WHAT ARE THE CAUSES OF CEOS’ DISSATISFACTION WITH VENTURE CAPITALISTS’ ASSISTANCE? (INTERACTIVE PAPER)

Dmitry Khanin
Cal State, Fullerton, USA, dkhanin@fullerton.edu

Ofir Turel
Cal State, Fullerton, USA
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Principal Topic

Prior research has established the existence of numerous disagreements and conflicts in the VC-entrepreneur relationship (Sapienza, 1989; 1992; Gomez-Mejia et al., 1990; Ehrlich et al., 1994) that may be spurred by both parties’ opportunistic behavior negatively influencing perception of procedural justice (Sapienza and Korsgaard, 1996; Busenitz et al., 1998) and venture profitability (Higashide and Birley, 2002). Previous studies have not investigated, though, how disagreements between VCs and CEOs and may affect CEOs’ behavioral intentions. This question is of great consequence since many ventures prefer to avoid VC financing as too expensive and risky (Amit et al., 1990). Therefore, VCs would be interested to know how CEOs might act in reaction to their perceived conflicts with VCs while CEOs certainly would like to find out how their peers react to perceived conflicts with VCs.

Method

A random sample totaling 104 CEOs of ventures financed by VCs was obtained through a survey posted on the university’s website. We measured CEOs’ perception of cognitive and affective conflicts and their behavioral intention to switch to other types of VCs or change own behavior in response. The data were analyzed via structural equation modeling (SEM).

Results and Implications

While prior research has emphasized the destructive aspects of affective conflicts in the area of venturing (Ensley et al., 2002; Higashide & Burley, 2002) we conclude that affective conflicts have a silver lining. They raise the tension to the point when decision makers are forced to overcome the lingering inertia and take a stand. Curiously, the adjustment of behavioral intentions in response to affective conflicts and the associated emotional crises may go in two different directions. Some decision makers decide to look for other VC partners. However, decision makers may also make a resolution to adjust their own behavior: work harder on avoiding conflicts and resolving conflicts when they arise, and essentially, be more proactive in building collaboration. This is why affective conflicts may not be utterly dysfunctional and counterproductive and could actually play a liberating role. They allow decision makers to muster courage and seek change and renewal – by actively looking for a better match as well as changing one’s own behavior.

CONTACT: Dmitry Khanin; dkhanin@fullerton.edu; (T): 781-239-5014; Cal State Fullerton, Fullerton, CA 92831.