WHEN IS CONFLICT (NOT) GOOD FOR BUSINESS: THE CASE OF BUSINESS ANGELS AND ENTREPRENEURIAL TEAMS

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Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss2/2
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ABSTRACT

In order to account for the mixed findings regarding conflict and its effects, conflict researchers have proposed a contingency perspective. In this study, I show that task conflicts between business angels and entrepreneurial teams have a detrimental impact on the portfolio company's innovativeness. Confirming the contingency perspective, I show that this effect can change depending on the degree of task interdependency, the extent to which conflicts are managed in an integrating manner, the affective disposition of both parties, the level of trust between these parties and their degree of goal alignment.

INTRODUCTION

Over the last years, there has been a discernible trend in entrepreneurship research to draw on theories from the psychology, sociology and organizational behaviour domains. Research in entrepreneurial finance has been no different (e.g. Franke et al., 2006). This study will further extend this new stream in entrepreneurial finance literature by applying theory on intragroup dynamics in a business angel (BA) – entrepreneurial team (ET) setting. More particularly, based on the conflict contingency framework (De Dreu and Weingart, 2003a; Jehn and Bendersky, 2003), I will study how disagreements between BAs and ETs impact the portfolio company's innovativeness.

Two elements make this setting particularly well-suited to study this research question. First, scarce resources, interdependent relations, personal differences, goal incompatibilities, interference to reach these goals and inefficient communication have been put forward as potential causes of conflict (Kochan et al., 1976; Wilmot and Hocker, 2001). All of these, although to different extents, are present in the BA-ET relationship, making it especially prone to conflict. For example, according to agency theory, goal incompatibilities are an inherent part of the external investor – entrepreneur relationship (Berger and Udell, 1998). The higher the degree of goal incompatibility between these two parties, the higher also the frequency of interaction, which then in turn also heightens the importance of communication in this setting (Sapienza and Gupta, 1994). In other words, any problems in this vital stream of information can have an extremely detrimental impact in this setting. The second element making this setting particularly well-suited for my study is the innovative character of the companies BAs tend to invest in (Mason, 2006). Young and/or small high-growth oriented and/or high-tech companies are the most likely victims of a market failure, due to R&D externalities, informational opaqueness and low levels of collateral, thus making them the perfect candidates for BA financing (Berger and Udell, 1998). As performance measures should be fine-tuned to the task of the teams and companies at hand (Ancona and Caldwell, 1992), innovativeness is thus especially relevant to study for these entrepreneurial companies. BAs seated on the Board of Directors of their portfolio companies can be considered strategic decision agents, together with the members of the ET (Ucbasaran et al., 2003). As such they can have a substantial impact on the strategic direction a company takes as
well as on the success the latter achieves in doing so. But what if these parties do not get along? In other words, will disagreements between these parties impact organization-level performance measures and, if so, how?

According to the conflict contingency framework, conflict’s impact will vary depending on three elements: (i) the type of conflict, (ii) the type of outcome studied and (iii) moderating influences (De Dreu and Weingart, 2003a; Jehn and Bendersky, 2003). Following this line of research, I will study conflict’s impact on innovativeness from a contingency perspective by including multiple, previously suggested moderators and testing the impact of a new moderator, being the degree of goal incompatibility. In doing so, I will contribute to the conflict literature in the following ways. First, innovation or innovativeness has not been studied in a full contingency framework before. Second, although theoretically suggested, group diversity and the average affective disposition of a team have not been tested as conflict moderators before. Third, I will also show the impact of a new moderator, thereby extending the conflict contingency framework, i.e. the degree of goal incompatibility between conflicting parties. Finally, this framework has never been tested in an entrepreneurial context before. Many definitions have been proposed for innovation or innovativeness (Cho and Pucik, 2005). Some authors use the term to refer to the extent to which creative or out-of-the-box thinking is encouraged or, in other words, conceptualize innovativeness as a team or company atmosphere or way of life (e.g. Matsuo, 2006). Others refer to it as a proxy for performance, a capacity to create new products or services and ability to adapt to a rapidly changing environment (e.g. Lovelace et al., 2001). Irrespective of the definition used, innovativeness is consistently and positively related to company performance, growth and success (Cho and Pucik, 2005). Despite its importance though, to my knowledge, it has seldom been studied in relation to conflict (exceptions being Lovelace et al., 2001; Chen et al., 2005; De Dreu, 2006; Matsuo, 2006).

