Although we controlled for performance, we used accounting-based measures rather than market-based measures. As the revenue accruing to the venture capitalist and their limited partners is dependent on market value, market-based measures would be more appropriate. However, such data is also difficult to obtain for ventures still in the portfolio of the venture capitalist. A better approach would be to measure the goal achievement relative to the prospects inherent in the contract.

Finally, due to the venture capitalists' obligation to exit from their investment, termination of the cooperation is certain to occur sooner or later. As venture funds have similar time horizons in general, regarding their investments, the venture-capitalist/new-venture team cooperation is a particular suitable arena for investigating the effect of time horizon on inter-firm cooperation. Accordingly, this makes the venture-capitalist/new-venture team relationship an interesting research arena for researchers from research fields other than venture capital.

CONCLUSION

In this study, we sought to extend the investigation of inter-firm cooperation to the venture capital setting. In doing so we focused on two widely recognized antecedents of cooperation: (1) history of interaction, and (2) time horizon. We found support for both the hypothesized positive relationships between these concepts and confidence in cooperation as assessed by the new venture teams in portfolio companies of venture capital funds. Despite that the propensity to engage in opportunism is unknown and may vary throughout the relationship, our findings suggest that the venture capital structure provides fewer barriers to uncooperative behaviour towards the end of the relationship. These results suggest that although relational issues matter, formal control is indeed important to protect the interests of the parties.

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Table 1: Results of Regression Analysis^a

Variable	Control	Step 1	Full
Exit agreement	.376 (.121)*	.323 (.116)*	.255 (.116) [†]
Previous relations among the parties	-.045 (.321)	.039 (.312)	.001 (.305)
CEO experience	-.071 (.017)	-.029 (.016)	-.075 (.016)
Performance	.040 (.005)	.085 (.005)	.173 (.005)
History of interaction		.346 (.111)*	.274 (.111)*
Time Horizon			.288 (.105)*
R ²	.151	.258	.319
Adjusted R ²	.081	.179	.230
Df	4, 48	1, 47	1, 46
F Change	2.138 [†]	6.758*	4.129*

^aStandardized regression weights, standard errors are in parentheses.

[†] p < 0.10

* p < 0.05

** p < 0.01