The experience of entrepreneurs in the venture capital funding process: a signalling theory approach

21819140

Molebogeng Raolane

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

01 November 2022

Abstract

The relationship between entrepreneurs and venture capitalists (VC) has frequently been researched from the VC's point of view. As a result, VCs have implemented a number of techniques to reduce their own information asymmetry. However, because the VC is a professional investor, this dyad has a two-sided information asymmetry with regard to the investing process. With a focus on the signals sent by VCs that led to the reduction of this two-sided information asymmetry, the study applied a signalling theory approach to examine the experiences of entrepreneurs during the investment process. The results demonstrated that entrepreneurs take a variety of steps to prepare before beginning the financing process. Through the investment, entrepreneurs were able to identify and evaluate signs that could ultimately result in greater trust and better process clarity. Additional value additions made during the post-investment period provide additional signals, which may lead to a relationship with a better level of overall quality.

Key words

Entrepreneurship, Venture Capital, Investor Readiness, Trust, Communication

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research

Table of Contents

List of Tables

List of Figures

1. Chapter 1 – Problem formulation

1.1. Research problem

1.1.1. Introduction

Venture Capital (VC) is a form of financial assistance that is available to early stage and high growth businesses, coming from investors that originate, in the immediate source, from VC firms (Ahlstrom & Bruton, 2006; Drover et al., 2017a). These early stage high growth businesses are operated by individuals who are innovative and who work with the sole purpose of growing the business into a larger, more lucrative enterprise. (Panda, 2018). Not only do VC firms provide financial assistance to the benefit of the business' growth, they also adopt other coaching mechanisms that supplement the business with administered business skills and management not previously available; all done to yiled higher returns for the investing firm (Amit et al., 1998).

1.1.2. Entrepreneur VC Relationship

The interaction between an entrepreneur and a VC can be characterised as that of an agent and a principal, with the two parties being in an agency relationship(Christensen et al., 2009; Tennert et al., 2018). This relationship is defined as one which describes one party being contracted by a second party to provide a particular service, while also delegating certain decision-making powers to that second party (Tennert et al.; 2018). This is as a result of the VC (principal) investing in the entrepreneur (agent), and with the entrepreneur retaining the authority to make a significant number of business decisions in the operations of the enterprise (Jensen & Meckling, 1976; Christensen et al., 2009; Panda, 2018). The assumption is that both the entrepreneur and VC would want to maximise their own utility which often results in scenarios wherein the agent does not always maximise their principal's utility, but rather looks to maximise their own with the phenomenon being known as the agency problem (Panda, 2018). With both parties understanding the possible limitations of their arrangement, they would then opt to synchronize their goals and targets with the aim of limiting conflicting interests and thus maximizing returns for all (Hanif et al., 2019). A good relationship between the entrepreneur and VC is a key determinant in the success of the business. Such a relationship has often been viewed as an agent-principal relationship, which inherently presents an unbalanced access to information, with the agent often having more access to business information than the VC Panda, 2018). Given that the sole purpose for the collaboration of the two parties is the eventual success of the business, many scholars have looked into studying this inherent information asymmetry presented by the dynamics of this relationship; considering the causes and effects thereof (Panda, 2018).

1.1.3. Role of information asymmetry

Information asymmetry, a concept that has become central to management research, is defined as a scenario in which one party has more or better information than another party in a particular relationship (Bergh et al., 2019; Akerlof, 1970). Within management research, the concept of information asymmetry has been studied from numerous perspectives, including strategic management, corporate social responsibility, human resources management, organisational behaviour, organisational theory, international business and entrepreneurship (Bergh et al., 2019). As a core concept, information asymmetry has proceeded to form the basis of theories that have been derived from management studies in the last few decades. These include the agency theory, transaction cost economics, resource-based theory, resource-dependence theory, institutional theory and signalling theory(Bergh et al., 2019). Information asymmetry exists in the relationship between an entrepreneur and a VC, given that at the genesis of the partnership, the entrepreneur knows more about the prospects of the venture than the VC, creating an agency problem and agency costs (Gompers, 1995; Yang et al., 2021). However, this information asymmetry can also be two-sided, given that the VC is most likely to know more about the capital process as a result of their experience in professional investing, an imbalance that produce advantage in the inception and terms discussion of the relationship (Glücksman, 2020).

Even though the parties enter into a contract, that contract cannot deal with every aspect of the relationship, resulting in trust playing a major role in the relationship (Burns et al., 2016; Pollack et al., 2017; Shen et al., 2020).

To combat this disadvantage, VCs have put mechanisms in place to reduce agency costs and information asymmetry. Previous literature has often presented information asymmetry from the perspective of the VC having less information (Glücksman, 2020), without much focus on some of the advantage on the VC's side. As a result, most literature has solely focused on the steps taken by VCs to narrow this information asymmetry, with little focus on the other side of ledger. One such mitigant that has been put in place by

VCs to protect their interests, is the provision of capital in stages and having the option to provide no further capital if milestones are not reached by the entrepreneur (Panda & Dash, 2016). This ensures that invested money is only spent on value-adding activities, with the target of getting the business to a certain pre-agreed stage one level and funding round at a time (Panda & Dash, 2016). One example of synchronizing the VC and entrepreneur's interests is through entrepreneurs mostly being compensated using company stock, rather than salaries. This is done to ensure that both the VC and entrepreneur are on the same page, as the returns on stock awards would tend to be more long term in nature compared to salaries, which are earned immediately or at least on a monthly basis (Sahlman, 1990). Additionally, Pruthi, Wright and Lockett (2003) concluded that VCs also constantly monitor their investments, whether in developed or developing markets. Sahlman (1990) and Schmidt (2003) also made the point that the use of convertible instruments by the VC places the timing of liquidity actions in their control, and if the convertible instrument has dividends, these at least create a moderate return even if investment is only marginally successful. Lastly, the VC's active involvement in the company in the form of board seats, assistance with recruitment, and working with suppliers and customers also allows mitigation to the fact that businesses are not always able to contract out every needed business operation, which would present a limitation, and can be circumvented in this regard to the benefit of all. (Sahlman, 1990).

However, as previously noted, there are instances wherein the entrepreneur is the party with less information between the two. This makes information asymmetry a double-sided disadvantage, as VCs are experienced deal makers who conduct such venture deals professionally and on a regular basis, thus understanding the process expertly, while entrepreneurs are likely to only know their own venture well (Glücksman, 2020). While in the first instance, the entrepreneur is the party with the information advantage regarding the prospects of the venture, the second circumstance presents the entrepreneur being the party at an information disadvantage and the VC being at an advantage.

There is scant literature on the instruments that entrepreneurs can use or actions that entrepreneurs can take when they are the ones at an information disadvantage regarding insight on the VC process. Glucksman (2020) found that timing, matching, preparation and trust building by entrepreneurs are important in mitigating information asymmetry risks. Timing refers to entrepreneurs having to think about ensuring that the venture raises capital from VCs at the right time and when in the right business phase. Matching refers to ensuring that the venture finds a VC that aligns with its own vision and mission, rather than accepting any VC that merely offers funding. Preparation refers to the work that is to be done by the VC prior to engaging in the VC funding process, which often relates to preparing financial plans, presentation skills, narration of the business story and understanding of what it means to have other equity investors (Cusolito et al., 2020). Lastly, trust building refers to the process of the entrepreneur creating a relationship that has open and honest communication with the VC (Glucksman, 2020).

Klonowski (2007) describes a nine-stage venture funding process, which commences with deal origination, followed by initial screening, followed by feedback from the Investment Committee and Due Diligence Phase 1. These steps are then followed by pre-approval completions, formal approvals and due diligence Phase 2. The researcher will use the above steps as a guide when referring to the investment process, however, for the purposes of this study, the steps will be grouped in the following manner: all of the steps until formal approvals will be framed as Part 1 of the venture process, Due Diligence Phase 2 and deal completion will be framed as Part 2. Monitoring will be framed as Part 3 and lastly, the exit will be framed as Part 4. This framing is done in order to separate the risk that entrepreneurs are exposed to through the process. The risk that entrepreneurs are exposed to will be considered separately to the risk that entrepreneurs are exposed to in the other parts.

This study will use the signalling theory as a framework to understand the signals VCs provide to entrepreneurs through the venture funding process. This signalling theory was first described by Spence (1973), in which the researcher outlined a hypothetical labour market where employers (the receiver) had to interpret the potential success of an employee (the signaller), based on the education level of the employee (the signal). The signal that is provided by the signaller often has a cost attached to it, making it worthwhile to incur that cost in order to communicate that signal (Spence, 1973, 2002).

1.1.4. Research purpose

The purpose of this study is to further understand the entrepreneur-investor relationship from the perspective of the entrepreneur. There have been other researchers who have studied this relationship from the perspective of the investor, and as a result, a number of mechanisms have since become commonplace in VC investments. However, given that there are other elements of the investment process that the investor knows more than the entrepreneur, by virtue of the investor being a professional dealmaker, the entrepreneur could also be in a position to embed mechanisms or to grow awareness of the process to ensure that they maximise their own returns in the relationship as well. There are relatively few mechanisms that entrepreneurs can put in place in order to mitigate their own information asymmetry risks in relation to the investment process that are documented in literature. The study will thus add to the literature regarding the experiences of entrepreneurs while undergoing the investment process with a VC. The experiences of entrepreneurs will be useful in the entrepreneur's quest to raise the appropriate type of capital from the appropriate partner at the appropriate time, and to avoid adverse selection risk as well as moral hazard that can arise as a result of the VC having more knowledge about the investment process than the entrepreneur. This would also ensure that the entrepreneur is in a stronger position, thereby generally improving the entrepreneur's start-up experience.