**BUSINESS ANGELS AND ENTREPRENEURIAL TEAMS: ARE THEY REALLY A TEAM?**

In borrowing from the field of group research, the first question we need to pose is whether or not it is even appropriate to consider BAs and ETs as a team. Many different conceptualizations of teams and groups have been put forward over the years (Levine and Moreland, 1998). In general, I define a group as a set of interdependent individuals who share responsibility for a common goal and/or task (De Dreu and Weingart, 2003a). Interdependency refers to team members relying on one another in order to complete their jobs (Jehn et al., 1999, p. 747) or to reach their goals. Based on this definition, I argue that BAs and ETs do indeed constitute a team. More particularly, angel investors and entrepreneurs are dependent on each other in that they make a deal to exchange the BAs’ human, social and financial capital for the opportunity or potential to make financial gains (Mason, 2006). In order for the portfolio company to survive and grow, the ET needs the BAs’ capital, although the degree to which can differ from company to company (Berger and Udell, 1998). Similarly, the BAs, whose degree of active participation in a portfolio company can also vary, need the ETs to run and manage the company in a way that will maximize their financial gain. In other words, both parties have their own particular role to play, but both roles are vitally and equally important to the company’s final success and growth. However, despite the fact that the use of this label might be theoretically justified, whether or not BAs and ETs will also act as teams, i.e. empirically, is another question. For example, will they even agree on so-called shared team properties (Klein and Kozlowski, 2000) such as the degree of innovativeness or conflict present in the team to begin with? The answer to this question will be discussed further in the paper.
CONFLICT AND INNOVATIVENESS: A CONTINGENCY FRAMEWORK

As mentioned before, according to the conflict contingency framework, the impact of conflict will vary depending on three elements: (i) the type of conflict, (ii) the type of outcome studied and (iii) moderating influences (De Dreu and Weingart, 2003a; Jehn and Bendersky, 2003). Jehn and her colleagues have identified three types of conflict, i.e. task, relationship and process conflict (Jehn and Mannix, 2001). Following other innovativeness and innovation conflict research, I will focus on task conflict (e.g. Lovelace et al., 2001; De Dreu, 2006; Song et al., 2006). The reasons for this are multiple. First, results regarding relationship conflict’s effects have been rather uniformly negative (Jehn and Bendersky, 2003). Task conflict and its impact, on the other hand, has been the subject of much more debate, thus requiring much more attention (De Dreu and Weingart, 2003b; De Dreu, 2006). Second, task conflict, as opposed to the other two types of conflict, is also perceived to play a crucial role in the innovation process (Song et al., 2006). Finally, the use of process conflict has not yet widespread and has not produced robust results so far (Jehn and Mannix, 2001). As I also focus on one outcome, i.e. innovativeness, I will split the discussion of this contingency framework into two parts. First, I will discuss task conflict’s hypothesized main effect on innovativeness. Second, I will discuss the potential moderating factors of this main effect.

TASK CONFLICT AND INNOVATIVENESS: MAIN EFFECT

Task conflict is defined as “an awareness of differences in viewpoints and opinions pertaining to a group task” (Jehn and Mannix, 2001, p. 238). This type of conflict is generally seen as beneficial as it increases information sharing, communication, critical evaluation and assessment of alternatives and avoids ‘groupthink’, which should lead to more creativity and optimal decision-making (De Dreu and Weingart, 2003b; Jehn and Bendersky, 2003). This line of reasoning would lead to hypothesizing a positive relation between task conflict and innovativeness (as in e.g. Jehn and Bendersky, 2003; Matsuo, 2006). However, some researchers do not agree with this uniformly positive effect of task conflict. Creativity and innovation require cognitive resources or capacity, which are both reduced when conflict is present (De Dreu, 2006). In other words, task conflicts between BAs and ETs could redirect the ETs’ attention away from maximizing the innovative potential of their company and its products to the disagreement at hand. Cognitive capacity otherwise spent on creative thinking is now entirely consumed by conflicts with investors, thus reducing the final innovativeness of the portfolio companies. Further, the more BAs and ETs disagree on issues concerning e.g. market and product development, market entry and follow-on financing strategies, the harder it will become to reach consensus and find “integrative, innovative solutions” (Lovelace et al., 2001, p. 781). More recently, some authors have stated that only high levels of task conflict can produce the needed levels of stress, tension and distrust for it to have a negative impact on creativity and innovation (De Dreu, 2006). I, however, argue that in this setting even low levels of task conflict will be sufficient for this effect to take place. Due to the above-mentioned agency risks and potential goal incompatibilities (Declercq and Sapienza, 2006), trust is namely of pivotal importance to the BA-ET relationship. Recent research has shown that increased conflict, regardless the type, leads to reduced trust (Rispens et al., 2007). Therefore, in this setting even low levels of task conflict can produce enough distrust between BAs and ETs to hinder the necessary information sharing and cognitive processing for task conflict to have a positive impact on innovativeness. This thus leads me to the following hypothesis:

