THE RELATIONSHIP BETWEEN ENTREPRENEURS, ANGEL INVESTORS AND VENTURE CAPITALISTS: AN ETHICS AND GOVERNANCE PERSPECTIVE (SUMMARY)

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SUMMARY

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Principal Topic

Conflicts between entrepreneurs, angel investors and venture capitalists are not a rare event (Higashide & Birley, 2002; Yitshaki, 2008). Whereas some research has looked into the impact of conflicts in this relationship (e.g. Higashide and Birley, 2002; Parhankangas and Landström, 2006), little research has studied its causes and ethical dimensions. Start-up entrepreneurs, angel investors and venture capitalists are however confronted with an enormous range of ethical issues. Questionable practices can include lies and deception, breaches of promise, unfair competition, personal advantages for management and the manipulation of communication (Crane & Matten, 2004). Adopting a conflict theory approach, this paper aims to address this gap in the entrepreneurship and business ethics literature.

Method

The research design is a multiple case study involving ten entrepreneurial companies, backed by either angel investors, venture capitalists or both. Cases were selected based on a theoretical sampling procedure (Eisenhardt, 1989). Information was gathered concerning the sources and content of conflicts between all parties involved (if any). From this sample, drawing on intragroup conflict theory, cases were selected based on (1) them actually having experienced conflicts and (2) the conflict being the result of at least one of the conflict antecedents as prescribed by conflict theory, including scarce resources, interdependent relations, personal differences, goal incompatibilities, interference to reach these goals and inefficient communication (Kochan et al., 1976; Bartos and Wehr, 2002). Further, case selection was also varied based on geographic location of the portfolio company (Continental Europe versus USA).

Results and Implications

Conflict analysis illustrates the variety in and complexity of conflicts between angel investors, venture capitalists and entrepreneurs. Noteworthy is the relative importance of goal incompatibility, inefficient communication and scarce resources as causes of conflict as well as the fact that they often seem to occur together. These conflicts are associated with an equally large variety in unethical practices and behavior, with some cases even including outright fraud. Similar to most conflicts being the result of a combination of multiple antecedents, they also generally portray a mixture of various unethical methods. However, many conflicts did not embody any unethical practice from either one or all parties involved.

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