The findings of this study would add to the available literature on information asymmetry in the entrepreneur-VC relationship throughout the investment process, adding a perspective on how entrepreneurs can mitigate the risks that arise because of this imbalance. Signalling theory will be applied as a framework in an attempt to understand how entrepreneurs interpret the signals that are given by VCs throughout the investment process, and how the interpretation of those signals will be beneficial to the entrepreneur's VC experience.

On a practical level, the study will contribute to the understanding of what entrepreneurs can do to be as prepared as possible for the investment process. For VCs, insight into the experiences of entrepreneurs throughout the investment process will assist in understanding what signals to provide the entrepreneurs to adequately communicate the quality of what they bring to the table.

1.1.5. Outline of the report

This research report will commence Chapter Two by providing a review of the current literature in venture capitalism and in particular, the dynamics of the entrepreneur and the VC relationship. The chapter will explore this relationship dynamic by considering a detailed definition of the VC, followed by a review of the literature around information asymmetry, and how VCs have mitigated their own information asymmetry and lastly, the chapter will present the chosen theoretical framework for the answering of the research questions, the signalling theory. Chapter Three will provide a brief overview of the research questions together with the purpose of each research question. Chapter Four will be a presentation of the methodology and research design employed by the researcher to collect data that will address the research questions that are raised in Chapter Three. Chapter Five will present the findings of the data that was collected from research participants using the methodology described in Chapter Four. Chapter Six is a detailed discussion of the findings in consideration of how they relate to the literature review and will also present and discuss any new insight provided by the findings. Lastly, this research report is concluded in Chapter Seven by considering the main findings and their relevance/ability to answer the research questions, together with a consideration of their theorical and practical contributions. Limitations of the research study and directions for potential future research are also presented in this chapter, concluding the research study and paper.

2. Chapter 2 – Literature review

2.1. Introduction

This chapter provides an overview of past literature that is available on the dynamics of the entrepreneur and VC relationship. The chapter commences by defining VC as used in this study. Information asymmetry as well as the agency problem are then reviewed in the literature. Further, risk mitigation strategies from the perspective of the entrepreneur are discussed, which indicates that there is a lack of investigated risk mitigation strategies that could be employed by entrepreneurs in the same relationship. Signalling theory is then outlined and discussed, as it will be used as a framework to understand the entrepreneur's perspective. The chapter is then concluded with a discussion of the contribution to theory and practice.

2.2. Definition of VC

When an early stage business is seeking to grow, there is sometimes an opportunity to raise equity capital from external parties rather than debt (Drover et al., 2017). Given that the business is often not generating sufficient cash flow to repay debt, the equity options available to that business can therefore be categorised into the broad category of VC (Drover et al., 2017). VC is capital that is provided by a group of investors into businesses that are at various stages of their business cycles, with an emphasis on innovative, high growth, earlier stage businesses as opposed to mature businesses with stable growth (Drover et al., 2017; Vaidyanathan et al., 2019). VC is not limited to technology-enabled businesses only, but also other businesses that offer above average growth and the related returns associated with that growth, often being underpinned by other factors such as underserved markets or legal barriers to entry (SAVCA, 2021). While these businesses offer potentially high returns, they are also accompanied by higher risks (Drover et al., 2017; P. Gompers & Lerner, 2000; Mlambo & Portmann, 2013; Vaidyanathan et al., 2019). Investments are normally made using equity-type instruments, and in providing the capital, VCs also tend to also be more involved by sitting on the boards of their investee companies, leading to them having other rights outside of those obtained by being a normal shareholder in a publicly listed company (Drover et al., 2017; P. Gompers & Lerner, 2000). Additionally, VCs add value to their portfolio companies in other ways as well, which could include mentorship and an improvement in governance (P. Gompers & Lerner, 2000; Jones & Mlambo, 2013; Lerner & Nanda, 2020; Vaidyanathan et al., 2019). A significant amount of literature focusses on the partnership format of VC funding, as opposed to corporate venture capital and development finance raised(Drover et al., 2017). The equity funding landscape literature differentiates between the different types of early stage investors; traditional VCs with a partnership format, corporate venture capital which sources funding from corporate entities, angel investors who are individuals who invest their own capital and accelerators who trade specific skills and other assets such as work spaces and mentorship (Drover et al., 2017). The above different equity funding models differ by source of funding, stage of business, amount invested and the nature of involvement (Drover et al., 2017).

The South African Venture Capital Survey (2021) reported that more than half of the funding provided to venture capitals in South Africa was to seed stage businesses, which are those businesses that require funding in relatively early stages, typically prior to completing product research and design and which would be often sourced from angel investors. Furthermore, the researcher revealed that almost half of all investment into venture capital in South Africa was sourced from corporate entities (SAVCA, 2021). As a result of the fact that a significant proportion of funding is for seed stage companies and that a significant amount of this is being sourced from corporate entities, this study will not differentiate by funding source and early stage, with the result being that traditional venture capital from institutional sources, corporate venture capital and angel investors will all be considered as venture capital.

2.3. Information asymmetry

Information assists in making decisions, and individuals make decisions based on either public or private information or both (Connelly et al., 2011). As a result of some information being private and not open for public consumption, it is a natural occurrence for one party to make decisions with information that another party has but has not disclosed, causing information asymmetry (Connelly et al., 2011). In their extensive literature review of the phenomenon of information asymmetry, Bergh et al. (2019) discovered that there were essentially three broad categories of factors that lead to information asymmetry. The first is reported to be the “unobservable or uncertain qualities of actors or their products and services”, the second is the “structural barriers to information sharing” and the third and last category refers to the “strategic and behavioural barriers” (Bergh et al, 2014, p133i).

In the relationship between the entrepreneur and the VC, the VC would know more about the investment process compared to the entrepreneur by virtue of the VC being a professional investor that has formed entrepreneur-investor relationships in the past (Glucksman, 2020; Greiner & Lee, 2017). This would put the VC in an advantageous position at the onset, given that the process is being run by them, a party that has extensive knowledge and experience of the process in question. On the other hand, the entrepreneur has often not had the privilege of undergoing such proceeding numerous times, and remains an amateur compared to their counterpart. This information advantage places the VC in a favourable position at the start of the process, allowing them more control over the dynamic and direction of what is to follow. As a result, the VC often then has better negotiating power and leverage, placing the control of the relationship post investment in the VC's hands (Granz et al., 2020). This is also supported by the fact that post investment, the entrepreneur becomes merely a receiver of value and has to wait for the VC to provide the value before making an additional move.

2.4. Information asymmetry and the agency problem

The relationship between entrepreneurs and VCs has long been described by a number of researchers as an agent-principal relationship (Christensen et al., 2009; Drover et al., 2017). Jensen and Meckling (1976, p 308) first defined the agency relationship *as* "*a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent*". If it were to be assumed that both parties want to maximise their own utility, then it is reasonable to deduce that the agent will not always act in the best interests of their principal, which then creates an agency problem (Jensen & Meckling, 1976). Christensen, Wuebker and Wustenhagen (2009) considered the motivations for both the entrepreneurs and VCs in the relationship, using agency theory in their study with the entrepreneur as the agent and the VC as the principal. Panda (2018), also viewing the entrepreneur as an agent and the VC as the principal, confirmed earlier findings from an earlier 2016 study they conducted. The researchers concluded that later stage VCs are the ones who face the greater agency risk when being compared to earlier stage VCs. This is mostly because it is easier to get both parties' goals aligned much sooner than it is later, and that the earlier the relationship commences, the lesser the impact of information asymmetry on the interest of either parties.

Based on the agency problem, information asymmetry between the entrepreneur and the VC becomes a challenge. Adverse selection and moral hazard are two of the types of information asymmetry that arise (Amit et al., 1998; Glücksman, 2020; Panda, 2018). Adverse selection, as first posited by Akerlof (1970), refers to an instance in which the entrepreneur is encouraged to not disclose all relevant information to the VC to make an informed decision but with the sole motivation of merely obtaining funding from the VC. The decision then made by the VC is sub-optimal given that the VC did not have all relevant information at hand. Moral hazard occurs when the entrepreneur is not encouraged to maximise value as the VC is not able to observe whether the entrepreneur is working hard or not (Amit et al.; 2019; Djalic et al., 2017; Hellmann & Thiele, 2019). This addition of other forms of support in addition to financial capital, makes VC unique in relation to other forms of capital raising such as debt capital and this extra support may even be more important than the financial capital that is provided (Panda, 2018). As a result of the additional support provided to VC-backed firms, they tend to be more in the spotlight and have tended to be more successful when compared to firms that are not supported by VC firms. It is important to note that this variation could possibly be explained by other factors (Lerner & Nanda, 2020; Panda, 2018).

2.5. Accelerators and Incubators

According to Berger (2019), accelerators and incubators differ by the amount of time that the participants take as part of the programme, with an accelerator being for a relatively short amount of time at three-six months, while an incubator can be for a longer period of time at almost a year. An accelerator also only accepts applications from potential businesses that already have a minimum viable product while incubators can accept applications from earlier stage businesses. The services offered by an accelerator include mentorship, intense scrutiny of the business model, and selection via cohorts that change periodically. The services offered by an incubator are less intense mentorship as its offered over a longer period, ad-hoc assistance with various services such as free rent and legal services (Roland Berger, 2019). A summary of the differences between an incubator and accelerator have been provided in Figure 1 below

Key differences between an accelerator and incubator		
	Incubator	Accelerator
Duration	Open-ended	Fixed
Mentorship model	Minimal	Intense
Education	When necessary	Seminar based
Selection process	Non-comptetive	Competitive and cyclical
Stage of business	Very early	After minimum viable product
Equity position	Does not necessarily	Almost always takes equity

Figure 1: Investment process

2.6. The role of trust in the entrepreneur VC relationship

The entrepreneur VC relationship has various features including risk, uncertainty, a threat of untoward behaviour, and information asymmetry (Burns et al., 2016; Pollack et al., 2017). Panda et al., (2020) view the relationship between an entrepreneur and VC as having several characteristics which make it different to other relationships. When the VC purchases equity, the objective is to grow that equity, not to consume it and no product or service exchanges hands as the VC purchases equity in exchange for capital and the length of the relationship is finite at around five years (Vaidyanathan et al., 2019; Zacharakis et al., 2010).