**H1: Task conflicts between BAs and ETs will reduce the portfolio company's innovativeness.**
MODERATORS OF THE TASK CONFLICT – INNOVATIVENESS RELATIONSHIP

Traditionally, conflict moderators can be grouped into four categories, namely conflict context, conflict management, conflict experience and group diversity (De Dreu et al., 1999; Jehn and Bendersky, 2003). Empirical contingency studies have mainly focused on the first two types of moderators. Considering the non-traditional setting I use to study the conflict contingency framework, I will formulate hypotheses for each of the moderators.

Conflict context as a moderator of the task conflict – innovativeness relationship

Conflict context refers to several aspects of the conflict situation such as task characteristics (complexity, degree of interdependency), organizational culture, trust and conflict norms or the openness of the group or organization to conflict (Jehn, 1995; 1997; Lovelace et al., 2001; Bayazit and Mannix, 2003; De Dreu and Weingart, 2003a; b; Jehn and Bendersky, 2003; Guerra et al., 2005). For reasons of parsimony, I will focus on task interdependency and trust.

Task interdependency refers to team members relying on each other in order to complete their jobs (Jehn et al., 1999, p. 747). BAs can take on many roles in their portfolio companies, including providing advice, business and market intelligence, hands-on assistance, contacts or networking possibilities and acting as a sounding board or coach (Madill et al., 2005). Further, angel investor participation can range from very passive (which then generally is limited to having a seat on the Board of Directors) to very active, taking on part-time or full-time jobs in the companies they invest in (Mason, 2006). Hence, depending on what role a BA takes on in his particular portfolio company, he will have to rely more or less on the ET to help him complete his ‘job’. Similarly, the extent to which the ET needs to rely more or less on the BA's advice or experience in order to optimize their decision-making process will also vary depending on e.g. the ET’s own industry-relevant or entrepreneurial experience. The more BAs and ETs are interdependent, the more they will need to interact and communicate in order to complete their ‘jobs’. Therefore, any conflicts lingering underneath the surface will become more salient, thus amplifying its effects (Jehn and Bendersky, 2003). Taken together, this would then lead me to the following hypothesis:

H2a: The negative effect of task conflicts between BAs and ETs will be stronger in companies where both parties are more (rather than less) interdependent in fulfilling their respective roles.

A second crucial aspect of the conflict context is the degree of intragroup trust. According to recent studies, low trust within teams will lead to increased misattributions of statements made, questioning of motivations and suspicions of hidden agendas (Simons and Peterson, 2000; Peterson and Behfar, 2003). Information shared will be perceived as less reliable and therefore less accepted. Conflicts concerning task issues in this context could be perceived as personal attacks or interpreted as a questioning of one’s competencies. When studying the effects of different types of trust, Parayitam and Dooley (2007) showed that high cognition-based trust is especially relevant in the complex and highly information-dependent world of strategic decision making as this trust provides the “cues on how to process, interpret and act on” the information needed in order to make these decisions (Parayitam and Dooley, 2007, p. 47). High trust should therefore enable BAs and ETs to make more creative and optimal decisions and help reduce task conflict’s negative effects on innovativeness. This hypothesized relationship is further strengthened by research in the venture capital (VC) setting showing that higher trust between VCs and entrepreneurs will increase the breadth of and insight into the information exchanged between these two parties (Declercq and Sapienza, 2006). Pre-investment, trust has also been shown to speed the decision-
making and negotiation process between BAs and ETs (Harrison et al., 1997). All this should further alleviate doubts with regard to the other parties’ potential opportunistic behaviour or hidden agendas as well as limit task conflict’s effect on occupying too much cognitive capacity. Thus:

\[ H2b: \text{The negative effect of task conflicts between BAs and ETs will be stronger in companies where trust is lower (rather than higher).} \]

Conflict management as a moderator of the task conflict – innovativeness relationship

The second most studied category of conflict modera tors is conflict management, which refers to the different ways in which conflict can be handled. From a contingency point of view there is no one best way to deal with conflict (Song et al., 2006). Many researchers make the distinction between cooperative or collaborative and competitive management styles (Lovelace et al., 2001; Jehn and Bendersky, 2003; Atuahene-Gima and Murray, 2004; Song et al., 2006). In order to make the model more parsimonious, I decide to focus on one particular strategy within each overarching group, i.e. the integrating (as a collaborative style) and avoiding (as a competitive style) conflict management strategy as these represent the best and the worst in a contingency view (Atuahene-Gima and Murray, 2004). When a cooperative/integrating conflict management approach is used, team members seek a mutually beneficial solution (Lovelace et al., 2001). This will lead to a more constructive team atmosphere, an increased team spirit, increased information sharing and thus understanding of each other’s opinions (De Dreu and Weingart, 2003a; Atuahene-Gima and Murray, 2004). Through integrating different viewpoints it should therefore lessen the negative effects of task conflicts on innovativeness (Lovelace et al., 2001; Jehn and Bendersky, 2003). When a competitive or contending conflict-handling strategy is used on the other hand, conflicts are approached from a win-lose standpoint (Chen et al., 2005). This thus leads to a more destructive team atmosphere, closed-minded discussions and frustration (De Dreu and Weingart, 2003a; Chen et al., 2005). Not surprisingly, competitive conflict management is therefore expected to exacerbate task conflict’s negative effect (De Dreu and Weingart, 2003a). Translated to the BA-ET setting, I would thus expect the following:

\[ H3: \text{The negative effect of task conflicts between BAs and ETs will be stronger when these parties manage their conflicts in a competitive rather than a cooperative manner.} \]

Conflict experience as a moderator of the task conflict – innovativeness relationship

Conflict experience refers to how one approaches or experiences conflict in terms of cognitions, feelings and motivations (De Dreu et al., 1999; Jehn and Bendersky, 2003). Conflict-related research into the role of emotions has been limited to negotiation or dispute resolution studies (Barry, 2008). These studies have shown that positive emotions are generally associated with more cooperative conflict-handling behaviours and a higher likelihood of finding a solution or settlement, while the opposite generally holds true for negative emotions (Desilvilya and Yagil, 2005). Jehn and colleagues have proposed affect to play a moderating role in the conflict process, although this has not yet been quantitatively tested (Jehn, 1997; Jehn and Bendersky, 2003). More particularly, when BAs and ETs are generally good-humoured people, conflicts between them should be resolved rather easily thanks to a more open and cooperative team atmosphere (Jehn and Bendersky, 2003). This should then in turn lessen the negative effects of task conflict and maybe even turn it positive. Negative affect on the other hand will hinder open debate, increase misunderstandings, stimulate irrational decision-making and will increase the focus on emotions rather than on the task at hand (Jehn and Bendersky, 2003; Desilvilya and Yagil, 2005). If,
therefore, BAs and ETs are generally bad-humoured people, the negative effects of task conflict on innovativeness should be even stronger. This results in the following hypotheses:

**H4a:** The negative effect of task conflict between BAs and ETs will be stronger in companies where the positive affect of these strategic decision agents is lower (rather than higher).

**H4b:** The negative effect of task conflict between BAs and ETs will be stronger in companies where negative affect of these strategic decision agents is higher (rather than lower).

**Group diversity as a moderator of the task conflict – innovativeness relationship**

Group diversity is generally seen as an antecedent to conflict (Williams and O’Reilly, 1998). However, Jehn and Bendersky (2003) point out the possibility of it also being a moderator of the conflict-outcome relationship, a hypothesis not tested so far (to my knowledge). Based on an information-processing perspective, diversity between BAs and ETs will stimulate information sharing, which in turn should facilitate reconciling diverse opinions and viewpoints into a more optimal, innovative decision (Williams and O’Reilly, 1998; Jehn and Bendersky, 2003). Stated differently, in teams where differences are common practice - regardless of whether these differences relate to demographics, education, experience or values – differences of opinion will be perceived as less threatening, therefore reducing or even reversing task conflict’s negative effects on innovativeness. Formally stated:

**H5:** The negative effect of task conflicts between BAs and ETs will be stronger in companies where differences between BAs and ETs are lower (rather than higher).