Although the relationship is governed by a contract between the parties, that contract cannot cover every aspect of the relationship, therefore trust plays a large role in that relationship (Burns et al., 2016; Pollack et al., 2017; Shen et al., 2020) According to Shen et al. (2020), there is trust between parties when one party reasonably expects the other party's credibility and benevolence, to assist the parties cooperate together. Trust is ultimately an informal construct (Kaiser & Berger, 2018; Shen et al., 2020). Goal congruence between parties is a mediating factor in building trust between those two parties and trust develops when the parties have full confidence in each other to act in the best interests of the relationship (Shen et al., 2020).

The role of trust in the relationship in older studies also highlights that information asymmetry is often viewed from the perspective of the VC being the party with less information as it is often the entrepreneur that is the party that has to do extra work to build that trust (Kaiser & Berger, 2021). However, with regard to the investment process, the VCs are normally more experienced than entrepreneurs, making the VC the more powerful partner in the relationship (Greiner & Lee, 2017; Panda et al., 2020). Furthermore, the VC is the party with more financial resources, implying that the VC is more powerful, which can create a scenario in which the VC expresses its power in various ways (Wang, 2018). Despite that, the relationship has often been viewed as one sided information asymmetry, Panda (2020) suggests that there are instances in which VCs can also behave opportunistically, to the detriment of the relationship or the business such as when VCs abandon entrepreneurs that they perceive to have a lower likelihood of success while favouring others that they perceive to have a higher likelihood of success (Ewens et al., 2018). In addition, if the entrepreneur feels that the VC dominating the relationship and abusing the VCs power, evidenced by not acting in the best interests of the relationship, the entrepreneur could be discouraged and could hinder goal congruence (Nieschke & Mauer, 2022).

Morgan and Hunt (1994) conceptualised a model called the Commitment-Trust Theory, that emphasised that trust and commitment are important to the quality of the relationship. The trust and commitment are in turn influenced by various antecedents which then determine the quality of the relationship (Morgan, Hunt). However, prior to these antecedents, trustworthiness, defined as the characteristic of the party that needs to be trusted, in this instance the VC, must be established.

Middelhoff et al., (2014) considered the manner in which trustworthiness is signalled by investors in the post investment phase (Part three in this study) and noted that perceptions about the investor's abilities, the investor's integrity and the investor's benevolence were key signals in the building of trust between an entrepreneur and a VC for the post investment phase. Benevolence was found to be the strongest of the above three signals, with investor abilities and integrity being weaker signals while the frequency of communication was found not to affect how the trust is built between the parties (Middelhoff et al., 2014). However, Shepherd and Zacharakis, (2001) noted that frequent and open communication was a catalyst to all other important mechanisms that help build trust between an entrepreneur and VC, including mechanisms such as a signal to commitment and consistency, being just and fair with the other party, and quite importantly, ensuring that there is good fit between the parties.

Shepherd and Zacharakis (2001, p. 137) refer to “making adjustments to accommodate the needs of the partner increases the fit between the two parties”. The entrepreneur and VC have to make a decision regarding their own fit as a partnership, with that decision enhanced if the parties met a common association or through their own personal networks (Shepherd and Zacharakis).

Panda and Dash (2016) explored how trust develops depending on the stage of the business is which the VC invests, contrasting very early stage investing against growth stage investing. The level of trust between the parties when investing in very early stage was found to be high, given that there was a perceived low agency risk as there was goal congruence between the parties during that point when the primary goals of the entrepreneur were to grow the venture with the VCs attempting to help them in growing the venture (Panda & Dash, 2016). There were various signals the VCs gave, which led to the development of trust between the parties. These included the length of time spent negotiating the deal being short, the significant amount of guidance and mentorship provided to the entrepreneur, and the frequency of communication being high and the authenticity, transparency and openness to feedback of the VC (Busser & Shulga, 2019; Duffner et al., 2009; Panda & Dash, 2016; Warnick et al., 2018). The VCs showing genuine concern for the entrepreneur’s personal priorities was a signal which led to a trust being built as well as similar backgrounds between the entrepreneur and VC led to increased trust between the parties (Panda & Dash, 2016; Whitener et al., 1998). In contrast, in later stage VC investing (Panda and Dash (2016) noted that both parties repeatedly acted opportunistically, with distrust amplified by poor communication between them.

2.7. VC risk mitigation

Amit et al. (1998) argue that the very existence of VC firms is theoretically possible because VC firms are the best financial intermediary at solving the information asymmetry challenge that arises between entrepreneurs and investors. The instruments used by VCs to mitigate the principal agency problem inherent in their relationship with entrepreneurs has long been studied academically (P. Gompers, 1995; Hellmann, 2006; Sahlman, 1990; Schmidt, 2003).

In an extensive study on the relationship between VCs and entrepreneurs, Sahlman (1990) first noted three types of mitigants put in place by VCs in order to address the agency problem. Firstly, commitments are provided in stages as milestones are reached in order to control for risk and appropriately incentivise entrepreneurs as the entrepreneur's motivation is controlled with these staged investments allowed VCs to monitor the progress of investments, with this monitoring providing the option of to exit the investment if the time and capital investment is outweighed by the opportunity cost of remaining involved (Gompers, 1995; Sahlman, 1990; Tennert et al., 2018). Secondly, the use of deferred compensation for management is a control mechanism in which compensation is mostly in the form of equity rather than a salary as most entrepreneurs accept a lower than market salary in order to participate in equity (Back et al.; 2022). This control mechanism ensures that entrepreneurs are incentivised to create equity value, thereby aligning interests of entrepreneurs and VCs. Thirdly, VCs by definition of being VCs, often play an active role in the company whether by obtaining board seats, recruiting key individuals or even assisting the company raise finance (Drover et el, 2017; Lerner & Nanda, 2020; Vaidyanathan et al., 2019) which has been necessitated by information asymmetry in an effort to reduce that information gap.

The study by Sahlman (1990) further explained that the use of convertible security is a mechanism used to control the liquidity process when the time to realise the investment arises, with convertible instruments remaining in the control of the VC. Schmidt (2003) found that the use of convertible securities was an effective way of dealing with the double moral hazard issue in the relationship as the VC will only convert if the entrepreneur has worked hard enough. (Arcot, 2014) argued that the use of conversion of participating convertible by VCs was a key signal about the quality of the business at the time of exit.

As noted above, in scenarios in which the VC is to make a decision relating to which entrepreneur to invest in, the information asymmetry is such that the entrepreneur has more information about the investment than the VC. In that scenario, the entrepreneur is the agent while the VC is the principal. However, there are scenarios in which the VC knows more than the entrepreneur given the two-sided asymmetry noted by Glucksman (2020), this process of one party persuading another party of their qualities and potential future value can indeed be viewed as the VC being required to persuade the entrepreneur of the VC's quality and potential future value add to the venture during the investment process (Greiner & Lee, 2017). VCs are likely to have a portfolio of companies and have significant investment experience, resulting in the VC knowing more about the investment process than the entrepreneur (Glücksman, 2020). In that scenario, the information asymmetry may be skewed towards the VC being the party with more information rather than the entrepreneur, resulting in the entrepreneur being the party that is exposed to adverse selection and moral hazard (Christensen et al., 2009); Greiner & Lee, 2017).

2.8. Entrepreneur risk mitigation

As previously stated, information asymmetry from the perspective of the VC, have mitigants that have been put in place by VC's (P. Gompers, 1995; Hellmann, 2006; Sahlman, 1990; Schmidt, 2003). However, the mitigants that entrepreneurs would use in the VC funding process is not an area that appears to be well understood. The VC funding process can be said to contain nine steps, from deal origination to exit (Klonowski, 2007). The nine-step process described by Klonowski (2007)omprises deal origination, initial screening, feedback from the investment committee and due diligence phase I, pre-approval completions, formal approvals and due diligence phase 2, deal completion, monitoring and exit. The steps in the nine-stage process are provided as Table 1. For the purpose of this research study, the stages put forth by Klonowski have been modified to Parts one to four as the costs tend to increase significantly from due diligence Phase two and deal completion as external service providers are often used for that phase. Furthermore, the activities in Part one overlap significantly, with little to no distinction between when a stage commences and ends (Klonowski).

Table 1: VC Investment Process

Stage	Description	New Parts for the purpose of this research
1	Origination	1
2	Initial screening	1
3	Feedback from the Investment Committee and Due diligence Phase I	1
4	Pre approval completions	1
5	Formal approvals	1
6	Due diligence Phase II	2
7	Deal completion	2
8	Monitoring	3
9	Exit	4

Naturally, this would be a process that is undertaken on a regular basis by VCs given the nature of the VC business and the steps noted above are steps taken by VC firms (Klonowski, 2007). It is, however, unclear how well entrepreneurs understand this process and are prepared for it in order to mitigate entrepreneur adverse selection risk when interacting with the VC. This study will aim to address the information asymmetry issue from the perspective of the entrepreneur, particularly in respect of whether entrepreneurs understand the risks inherent in the investment process and take any actions to mitigate those risks. In his research on entrepreneur and VC relationships, Glucksman (2020) noted that there are four mechanisms that can be put in place by entrepreneurs in order to mitigate their information asymmetry in the investment process, those being timing, which referred to entrepreneurs knowing when the business is ready to raise capital, matching which referred to ensuring there is a match between the entrepreneur and VC, preparation which referred to entrepreneurs understanding the process prior to commencing, and trust building which was a process of ensuring there is a good relationship between the parties.

The steps taken to prepare for the VC investment process are beneficial as they assist the entrepreneur in the negotiation process and also assist in assessing whether there is good fit between the entrepreneur and VC (Glucksman, 2020). It is currently unclear what exact actions entrepreneurs can take in order to specifically prepare themselves for the VC investment process. VCs have considered VC elements such as reputation, trust and empathy, association, valuations concerns, contractual terms and potential VC value add in their assessments about which entrepreneurs to partner with, with potential value add including the use of an operational network, financial network, strategic development, business development and experience in existing businesses (Granz et al., 2020). Within the above types of value add, Granz et al. (2020) concluded that operational network, defined as the ability to assist the entrepreneur in obtaining new contacts that are helpful with various business services and are relevant in the industry, was the most useful value add provided by VCs.

The background of the VC was a relevant factor that Gompers and Murkharlyamov (2022) explored in an attempt to understand whether being a founder (successful or not) and then subsequently being a VC improved the chances of being a successful VC as they found that previously successful founders go on to become successful VCs as they are the VCs that tend to add more value to portfolio companies. Furthermore, Moritz et al. (2022) go on to note that the VCs educational background makes a difference to what businesses the VCs choose to invest in, with the ability to scale internationally being important for former founders and those with a higher education and value add being important for those VCs with a technical background and lastly, the amount of investment experience within the VC tended to focus more on the management team.

The literature on entrepreneur preparedness deals with the perception of the VC about the entrepreneur's preparedness for operating the venture rather than how the entrepreneur can prepare for the VC investment process ((Allison et al., 2022; Cottle & Anderson, 2020; Nheta et al., 2020; Xiangping, 2018). Entrepreneur preparedness as a concept is often from the perspective of the VC attempting to determine whether the entrepreneur is prepared or not. Granz et al. (2021) used resource dependency theory to understand the different types of value that a VC could make to a business and how the different types of value-add influence the decision by an entrepreneur on which to choose. The study went on the classify the different types of value added services as either operational network use, which referred to the extent of the usefulness of an operational network to introduce to the venture, financial network which referred to how much VCs can introduce financial stakeholders to entrepreneurs, strategic development as how much value a VC can add to the short and long strategic elements, business development as how value a VC can add to sales and operational matters and exit experience which referred to how much a VC can assist the entrepreneur in matters relating to exit (Granz et al., 2021). The use of the VCs operational network was significantly more important than any of the other types of value add while the use of financial networks was the least valuable (Granz et al., 2021). The importance of value add was in contrast to (Jinsoo

(2021) who noted that entrepreneurs did not considered other factors other than value add post investment as more important when making a choice about which VC to work with.

Vaidyanathan et al. (2019) noted that VCs have four distinct roles in an investment; firstly, they are to play a financial intermediation role relating to the financial capital that is injected, secondly they are to play a certification role for other potential stakeholders as the VC has undergone a rigorous process themselves to select the business, thirdly, VCs are to play an innovation and internal development role and lastly, VCs are to play a monitoring, strategy and professionalization role for the business. By definition, a VC is expected by the entrepreneur to play at least one of these roles, with the ideal scenario being a VC that performs all of the roles.

Post investment, Entrepreneurs are required to be aware that as soon as they accept funding from external parties, they will be required to begin reporting on the use of those funds which is a periodic exercise that can take up time and effort (Glucksman, 2020). While some entrepreneurs may not like this part of the process, Donovan (2021) had suggested that this reporting reduces information asymmetry between the entrepreneur and VC as there is an association between reporting and capital raised.

2.9. Signalling theory

In scenarios in which there is information asymmetry, signalling theory is a useful tool that could be used to reduce the information asymmetry gap (Bergh et al., 2019). Therefore, signalling theory is a concept that has been widely used in management research in a number of different applications (Bergh et al., 2014). Information asymmetry is present between line managers and staff regarding human resource practices and as a result, Guest et al (2021) used signalling theory with line managers as the signalers and staff members as the receivers of signals and HR messages being the signals received. Yasar et al. (2020) suggested, through empirical testing, that signals provided by a president of a country influence investment decisions in financial markets by portfolio managers as a result of those signals providing guidance about future economic policy, which economic policy is something which the president of a country would know more about than investors. Taj (2016) examined how signals between a European head office and a subsidiary in a developing country within the context of improving employer branding would decrease information asymmetry given the information asymmetry that exists when employers attempt to clarify their employee value propositions. Signalling theory was again used when Zhang and Wiersema (2009) illustrated how CEOs use the quality of their financial statements as a signal to investors about the quality of their firm, thereby reducing the information gap between management and investors.

As previously stated, the relationship between an entrepreneur and VC has two-sided information asymmetry (Glücksman, 2020). From the perspective of the entrepreneur, the VC has more information about the investment process compared to the entrepreneur, placing the entrepreneur at an information disadvantage as it relates to the entrepreneur's ability to evaluate the VC's value add and potential association (Greiner & Lee, 2017). The VC is likely to be the party that has entered a number of entrepreneur VC relationships in the past, and have experience in what exactly the VC has done in other entrepreneur VC relationships despite every entrepreneur and venture being different to other entrepreneurs and ventures. In this scenario, the VC would be the signaler providing signals about their and the entrepreneur would be the receiver. Signalling theory involves three main elements, being the signaler, the signal and the receiver (Connelly et al., 2011; Spence, 1973, 2002).

In a scenario in which there is information asymmetry, the signaler is the party that has more information than the other party. They will be the parties who have more knowledge about how much value they can add to the other party, their ability to influence and the potential quality they possess (Svetek, 2022; Taj, 2016). Signalers are also parties that are insiders who possess information whether positive or negative that other parties are not aware of and which information helps to form a view about the quality of that signaler and are able to provide clues about that information (Taj, 2016). In the context of management research, the signaler can be a natural person or an organization acting through natural persons (Connelly et al., 2011; Taj, 2016). In this study, the signaler will be the VC who has inside information about the venture capital funding process and as more information about their own quality and potential value add.

Signals are information that is sent by the signaler to the other party in an effort to decrease the information asymmetry between parties and in order to influence the scenario in their favour (Svetek, 2022; Taj, 2016). Signals could have different characteristics to differentiate themselves, being the level of their objectivity or subjectivity, whether signals are positive or negative, or whether signals are complementary or substitutive, the absolute and relative cost (whether monetary, time or effort) of the signal and finally, the pliability of the signal (Svetek, 2022). What the exact characteristics would be for every signal would depend on the exact context of that signal. This study will consider the characteristics of the signals provided by the signaler (the VC's) to the receivers (entrepreneurs) in order to communicate the signaler's quality during the VC investment process.

Colombo (2021) has noted that signalling theory in the context of the entrepreneur and VC relationship has often been researched from the perspective of the entrepreneur being the signaler and the VC being the receiver as venture financing is viewed as a process of the entrepreneur attempting to persuade VCs of the qualities of their firms and a firm's qualities and consequent future prospects to potential investors. Entrepreneurs provide VCs with numerous different types of signals to indicate why their ventures may be of a high quality and to convince VCs that the right team is in place to realise that vision (Colombo, 2021). In the instance in which information asymmetry is such that the entrepreneur is the party at an information advantage, Svetek (2022) noted the firm level signals as well as the individual level signals that investors could consider. At a firm level, the signals could include the level of public funding, personal investment by the entrepreneur in the venture, the level of prior external funding in the business, the number of affiliations and alliances the business is associated with and the number of patents or quality of the prototypes the business has produced (Svetek, 2022). Commitment of the founding team to a particular early stage venture is also a signal to the potential investors about the prospects of the venture (Bernstein et al., 2017). At an individual level, the signals could include the level of education and experience, the extent of the entrepreneur's personal social capital and the entrepreneur's observable personal traits (Svetek, 2022). Social capital such as connections with high value suppliers or customers were found to be good quality signals by both Bapna (2019) and (Ahlers et al., 2015).

The effectiveness of signals is affected by the attention of the receiver in the sense that signals are more effective if receivers are seeking those signals as if receivers are not seeking those signals and if receivers are not attentive to signals, the signals themselves become less effective (Connelly et al., 2011; Taj, 2016). Signals are also more effective if the receivers have received and interpreted signals from the same or similar parties in the past and those signals have been useful (Taj, 2016). In the instance of entrepreneurs and VC's, entrepreneurs do not typically have a significant amount of experience in receiving signals from VC's in the past, as a result, it is anticipated that whatever signals are received, will not have been signals that have been received in the past and the entrepreneurs will battle to interpret those signals. Connelly et al (2011) notes that signal frequency, defined as the number of signals received over a period of time, improves signal effectiveness. Given that the entrepreneur and VC relationship occurs within a business environment which constantly changes, it can be expected that information within that environment is also constantly changing (Connelly et al, 2011). This changing environment results in signals changing over a period of time even though the signals may be conveying the same message. In the instance of entrepreneurs and VC's, the relationship would last over a number of years and it would be expected that there are a number of signals received over a period of time, improving their effectiveness.

The signal receiver is the party with less information about the scenario than their counterpart and require the signal in order to assist in their decision making (Connelly et al, 2011; Svetek, 2022). In the context of entrepreneurship, the receiver of signals has almost always been investors, whether potential or existing (Connelly et al, 2011). Receivers of signals indeed do have a conflict of interest with the signaler given that the signaler is at an advantage with the information which the signaler knows and the receiver does not know (Connelly et al, 2016). In order for the signalling to have an effect on the relationship, the signal has to make the receiver act on the signal provided by the signaler, which action the receiver would not have done without the signal, which often entails the selection of the signaler over some other options (Connelly et al, 2011). The receiver has to make a choice of some sort based on the signal received from the signaler. The entrepreneur as the receiver of the signal, has to make choice about which VC to partner with and the quality of the interactions between themselves and the VC. Furthermore, given the feedback nature of signals, the quality of the signals received by the entrepreneur, in turn influences the quality of the signal provided by the entrepreneur in the duration of the relationship.