**Goal incompatibility as a moderator of the task conflict – innovativeness relationship**

Goal compatibility, also referred to as goal congruence or commonality, has frequently been cited in the conflict literature (e.g. Kochan et al., 1976). More particularly, goal incompatibilities or divergent goals are considered an important antecedent to conflict in organizations (March and Simon, 1958; Kochan et al., 1976). In this paper, I propose that the degree of goal incompatibility could also operate as a moderator of the task conflict – innovativeness relationship. This setting is particularly well-suited for the study of this hypothesis as, based on agency theory, researchers have often claimed goal incompatibility to be an inherent part of the external investor - entrepreneur relationship (e.g. Sapienza and Gupta, 1994). Only one study to date has hinted at the potential relation between goal incompatibility and conflict. Namely, Higashide and Birley (2002) showed that, in a VC setting, when conflicts were related to goals instead of company policy, this strengthened conflict’s impact on perceived performance (as seen by the VC). I argue that high goal incompatibility will strengthen the negative effects of task conflicts between BAs and ETs on the portfolio company’s innovativeness. Previous research in the VC area has namely shown that higher goal incompatibility between investors and entrepreneurs will increase the frequency of interaction between these parties (Sapienza and Gupta, 1994). Much like task interdependency, however, this increased interaction and communication will in turn heighten the salience of any present conflicts, thereby amplifying its effects (Jehn and Bendersky, 2003).

Simultaneously, I argue that when goal incompatibility is low, this effect will be reversed. More particularly, when goal incompatibility is low or goal congruence is high, this should stimulate positive attitudes and intentions towards the (portfolio) company through an increased fit
between these individuals and the company concerned (Kochan et al., 1976; Vancouver and Schmitt, 1991). Not only will there be an increased fit, there will also be less distrust between the BAs and ETs as they are working together towards the same goals and thus do not need to worry about opportunistic behaviour on either party’s side. These positive attitudes, the accompanying positive work atmosphere and decreased distrust should then enable these parties to smooth over their conflicts rather easily. I thus argue that low goal incompatibility takes away the negative emotions and distrust leading to task conflicts’ negative effects on innovativeness. In other words, low goal incompatibility could be the prerequisite to create that type of constructive and safe team environment for task conflicts between BAs and ETs to have a beneficial effect on innovativeness. I thus hypothesize the following:

**H6a:** The negative effect of task conflicts between BAs and ETs will be stronger in companies where goal incompatibilities between BAs and ETs are very high.

**H6b:** The negative effect of conflicts between BAs and ETs will be lessened or even reversed when goal incompatibilities between BAs and ETs are very low.

**METHODS**

**Sample**

Methodologically, BA research has suffered a lot from the lack of representative samples. Recently, researchers have suggested several ways to overcome this shortcoming among which using directories of newly incorporated businesses and calling people based on random stratified samples (e.g. Avdeitchikova and Landström, 2005). In order to obtain the most representative sample possible, I used a combination of approaches. I used 20 different Belgian data sources including a random directory of start-ups, deal lists of BA networks, GEM data, directories of high-tech companies, media articles, incubators and snowballing. This way I constructed a list of 305 potential BA-backed companies, whom I all telephoned during the summer of 2007 in order to identify whether or not they fulfilled the conditions of my research. These conditions were (1) at least one BA needed to be a member of the Board of Directors and (2) the company had to have received BA financing between January 2003 and August 2006. The latter condition was imposed in order to avoid the exit period, which generally occurs between five and seven years after investment (Mason, 2006), since team literature suggests that conflict’s effects can differ depending on the stage in the team relationship it presents itself (Jehn and Mannix, 2001). Furthermore, this is general practice in VC research to avoid recall and survival bias (Higashide and Birley, 2002; De Clercq and Sapienza, 2006). This resulted in 107 (potentially) eligible companies of which 49 agreed to participate and 58 that either did not want to participate (18) or I was unable to contact (40).

Considering the team approach adopted in this paper, responses were sought from all BAs who were members of the Board of Directors and all ET members. I defined BAs as external individual investors who invest some of their own wealth in unlisted companies in exchange for shares and whom have no family or friend connection to the ET (Harrison and Mason, 1999). The definition used for the ET was those individuals who, at the time of the study, each had an equity stake and were actively involved or played a key role in strategic decision making (Ucbasaran et al., 2003; Forbes et al., 2006). I received 91 completed questionnaires. Using a team member response rate criterion of 50% and the condition that at least one response was needed from the BA side and one from the ET side, I obtained a final sample of 28 teams. These teams averaged 3 members (s.d. = 0.92, range = 2–5) and represented 75 individual responses (of which 35 BAs and 40 ET
members).