In Spence's (1973) seminal work on signalling theory, Spence put forth the concept that signals are costly. In other words, the signal that is provided by the party with more information actually has to cost that party something to give that signal. These signals tend to sometimes be costly, however, when considering the use of signalling in entrepreneurship, the signals merely seek to convey a message about the sender's underlying qualities. Huang and Knight (2017) when considering signals entrepreneurs provide to potential investors, consider that entrepreneurs provide two types of signals: firstly, there are informational signals which provide a message around the quality of the aspect the entrepreneur is attempting to communicate such as preparedness, social capital, technological competency, government grants, or affiliations with other third parties or even other investors, secondly, there are interpersonal signals which provide a message about how the signaler might behave when interacting with others, it concerns their behavior with entrepreneurial passion, how much personal commitment there is to the venture and the entrepreneur's openness to being coached (Colombo, 2021). Coachability has been viewed as an especially useful signal given the additional value add from investors in the form of mentoring and coaching that needs to typically go into an early stage business (Ciuchta et al., 2018).

Spence (1973) suggests that the party that has less information than the other party and has to make a decision on the available information, chooses signals that are given by the other party in order to maximise the difference between signalling costs and the upside of choosing that option (Bergh et al., 2014; Bergh et al., 2019; Yasar et al., 2020). This implies that signal receivers have a choice that they have to make, with alternatives to that choice being available as those signal receivers will attempt to maximise the value of their choices. Other management concepts similar to signalling theory such as strategic sense making or information processing theory, also involve seeking elements such as signals and making decisions from those signals. However, what sets signalling theory apart is its ability to distinguish between good counterparties and poor counterparties based on the signal that has been sent or received because signals mostly have a cost associated with them. This cost is relatively substantial, to the extent that parties that are willing to incur the cost are those parties that want to make the investment in ensuring that they are viewed in a positive manner (Bergh et al., 2014).

2.10. Contribution to theory

The study will contribute to the theory on information asymmetry in the first instance, as well as signalling theory in the second instance. The contributions to information asymmetry and signalling theory will add to academic theory on the solving of the agency problem that exists between agents and principals. To a smaller extent, the study will contribute to the agency problem.

Information asymmetry is in fact two-sided in the entrepreneur-VC relationship (Glucksman, 2020). The phenomenon has often been studied from the perspective of the VC being the party that has less information, and is thus the party that is attempting to close the information asymmetry gap. This has resulted in various mechanisms that can be put in place by VCs in order to reduce the information asymmetry gap. The two-sided nature of this phenomenon has rarely been studied from the perspective of the entrepreneur, which has resulted in limited understanding of the theoretical implications of the other side of the relationship. There have been limited instances in which the mitigants that entrepreneurs can employ in order to reduce the information asymmetry gap in their relationship with their VC partner. The study contributes to understanding the different mitigants that can be deployed by entrepreneurs in order to mitigate their risks in the entrepreneur VC relationship.

Signalling theory is often used in management research in an attempt to reduce the gap in available information in a scenario in which there is information asymmetry Click or tap here to enter text.(Bergh et al., 2019; Chakraborty & Ewens, 2018; Guest et al., 2021; Yasar et al., 2020). Signalling theory was used as a framework to study information asymmetry between an entrepreneur and a VC from the VC's perspective when Bapna (2019) Click or tap here to enter text. considered what signals complement each other to convince VC's about which entrepreneur to invest in. However, signalling theory has not yet been used to study information asymmetry between an entrepreneur and VC from the VC's perspective. This study used signalling theory from the entrepreneur's perspective to understand the signals and signal costs that will help entrepreneurs make higher quality decisions and take higher quality actions in the investment process. In this study, the risk relating to Part one of the investment process can potentially adequately be mitigated by preparing for the investment process. The exact preparation that can be done has been extensively covered in research based on studies done in the past and entrepreneurs in this study mostly undertook the necessary research in preparing for Part one of the investment process.

Part two of the investment process is a little more individualised, and merely preparing for this part of the process may not be adequate given that deal completion involves negotiations that are not necessarily easy to prepare for and will almost often be different depending on the VC the entrepreneur is engaging. It is in Part two of the process that the riskiness of the investment process increases so it is from Part two that the entrepreneur needs to interpret signals better and respond better to those signals.

2.11. Contribution to practice

The study will contribute to understanding the dynamics of the relationship between entrepreneurs and VCs. The practical contribution to entrepreneurs and the practical contribution to VCs were considered separately.

2.11.1. Entrepreneurs

This study provides unique insight into the entrepreneurial journey through the VC investment process from origination to exit. The study is beneficial to entrepreneurs as it helps guide entrepreneurs through the process of working with VCs. While the experience of every entrepreneur may be unique to each entrepreneur, there are commonalities as the process broadly follows similar steps commencing with origination and often culminating in an exit. The first contribution to practice for entrepreneurs in emphasising the mechanics steps that are largely followed by VCs in the investment process even though the exact steps to be followed by each VC may differ, the broad steps followed and the preparation required in order to be "investor ready" is part of the findings of this study.

Secondly, being an entrepreneur can often be a lonely exercise, often called the "dark side of entrepreneurship" (Aly et al., 2021; Shepherd, 2019), therefore, for an entrepreneur to understand that the entrepreneur's experience is not necessarily unique, it can be helpful in making the journey less lonely to hear what other entrepreneurs have been through. This less lonely experience will increase the chances of success as it would be reducing entrepreneurship suffering (Shepherd, 2019).

Thirdly, the study of the experiences of entrepreneurs through the VC investment process using signalling theory will assist entrepreneurs in preparing for their own VC investment processes. The understanding of what signals given by VCs result imply a quality VC that would be a partner fit in which various common traits can be shared and trust can be established. The importance of trust in the entrepreneur VC relationship has long been established as there are mutual benefits for the parties involved, including social capital and specific skills gained for the entrepreneur from the VC and a decrease in moral hazard and reduction of agency costs gained for the VC (Kaiser & Berger, 2020). The understanding of the signals extends beyond recognising the signals into interpreting those same signals for the benefit of the entrepreneur in order to improve the entrepreneur's experience during the investment process.

2.11.2. VCs

Each step or phase of the investment process is a process that has been defined by VCs (Klonowski, 2007). While not every VC will follow every single step as defined by Klonowski (2007) and indeed every VC may view its own investment process as unique and as intellectual property that is not to be shared publicly, a significant number of VCs will broadly follow the steps noted above. For the VCs that deviate from the above steps, knowing that the above steps exist provides a reference point and a potential point of differentiation for that particular VC.

An understanding of the entrepreneurial experience throughout the investment process assists the VC in understanding what signals need to be provided to entrepreneurs in order to signal the VCs quality. Given that the matching of VCs to entrepreneurs can be a competitive process, the VCs would presumably want to ensure they are providing the right signals to the VCs that they will match with. Knowing what signals will be beneficial to the VC in order to gain a competitive advantage in the context of entrepreneurs choosing which VCs to partner with.

2.12. Conclusion

Chapter two commenced by providing a definition of a broad definition of a VC that will be used in the study which includes the traditional VC with institutional shareholders, corporate venture capital, angel investors and crowdfunding. Despite the source of funding and stage of business differing slightly depending on the type of equity funding, the need to combine the types of funding is necessitated by the size of the market being researched and the risks involved being similar in that market. Information asymmetry and how it leads to the agency problem is then discussed in the context of the entrepreneur VC relationship with the role of trust being given prominence. Given that that this relationship is often studied from the perspective of the VC, the mitigants that have been put in place by VCs to reduce information asymmetry are provided, juxtaposed against the dearth of mitigants that can be implemented by entrepreneurs which is then provided as the gap in the literature. Signalling theory will be used to describe the mitigants that can be used by entrepreneurs to reduce their information asymmetry. The study is useful as it adds to the theory of information asymmetry and how to reduce it between entrepreneurs and VC, as well as adding to signalling theory as it used in the context of this relationship. Furthermore, the study can be practically used by entrepreneurs to identify and interpret signals provided by VCs, and used by VCs to know what signals to provide to entrepreneurs during the investment process.

3. Chapter 3 – Research Questions

3.1. Introduction

The research questions were developed based on the research purpose as outlined in Chapter one as well as the gaps in literature identified in Chapter two. The research questions are based on a chronological order of experiences for an entrepreneur, ranging from when they first consider working with a VC to their eventual exit. The first research question considers the preparation that was done by the entrepreneur in order to prepare for working with the VC. The second research question considers the signals made by the VC in the early stages of the investment process, including the introduction and the investment phases prior to the investment. The third research question considers the impact of the observed signals on the quality of the investment post investment. Lastly, the fourth research question considers the kind of support provided to the entrepreneur post investment to prove or disprove the signals that were identified or recognised earlier in the relationship.

Overall, the research questions aim to address the overarching objective of the study, which is to gain a better understanding of the entrepreneur's experience throughout the VC funding process.

3.2. Research Question One

What measures were taken by the entrepreneur to prepare for the investment process?

The purpose of this research question was to establish a starting point for the actions the research participants took prior to engaging investors. The extent of preparedness could influence what signals are received or engaged with by entrepreneurs and ultimately, what those signals would mean to them. This question was related to investor readiness as some concepts within such readiness will be explored.

3.3. Research Question Two

What signals did the VC give throughout the investment process to assist the entrepreneur in mitigating the information asymmetry relating to the investment process?

The purpose of this research question relates to the signals provided by the VC prior to the investment. These signals would be those that assist the entrepreneur during Part 1 and 2 of the investment process that includes: origination, initial screening and, due diligence (Klonowski, 2007). These signals would assist the entrepreneur in mitigating the entrepreneur's information asymmetry prior to the investment.

3.4. Research Question Three

What effect did the signals have on the quality of the relationship through the investment process?