As the majority of the independent and dependent variables (see below) were gathered through the same questionnaire, concerns around common method bias might arise. Several aspects were taken into account in designing the questionnaire e.g. reverse scoring of items and use of variation in wording of items (Lindell and Whitney, 2001; Podsakoff et al., 2003). I further tested this bias by performing the Harman’s single factor test and calculating partial correlations controlling for negative affect (Podsakoff et al., 2003). Both procedures did not indicate common method bias. I also compared early to late respondents to check for non-response bias. There were no significant differences in all variables of primary interest, thus indicating that this was not a problem.

Measures

Innovativeness ($\alpha = 0.80$) was measured using the scale from Lovelace et al. (2001), asking respondents to rate the current performance of the company, compared to its competitors, on a 7-point Likert scale ($1 =$ much lower than average, $7 =$ much higher than average). One item was slightly modified in order to allow for service companies to also reply to this question (i.e. when rating the innovativeness of its product/service). Task conflict ($\alpha = 0.91$) was measured using the revised version by Pearson et al. (2002) of Jehn’s intragroup conflict scale (Jehn, 1995). On a scale from $1 (= $none) to $5 (= a great deal), respondents were asked to rate how many disagreements concerning task-related issues there had been between BA(s) and the ET.

With regard to the moderating variables, I used the following measures. First, goal incompatibility was measured based on the scale used for goal congruency in Sapienza and Gupta (1994). These authors focus on the differences in goals between the VC and CEO, whereas I however focus on the differences in goals between the BAs on the one side and the ET on the other side. Second, traditional measures could not be used for task interdependency considering BAs seldom have formally defined tasks to fulfil in their portfolio companies. According to Higashide and Birley (2002), different areas of involvement for a VC could correspond to different degrees of task complexity and interdependency. Therefore, I created a composite measure based on five roles BAs traditionally fulfil in their portfolio companies, i.e. providing advice, business and market intelligence, hands-on assistance, contacts or networking possibilities and finally acting as a coach or mentor (Madill et al., 2005). All respondents were asked how much of the total time spent on the company, the BA (or the lead BA in case there were multiple BAs) spent on each of these activities separately. Second, they were also asked how dependent they were on the other party (i.e. either BAs or ET) for each of these activities to perform their jobs and this on a Likert scale ($1 =$ not at all dependent, $7 =$ very dependent). Per activity, time spent and degree of dependency were multiplied and summed over all activities. The average score for the BAs and ET was then calculated and summed to total a score for task interdependency on 10. Third, trust ($\alpha = 0.87$) between the BAs and ET was measured using the 4 (Likert-scale) items from Peterson and Behfar (2003). Fourth, in order to measure conflict management I adopt the same scales as Song et al. (2006), i.e. integrating ($\alpha = 0.88$) and avoiding ($\alpha = 0.92$) conflict management. The 7-point Likert scale items all referred to how the BA(s) and the ET may have behaved in general during disagreements or conflicts between the two parties. Fifth, in order to measure positive ($\alpha = 0.81$) and negative affect ($\alpha = 0.80$) as a general trait of the BAs and ET, the traditional PANAS scale (Watson et al., 1988), was used. This scale consists of a list of 10 positive and 10 negative emotions and asks the respondents to rate how they feel in general (on a scale from $1 =$ very slightly or not at all to $5 =$ extremely). Finally, as mentioned before, there are several ways in which to measure diversity. The two most frequently used categories of diversity are social category or demographic diversity and informational diversity (as in Jehn et al., 1999). The first

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type of diversity measures heterogeneity of gender, age and nationality. Considering the angel investor world is still a predominantly male one (Mason, 2006) and my study was located in Belgium making nationality in this sample rather homogenous, it seemed most relevant to focus on the second type of diversity. This measures heterogeneity in tenure, education level, education major, main functional area of experience, years of education, years of entrepreneurial and managerial experience and years of experience in the same sector as the portfolio company. Following Jehn et al. (1999), this was calculated as an entropy-based index (i.e. \( \Sigma - P_i (\ln P_i) \)).

Based on previous conflict studies looking into innovation and innovativeness, I decided to control for team size and industry (Lovelace et al., 2001; De Dreu, 2006). Team size was measured as the number of members on the ET and the number of BAs on the Board of Directors. Industry was operationalised as a dummy variable, taking the value of 1 if the company belonged to the services industry (incl. ICT and R&D, to which 22 of the companies in the sample belong) and 0 otherwise. Following VC literature, I also decided to control for investment stage. This dummy took the value 1 when the first BA investment of interest was a seed or early stage investment (which was the case for 16 out of the 28 companies) and 0 otherwise.