The purpose of this research question is to determine the effect the signals in research question two had on the quality of the relationship beyond that point. The research question particularly addresses signal effectiveness, while considering that not all signals will have the same effect on receivers of signals, in this instance, the receivers would be the entrepreneurs (Connelly et al., 2011). Signal effectiveness is useful to understand as it provides a view to signalers on what signals to focus on giving, rather than adopting the attempt to give all signals at all times.

3.5. Research Question Four

What support was provided by the VC after the investment was made to prove or disprove the indicators prior to investment?

This question relates to signal interpretation and the accuracy of that signal interpretation on the part of the entrepreneur, in particular relating to the VC's value add post investment (Part 3 in the study). The accuracy of that signal interpretation was checked after investment.

The post investment portion is when the real value of the relationship is realised or not realised, with the ultimate aim of creating economic value in the long term for both the entrepreneur and the VC. As the relationship has progressed from initial interactions prior to investment, to post investment in which the entrepreneur and VC work together to create value and ultimately, exit the current relationship in its form (although it may continue under a different agreement and mandate)..

3.6. Conclusion

This chapter presented the research questions that underlie the research study. The research questions formed the basis of the methodology and research design followed in this study. The methodology and research design are presented in Chapter four. The insight that is gained from the research questions will present better understanding of the entrepreneur's experience in the VC funding process.

4. Chapter 4 – Research Methodology

4.1. Introduction

This chapter outlines the research methodology and research design that was employed in order to address the research questions in Chapter 3, which were in turn informed by the gap in literature as identified in Chapter 2. The choice of research design is explained with reference to literature on research methodologies. The research design selected was qualitative in nature as semi structured interviews were used to collect data and exploratory in order to explain the interactions between entrepreneurs and VCs. An interpretivist philosophy was followed and the theory development was inductive. The narrative strategy collected cross sectional data. The population was outlined, the unit of analysis and sampling method and size were discussed, together with the measurement instrument, data gathering process and data analysis approach. Finally, the quality control mechanisms are discussed.

4.2. Choice of research design

The understanding of how entrepreneurs experience the VC funding process has not yet been well established. There have been other studies regarding the funding process from a VC firm's perspective, with details around what steps are followed in the funding process (Karsai et al., 1998; Klonowski, 2007). However, there have been a limited number of studies about the needs and experiences of entrepreneurs in the VC funding process. Saunders and Lewis (2018) express that an exploratory study entails the researcher finding information about a topic that is not fully understood. Therefore, because of the nature of the gaps in understanding prevalent in this area, the research employed was exploratory in nature. This study did not attempt to describe the process that entrepreneurs go through in the VC funding process, as this has previously been studied and is well understood by practitioners and academics alike Click or tap here to enter text.Bruno and Tyebjee (1985), Klonowski (2007), and Vance et al. (1994). Furthermore, Saunders and Lewis (2018) go on to describe explanatory studies as those studies that examine descriptive issues and try to explain relationships between variables. This study will not be examining relationships between variables and will thus was not be an explanatory study.

The study interviewed entrepreneurs that have interacted with VC firms. The study asked probing questions around their experiences while interacting with those firms. The fact that the study asked the participants to relay their own experiences, naturally translates into the participants providing their own perspectives of their experiences. The experiences of participants will be unique to each participant, and is that participant's interpretation of their experience. As a result, this study followed an interpretivist philosophy given that it will study entrepreneurs and how they experienced the funding process Click or tap here to enter text.(Saunders & Lewis, 2018).

The study included observations and analyses around entrepreneur experiences. In this instance, the researcher attempted to understand some of the phenomena behind the experiences that entrepreneurs go through during the funding process. These experiences were analysed in order to find common themes that emerged from different participants. Although limited in its generalisability in the broad sense, there is an attempt to draw a certain level of general observations from the data that is specifically collected from the study participants. This method of theory development is referred to as induction (Saunders & Lewis, 2018). Therefore, the study followed inductive reasoning.

A mono-method research study is one in which only one of either qualitative or quantitative method is used for the study (Azorín & Cameron, 2010). The researcher attempted to understand social elements and attempted to interpret these social phenomena through the adoption of an interpretive philosophy approach. As a result of this interpretivist philosophy, Saunders, Lewis and Thornhill (2016) Click or tap here to enter text. suggested that studies that follow this philosophy be qualitative studies. This study was therefore a qualitative study as it was exploring and attempting to analyse the data collected in a qualitative manner. There will be limited time to conduct the study, therefore the study was conducted using a mono method of data collection and analysis.

The strategy will be a narrative. The study will be undertaken by conducting semi-structured interviews with participants guided by the researcher to provide insight into their experiences while undergoing the VC funding process. As a result, the participants will be asked to provide a narrative of their experiences. The narrative enquiry was deemed the best way of answering the research questions as the research questions relate to a story being told, and research questions require an understanding or investigation of the interpretation of the experiences of entrepreneurs Click or tap here to enter text.(Saunders & Lewis, 2018).

The study will be conducted as partial fulfilment of the requirements to graduate with a Masters of Business Administration (MBA) at the Gordon Institute of Business Science. The school only provides a four-month period from early July to early November in which to conduct the study. It is a challenge to collect data over a time period in order to analyse any changes over a period of time. Therefore, the study collected data at a particular point in time, and will only collect data once. The studies in which data is collected at a point in time and is only collected once, are cross-sectional studies Click or tap here to enter text.(Saunders & Lewis, 2018). The other type of time horizon would be a longitudinal study, in which a study is undertaken over a period of time. The data from a longitudinal study is typically richer, as the data can provide observations or data points as they have developed Click or tap here to enter text.(Saunders & Lewis, 2018) However, given the aforementioned time constraints, this study remained a cross-sectional study.

4.3. Population

The population refers to the group of participants that share similar characteristics that the researcher is interested in (Saunders & Lewis, 2018)As a result, the population of the study are entrepreneurs in South Africa who have interacted with venture capitalists. An entrepreneur is defined as an individual who undertakes "*the discovery and exploitation of profitable opportunities*" (Shane & Venkataraman, 2000,). An interaction in the study is defined as an entrepreneur that has any time prior to time when data is collected applied and has either been successful or unsuccessful in obtaining VC funding. It was expected that most participants would be those who were successful in obtaining funding, the participants that were not successful in obtaining funding would have still undertaken some of the steps in the VC process up until Part one as defined in chapter one and would still have a view on their experiences. The entrepreneurs that were not successful can also be juxtaposed against those entrepreneurs that did get financing when analysis of the data is conducted. While there may be a number of entrepreneurs in South Africa, not all entrepreneurs necessarily have an understanding of the different types of funding options available to them. Entrepreneurs may well have an idea that their business requires funding and other assistance, but would not necessarily know how to access the funding. Therefore, it is a smaller percentage of entrepreneurs who understand the different funding options available to them. This smaller subset is the population of the study seeing that the study looks to focus on entrepreneur experiences of the VC funding process.

4.4. Unit of analysis

Kumar (2018) defines the unit of analysis as the item in the population from which data will be collected. This study aimed to understand the experiences of entrepreneurs in the VC funding process. As a result, the unit of analysis for this study was the individual entrepreneur who has experienced the funding processes.

4.5. Sampling method and size

The chosen sampling method for this study was non-probability sampling since the size of the whole population is not known (Saunders & Lewis, 2018). This method of sampling is commonly used in qualitative studies since given the nature of qualitative research, it is often not possible to know the size of the whole population (Saunders & Lewis, 2018). Purposive sampling was used as the researcher was required to use a level of judgement in determining which participants were most suitable to the study (Saunders & Lewis, 2018). Seeing that the researcher was looking for specific types of entrepreneurs (those that have interacted with VC's), the researcher had to be deliberate in selecting the sample hence purposive sampling was the sampling method to use. These are participants that the researcher thought would know enough about the experiences of entrepreneurs to be able to comment in depth on them, as those participants would have been involved in the investment process, this being important for a sample in a qualitative study (Moser & Korstjens, 2018). The danger of not being deliberate enough is that the researcher would have collected data that is not useful in addressing the research questions. The researcher used industry contacts to contact the most suitable entrepreneurs to interview and attempted to avoid using convenience sampling or snowball sampling due to its inherent fault of potentially overgeneralising (Koerber & McMichael, 2008). The researcher used industry contacts and VC contacts to confirm if there were any entrepreneurs in their investment portfolios that were willing to be part of the study. The researcher proceeded to obtain referrals from those industry contacts that then led to a number of study participants being found.

One of the key elements of purposive sampling is attempting to use a sample that has as much variation as possible (Higginbottom, 2004). The researcher selected a sample that is diverse as this would negate the dependability of the study. As the main method of sampling will be purposive, the sample was based on the part of the population that had undergone a venture capital process to the extent of having undertaken due diligence with the VC. At that point of having undertaken due diligence, there will be some entrepreneurs who follow through with the investment process to eventually receive funding and some entrepreneurs who end up not having a relationship even after the due diligence process. The entrepreneur-VC relationship that results in funding and the eventual exit can be a relationship that spans over several years as the receipt of funding will involve an investment in some way or another, while the exit of a VC firm is typically done after that investment has gained in value or lost in value. This results in a relationship of several years and can result in rich data given that interactions would have taken place over several years.

The entrepreneurs that reach the due diligence stage but do not receive funding will have the process terminated for various reasons. These would be entrepreneurs who started a relationship with a VC firm by way of introduction between themselves and the VC firm, and followed the whole VC process until the due diligence stage after which the relationship was terminated. The relationship did not result in an investment and an eventual exit from the VC firm. The entrepreneurs who did not eventually receive funding but had due diligence undertaken on their businesses could potentially have rich data around the signals that VC's gave in the earlier stages of the venture capital process, which for the purpose of the study, would be Part one. Outside of the broad parameters of having received VC funding and eventually receiving VC funding and having started a process but not completed, there was no other criteria that a participant was required to meet.