Based on pilot tests, reliability and validity checks (Cronbach’s alpha coefficients and exploratory factor analysis), slight modifications were made to the goal incompatibility and affect scales. Further, ICCs and \( R_{wg2} \) were calculated to ensure that all individual-level data for the team-level constructs could be aggregated (James et al., 1984; Lindell et al., 1999; Klein and Kozlowski, 2000). ICC(1) was insignificant for the avoiding conflict management style and trust. Further, ICC(2) was lower than the 0.7 threshold value for both conflict management styles and trust. The mean \( R_{wg2}^{(j)} \) values exceeded the 0.7 threshold for innovativeness (.79), task conflict (.72) and integrating conflict management (.79). This condition did not hold though for avoiding conflict management and trust. I therefore proceeded to aggregate the data for innovativeness, task conflict and integrating conflict management. The data for trust are positively skewed, thus this lack of heterogeneity may explain why ICC(2) falls so far below the .7 threshold. Combined with the fact that intragroup trust is a theoretical team-level construct and the fact that for the other two measures (ICC(1) and \( R_{wg2}^{(j)} \)) it just barely missed the threshold, I decided to aggregate the individual-level data for trust to the team-level. As these decision criteria did not hold for the avoiding conflict management style, these data were not aggregated. This then implies that only half of hypothesis 3 can be tested, namely based on integrating conflict management.

RESULTS

Table 1 shows the bivariate correlation coefficients for all the non-dummy variables included in the study, indicating a potential threat of multicollinearity when both trust and negative affect were to be included in the model. All hypotheses (except hypothesis 1) were tested using moderated regression analysis, one for each moderator. Finally, I then also tested a full interaction model by regressing innovativeness on the control variables, task conflict, goal incompatibility, informational diversity, negative affect, positive affect, task interdependency, trust, integrating conflict management and the corresponding interaction terms. The results for all these analyses are shown in Table 2.

In order to test hypothesis 1, I conducted a hierarchical regression analysis, first entering the control variables and in the second step adding the main effect for task conflict. Not surprisingly, early-stage companies with larger teams seem to be the more innovative ones. Industry, however, does not have a significant impact. Step 2 shows that task conflicts between BAs and ETs have a
highly significant, negative impact on the portfolio company’s innovativeness ($\beta = -.38$, $p \leq .01$). Further, the change in $R^2$ by adding task conflict to the innovativeness model is a significant one ($\Delta R^2 = .15$, $p \leq .01$). Taken together, this thus provides strong support for hypothesis 1.

As predicted, the degree of task interdependency between BAs and ETs significantly moderates this negative relationship between task conflict and innovativeness. More particularly, table 2 shows that task conflict ($\beta = -.52$, $p \leq .001$), the interaction term for task interdependency ($\beta = -.36$, $p \leq .001$) and the model ($p \leq .001$) are highly significant. As interaction terms in itself do not tell us much, I dichotomized task interdependency at its median (Lovelace et al., 2001). At high levels of task interdependency, task conflict was significantly, negatively related to innovativeness ($r = -.76$, $p \leq .01$). At low levels of task interdependency, task conflict is positively related to innovativeness. This effect is however insignificant ($r = .15$, $p > .10$). Together this thus provides support for hypothesis 2a. I then turn to testing hypothesis 2b, which refers to the moderating effect of trust. Again, the model ($p \leq .01$) and interaction term ($\beta = -.33$, $p \leq .05$) are significant, pointing to a significant moderation by trust. After dichotomizing this variable, we can see that, although insignificant (which is not surprising considering the already small sample size), the negative correlation between task conflict and innovativeness is more negative for low-trust teams ($r = -.38$) than for high-trust teams ($r = -.22$). This would thus seem to support hypothesis 2b, although caution should be advised in interpreting these results due to the lack of significance. After that, the potential moderating impact of integrating conflict management is tested. Although this variable seems to have a strong direct impact on innovativeness ($\beta = .54$, $p \leq .01$), the interaction term is insignificant. I thus find no support for hypothesis 3. I also find no support for hypotheses 4a/b and 5, claiming affect and diversity to be significant moderators of task conflict’s main effects. The lack of significant results for diversity, however, could be due to the selection process BAs and entrepreneurs go through before the actual investment and the similarity biases that go along with such a selection process (Franke et al., 2006). This namely may cause less diversity and less variation in this diversity to be present in these BA-ET teams compared to more traditional teams. I do, however, find support for hypotheses 6a and 6b. When goal incompatibility is added to the model, the interaction term ($\beta = -.02$, $p \leq .05$) and model ($p \leq .01$) are significant. When dichotomizing this variable, we see that task conflict and innovativeness are significantly, negatively correlated when goal incompatibilities between BAs and ETs are high ($r = -.60$, $p \leq .05$). When these incompatibilities are low on the other hand, the correlation is positive but insignificant. This thus provides strong support for hypothesis 6a and limited support for hypothesis 6b.