The sample size that was ultimately collected depended on the point at which data saturation was reached. Data saturation will occur at the point at which there is little to no new information that is being collected (Morse, 1995) The researcher will have to use judgement while analysing the data to determine the point at which data saturation has occurred. Data collection will stop a few participants after data saturation has occurred. Given that analysis will be conducted as the study is ongoing, it is expected that data saturation will be reached at a point in which data from 12- 20 participants has been collected as this is often where data saturation occurs (Cober & Adams, 2020).

4.6. Measurement Instrument

Given that the study explored a relatively unknown field in entrepreneur experiences in the VC funding process, semi-structured interviews were best to explore the area (Adams, 2015). The researcher prepared an interview guide which was used during the interview to guide the interview between the researcher and the participant Appendix 1. The exact answers varied and the interviewer was guided by the responses from the participant. Follow up questions were asked when necessary. Not every question on the interview guide was asked in the order on the interview as the researcher was also guided by the responses received as follow up questions were being asked. There was significant deviation from the interview guide at times given that some participants touched on different parts of the interview guide at different times during the interview.

4.7. Data gathering process

Data gathering was conducted through use of semi-structured interviews. All participants were initially contacted via telephone to confirm their willingness to participate and to establish if they qualify based on the purposive qualifying criteria.

The interviews were initially planned to be in person as the first option with every participant. As interviews were being scheduled, it became clear that virtual interviews were easier to schedule for participants than in person interviews, therefore some of the interviews were held virtually while some of the interviews were conducted in person. Some interviews were held in public areas in which there were other people who could disrupt the interview or the audio recording could be unclear however the researcher dealt with this challenge by requesting clarification when the participant lowered their voice and used two recording devices. For the interviews that were in person, the researcher found it easier to build rapport with the participant as the researcher was then able to gauge the authenticity of responses by reading the body language, a feat more difficult to achieve with virtual interviews.. For virtual interviews, the researcher built rapport with participants prior to the interview by providing a non-academic overview of the study and its aims as a way of helping them see how their participation in the study will benefit the industry at large. This rapport building made it easier for the researcher to probe in certain areas of the research in which more data could be gathered (Adams, 2015). Building rapport in the interview was important as it resulted in the study participants getting an opportunity to provide a truer account and reflection of their own experiences during the interview (McGrath et al., 2019)

The interviews were all recording using a recording device. A mobile phone with a recording feature was used in the first interview as the recording device. During that first interview, the mobile phone received a call and the recording was disrupted. This was disruptive to the recording process. Subsequent interviews used two mobile recording devices in case of one device going offline.

The audio recordings were then transcribed using transcription software called Otter. The software transcribed the interview using artificial intelligence. Accuracy of the transcription was improved by the researcher listening to the recording on more than occasion for each interview and editing the transcription created by software as the software had missed some of the more colloquial language that was used in the interview by participants or at times, the researcher.

4.8. Analysis approach

The measurement instrument in the study will be semi structured interviews. As a result, the data that will be collected will be text data. Thematic analysis was used in order to analyse the data as it is a method that enables flexibility as well as accessibility of the data (Braun & Clarke, 2015). Thematic analysis was used because it brings with it flexibility and allows the data to be accessible in a number of different ways (Braun & Clarke, 2012).

The six phases of thematic analysis described by Braun and Clarke (2006) include: i) familiarising oneself with the data ii) generating initial codes iii) searching for themes iv) reviewing themes v) defining and naming themes vi) producing the report. A summary of the above steps together with a longer description of the step is described in Table 2 below:

Table 2: Thematic Analysis

Step	Description
Familiarising with the data	This step was conducted through reading and re-reding the transcripts to get familiar with the contents. Notes were made during this phase to highlight points of interest. The note taking was helpful in the initial analysis of the data as the researcher had an opportunity to become immersed in the data (Braun and Clarke, 2015)
Generating initial codes	This step involved the more systematic analysis of the data. The researcher generated initial codes by grouping the data into code words that were used. Some of the codes were descriptive in nature while others were interpretive.
Searching for themes	During this step, the researcher sought codes that overlapped between each other, and reduced the number of codes from an initial 249 codes to 183 codes. The codes were then grouped into broad areas in which themes and sub-themes could be clustered.
Reviewing themes	The researcher underwent a quality check process of reviewing the themes and sub-themes against the codes that were initially generated. In this process, some of the codes were merged and new themes emerged. There were also other codes that were removed as the data was no longer deemed useful to that theme.
Defining and naming themes	In this step, the researcher defined themes by naming and describing each theme in

	one sentence. There were some themes that had sub-themes.
Producing the report	Writing of the report was an iterative process that took place as analysis was being undertaken on the data.

All uniquely identifying data was kept confidential and will not be known by any individual reading the final report even though the researcher uses quotes in Chapter five. Participants were notified of the confidentiality of the data and were free to sign a non-disclosure agreement if they wished. However, none of the participants signed a non-disclosure agreement.

4.9. Quality controls

Research is significantly less meaningful if there is no rigour attached to it (Morse et al., 2002). There are various ways in which quality controls can be undertaken in qualitative research to ensure more rigour. Furthermore, the quality of qualitative research is enhanced by the researcher showing transparency and being held accountable throughout the research process (Kalu, 2017). A researcher can consider the credibility, dependability and confirmability (Korstjens & Moser, 2018).

4.9.1. Credibility

The credibility of the study can be viewed as the extent to which the findings being presented by the researcher are accurate and represent an accurate view of the item being investigated (Roulston, 2010). There are various ways in which the credibility of the study was verified. Firstly, the study contained participants that have gone through the whole VC funding process, have received the funding, and have either exited the VC firm or plan to exit the VC firm. The study will also have participants who had started the VC funding process but stopped after due diligence for different reasons (Roulston, 2010). Secondly, there was triangulation of data seeing that the study had an adequate number of participants ensuring that data saturation was reached within all the participants (Roulston, 2010).

4.9.2. Dependability

The researcher recorded all interviews on a recording device and kept all records of interviews in electronic format on an online folder The audio versions of the interviews are kept. The audio interviews were all to be transcribed for analysis. Furthermore, the researcher made a backup of all materials in electronic format and stored online for access by any third party that requires the data. Both the audio recordings as well as the transcripts are available for inspection.

4.9.3. Transferability

Transferability refers to the ability of this research to be applied in other contexts (Korstjens & Moser, 2018) The researcher will attempt to add context to the findings in order to allow a third party to be able to apply the results to other contexts.

4.9.4. Confirmability

Confirmability checks to what extent other researchers will be able to confirm the results of the study (Korstjens & Moser, 2018). An audit trail of all data collected and all steps followed will be kept. A third party will be able to access the unprocessed data at any point. Other researchers will be able to retrieve the data stored online and will be able to inspect the data. Furthermore, the codes generated have been provided as Appendix 2.

4.10. Limitations

The South African VC industry is relatively small when compared to either the South African private equity industry or when compared to VC industries in other African, Asian or European countries (Southern African Venture Capital and Private Equity Association, 2021). Given its nascent stage of growth, it is a challenge collating data from the industry given that a number of VCs are not participating in industry surveys and their data is not being captured on any other database. Additionally, the capital allocated to VC fund management is relatively small compared to private equity, a similar asset class that is in fact more mature than VC in South Africa (Southern African Venture Capital and Private Equity Association, 2021).This limits the use of data on VC in South Africa given that the study participants would be obtaining funding from a relatively small pool of VCs who are actually reporting data as compared to if the study participants had received private equity funding, given that the private equity industry in South Africa is significantly larger than the

VC industry. The limited size of the industry also results in a smaller potential population and a smaller sample size to choose from.

This being a study in pursuance of an MBA at the Gordon Institute of Business Science, the study needs to be completed within a four-month period commencing in early July 2022 and concluding in early November 2022. In addition, this study conducted is going to follow a qualitative approach, and data will be collected by way of semi structured interviews. Thereafter, the data will be analysed using conventional data analysis. This short time period, combined with the data collection method and the data analysis method, makes it necessary to limit the sample size to a sample size that can be collected and analysed within four months. A qualitative study which uses a small sample size also lacks generalisability by nature as the sample size is too small for findings to be applicable to too many other contexts (Cober & Adams, 2020)

4.11. Conclusion

This chapter provided an overview and defence of the research design choices and the research methodology used by the researcher in an effort to address the research questions. A qualitative study using a narrative strategy was undertaken. The study followed an interpretivist philosophy and was explanatory in nature. The population of the study was entrepreneurs in South Africa while the unit of analysis was the individual entrepreneur. Non-probability purposive sampling was used with the measurement instrument of an interview guide. Data was analysed by thematic analysis with various quality controls being deployed.

5. Chapter 5 – Findings

5.1. Introduction

This chapter presents the findings from semi structured in depth interviews that were conducted in an effort to address the research questions stated in Chapter 3. Data was collected and analysed in the manner described in Chapter 4 and it is this data that is then being presented in this section, after the order of the Research Questions outlined in Chapter 3. The findings are presented as themes that arose from the analysis conducted on the data collected from research participants.

This chapter commences with a brief description of the analysis approach as was detailed in Chapter 4, followed by a description of the sample, and finally, a presentation of the findings per research question. As noted in Chapter 4, an inductive approach was used to analyse the data. This approach initially generated 193 open codes across all 13 interviews. A further review of the codes indicated that a number of the codes were duplicated even though the description of those codes could have differed. As a result, a review of the codes reduced the number of codes from 193 to 89. See Appendix 2 for a full list of codes generated.

The codes were open codes, as the researcher delved into the raw data to identify as many different concepts that presented within the evidence. Axial coding was utilised to identify the various existing categories for the codes in order to begin grouping these thematically. Within the software that was used by the researcher, these were code groups.