I then proceed to test the full interaction model, including all hypothesized main effects and interaction terms. However, considering the limited sample size, i.e. 28, this model should be seen as exploratory (and multicollinearity could make it even harder to find statistically significant relationships). Nevertheless, it is a useful exercise in order to see which interaction effects are the dominant ones (Lovelace et al., 2001). The results show that the degree to which BAs and ETs are interdependent, is the strongest moderator of the task conflict – innovativeness relationship ($\beta = -.80$, $p \leq .01$). Surprisingly, the use of integrating conflict management as well as the average good mood BAs and ETs tend to be in, now come out as significant moderators of the task conflict – innovativeness relationship. In order to get a better view of how these moderators exactly operate, I also dichotomize them. In the case of integrating conflict management this provides some surprising results. When conflicts between BAs and ETs are generally handled in an integrating manner, task conflicts and innovativeness are negatively correlated ($r = -.47$, $p \leq .10$). When the use of an integrating conflict management style is low, on the other hand, this negative correlation becomes much less negative ($r = -.04$) and insignificant. Together this would thus seem to contradict hypothesis 3. With regard to positive affect, we see that both for low and high positive
affect, the correlations between task conflict and innovativeness are negative and insignificant. In the case of low-positive-affect groups it seems to be a bit less negative \( (r = -0.25) \) than for high-positive-affect groups \( (r = -0.36) \), which thus at first sight also seems to contradict hypothesis 4a. Overall, the interaction model is highly significant, which reaffirms the importance of studying conflict from a contingency point of view.

**CONCLUSION**

The goal of this paper was to study task conflict’s impact on innovativeness from a contingency point of view, by including multiple previously-mentioned moderators and by testing the impact of a potential new moderator, i.e. the degree of goal incompatibility. In order to do so, I used a setting particularly well-suited for this end, namely the relationship between BAs and ETs. I argue that it lends itself very well to the main research question as it is (1) very prone to conflict and (2) characterized by high variation in terms of goal incompatibility within teams. Through the use of moderated regression analyses, I conclude that task conflicts between BAs and ETs do indeed have a significant, negative impact on the portfolio company's innovativeness. However, the results also show that this negative effect can be lessened or alleviated by carefully designing the roles each of these parties takes on and the degree to which they have to cooperate or depend on each other to perform these roles. More particularly, in order to alleviate task conflict’s negative effects, BAs and ETs have to make sure that they do not have to rely on each other too frequently. In other words, entrepreneurs have to be able to fulfil their main tasks without having to rely on the BAs’ experience too often. Similarly, the BAs should also make sure that they are not single-handedly dependent on the ET, by for example ensuring some minimum level of involvement in the portfolio company (so they can receive information directly rather than indirectly through the ET). Furthermore, the results also seem to suggest that, ceteris paribus, BAs and ETs might not want to pay too much attention to these conflicts by starting to actively manage them. As is generally advocated for relationship conflicts, it might sometimes just be better to leave them alone or avoid them (Jehn and Bendersky, 2003). This model also confirms the importance of the selection process BAs and ETs tend to go through in that the average affective disposition of both parties also seems to play a role. Considering the limited sample size of this study, more research is however advisable in order to determine the exact direction in which this moderator operates. Although not significant in the full interaction model, the analyses also show the importance of trust and goal alignment between BAs and ETs. BAs and ETs who trust each other could stand a better chance at creating an atmosphere where healthy discussions and challenging each other’s opinions contribute to the innovative process in the portfolio companies. Similar to the impact of positive affect though, more research into trust’s impact would be warranted. Finally, when goals between these investors and entrepreneurs are too divergent, frequent interaction in order to get the goals aligned again will only serve to make the present conflicts more salient. However, when the opposite is true and goals are highly aligned, this serves to create the atmosphere necessary for conflicts to increase creative thinking and for challenging each other’s opinions to finally increase innovativeness.

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REFERENCES


### Table 1: Bivariate correlations (n=28) 

Correlations equal to or greater than .50 are significant at p < .01

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### Table 2: Moderated regression analysis – impact of task conflict on innovativeness (+ p ≤ .10; * p ≤ .05; ** p ≤ .01; *** p ≤ .001)

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