5.2. Description of the sample

A total of 13 interviews were conducted. Table 3 below provides a description of the participants, alongside key information that confirms their suitability to be part of the study, given that the study used purposive sampling. Participants were mainly selected if they met two main criteria: the first being that they are an early stage, high growth venture, and the second criteria being that they have received VC funding in the past or have interacted with VCs up until the due diligence stage.

All research participants were based in South Africa and all main business operations were in South Africa. The sample included of eight males and five females, with some of the participants having established their businesses with co-founders, while others were solo founders. All but two of the founders still had all investors in the business. Confidentiality in the sample is kept by anonymising participants and providing each participant with a letter as a replacement for their name being used as an identifier.. Other key demographics such as age and gender are not disclosed per participant. This is particularly essential in the early stage environment in South Africa, given the limited number of enterprises in the ecosystem. Confidentiality was also important in order to ensure that participants did not self-censor (Surmaik, 2018)

Consent from participants was obtained and all participant signed the informed consent letter with a sample provided in Appenedix 3.

Table 3: Description of participants

Participants	Industry	Co-founder/Solo
A	Professional Services	Solo
B	Healthcare	Solo
C	Education	Co-founder
D	Healthcare	Co-founder
E	Logistics	Co-founder
F	Healthcare	Co-founder
G	Education	Co-founder
H	Financial Services	Co-founder
I	Professional Services	Co-founder
J	Professional Services	Solo
K	Platform	Solo
L	Logistics	Co-founder
M	Plant hire	Co-founder

5.3. Research Question One findings

Research Question one: What measures were taken by the entrepreneur to prepare for the investment process?

This research question mainly relates to how entrepreneurs prepare themselves and their ventures for the investment process. The purpose of this research question was to establish a starting point for the actions the research participants took prior to engaging investors. The extent of preparedness could influence what signals are received or engaged with by entrepreneurs and ultimately, what those signals would mean to them. This question was related to investor readiness as some concepts within such readiness will be explored.

The table provides a summary of the key themes for research question one:

Table 4: Research question one themes

Theme
Being prepared is indeed key
Being part of an accelerator can increase the extent of preparedness
An advisor can play a key role in preparing

5.3.1. Being prepared is indeed key

A number of the participants confirmed that being prepared for the fund-raising process is important. They noted that being adequately prepared helps the entrepreneur think more clearly about their business.

Participant A had the following to say:

"I did do courses in starting and launching an entrepreneurial venture and also took this venture through an accelerator program, which is where I learned a lot more about venture capital and how that fits into the whole start-up pitch and raising funding." – Participant A

Participant A went on to further state that for their journey, preparing involved viewing the business from the perspective of an investor and ensuring that all that an investor would expect to be in place, was indeed in place to the best of their ability. Furthermore, Participant A went to on to state that the team working on the idea is an area that investors would be interested in, and preparing for that element of questioning can be done beforehand.

"I would say that, if you're preparing to pitch to investors, depending on what stage you're at, it's always good to put yourself in their shoes. So if somebody came to you with a fantastic idea, and quite an early stage in a start-up, what kind of questions would you ask? And what kind of information would you want to know? So things like return on investment? How much money are they going to make for the investment? What's the benefit of them investing now versus investing later? What are the risks involved? And I think a lot of that, especially in early stages, is to do with things like the team. And also trust." – Participant A

Participant K went to voice similar sentiments to that of Participant A, noting that preparing helps not only the funders get to know the business, but also the entrepreneur themselves.

"And when your business case is documented, and you as the founder, or the CEO, you kind of [sic] know, you jotting down all those questions that are [sic] likely going to come from them anyway. So you basically preparing so that when you do go and meet with them, you have everything you know, in a document, it's all well prepared, it's well thought of because you know, you started out answering all those questions. So when you're in front of them, you know, not referencing the document, but you're remembering what you would answer. So I think preparing is such an important thing and not just for funders but also for yourself. So you get to know your business a little bit better. As you know, you start asking yourself the questions. Okay, well, what are my short term goals? What are my key objectives? How do I scale my staff? You know, the questions that you didn't really think of you just thinking of survival at the time. But when you're meeting with people...then you want to be able to answer all of those questions, not just okay, for today and for this next year, but for the next five years. So the next 10 years, what's the ultimate vision? Ultimate goal? And preparing before meeting with funders I think is one of the key things I'd say." – Participant K

Participant E advised that information not being ready when the process starts may delay proceedings at a later stage.

"*I would say before you go out on a fundraising drive, have all your information, prepared and ready, because once you start the process, we don't want to delay trying to get some information or, you know, try [sic] to get as much as possible, available"* – Participant E

VC reputation

A majority of the research participants also noted that they investigated the reputation of the VC they were dealing with by checking their circles for any information that may prove pivotal in the decision to proceed in either direction. They spoke to other entrepreneurs the VC had worked with, gathering feedback from the available channels to aid them make their decision. Furthermore, meeting the VCs for future fundraising also became important for some participants, given the importance of relationships in the fund-raising process.

Participant G particularly made an active effort to find out what the VC had with other entrepreneurs.

"What you also tend to do is ask, if there is someone who's been part of that program, and what their experience has been, I think that's all we do. Before we do anything, I think you try and do your due diligence. If you also do diligence, before you even apply or engage with someone, you try and find and you go on LinkedIn and find common connections. And you'll see another entrepreneur, or person you work with in another incubator or someone within your network. Then you ask, what is this person like? And then you just get a feel of who you're potentially going to be dealing with? And what is that program about? What is it fine about every program I've been on? I've gone in because someone I trust has been part of it, or has worked with someone who founded it. And then they gave me good feedback. If I don't get the good feedback, and there's nothing, I don't even start" – Participant G

General relationship building was important for Participant F in future fundraising purposes. The respondent noted:

"They're … a well accredited investor on the continent. I think they've invested in time leading to big players on the continent over the last few years. So very reputable venture capital company. And for us, it was really about, you know, we were establishing

relationships. So even if they never decided to go ahead and give us funding, it was really important in general, like when we got an introduction to a good VC, we always were open to the conversation. And that's only because of all of the advice that we've gotten only to be able to build relationships and to make connections with folks, that when you are ready to fundraise, you go ahead and you're open to it." – Participant F

5.3.2. Participation in a programme

Some of the research participants were part of accelerator or incubator programmes. These programmes assisted in familiarising the participants with key understanding of the nature of VC funding, were often a first step in understanding how to operate a business, and were also useful for networking prospects for the participants building their early stage ecosystem.

Participant F responded in this way when asked what kind of preparation helped them get ready for the funding process:

"I think I learned that in the process of being part of an accelerator program for a couple of months, you know, got to really understand the ecosystem" – Participant F

Accelerators were also useful in helping the participants get to actually understanding capital raising, as the accelerator themselves could have been the first investor - as was the case with Participant F. The accelerator being the first investor was a signal to other investors within the accelerator's network that the venture was potentially viable and worth taking the investment risk

"First package would be, let's call it a kind of accelerator program, which is there to help you take your business from one level to the next level. So pushing you, helping your business grow. And as part of that program, they give funding, because they have a VC fund attached to the program. So for that one, we simply just applied. And we were in for an interview process. And we were selected as one of 100 start-ups around the world" – Participant F

Accelerators or programmes have been a major platform for the accessing of funds for entrepreneurs, even in South Africa where the number of funders is limited. Participant G noted that programme participation aided in providing access to funders that would otherwise not have been accessible.

"And I think that's been the major weakness with a lot of these VCs. Unless you meet one of the funders in a conference somewhere or you know someone, it's been really hard to access them, unless they are partnered with a program that is being launched or that has a very specific mandate. That's essentially the ones we look for. because then, if you don't get a response, within two months, you know that the program is closed." – Participant G

Participant G went on to a public commitment with the announcement of a programme also signals to early stage entrepreneurs that the potential funder is serious about providing funding to early stage entrepreneurs.

"… But also, they are less likely to just ignore you. They've made a commitment, they've made it public, they have allocated funds, which means they have allocated people and resources to them. It is more likely that when you send to your staff, and … there's a structure as well, in terms of what to say, and it's either in application form, or process. Whereas if you know [sic] been approached a normal VC, what do you do send it to your deck, they might not even look at it. There's no structure there. But if there's a form because of their particular thing, you know exactly what kind of information they're looking for. It helps you it gives you a little bit more comfort, then there's a process here, and therefore I am able to follow." – Participant G

5.3.3. Advisor role

A number of the participants used advisors or fundraisers in their fundraising endeavours. The advisors played different roles and were influential in different ways.

Participant J used a firm that is well known for assisting early stage businesses to raise capital in South Africa. This firm was helpful in assisting the entrepreneur craft a story that would be well understood by international investors, and also helpful in using the advisor's own networks when contacting potential investors.

"*So we used [sic] a [capital raiser] in South Africa. And I think in South Africa, it's quite a common approach. You go to [capital raiser], especially if you hadn't raised capital before. They help you understand a narrative, they help you put together a business …. And they help you market so they go to the name, they go to the investors that they know, and they market your startup to see if there's interest"* – Participant J

The advisor can also be an individual with the same skillset and networks as the firm mentioned by Participant J above. Using an individual was the approach taken by both Participant K and Participant I, as seen below:

"I was lucky enough to have worked with a really solid guy in the market. He became my advisor during the process, and he's done it through his businesses. And he has his approach, you know, some of the top names in the industry. So during my process, he took me through essentially what he's learned in his business. So we shortlisted some of those top brands, you know, that fund companies like [xxx], especially in digital software businesses, and we really targeted them. So that's essentially what our approach was from the start." – Participant K

As noted above, Participant I also worked with an individual rather than a firm.

"We established a relationship with him. He bought into our business from the get go and was one of the first guys that screened us. And then he's also …the guy that collects the other checks. So almost like a transaction advisor if you're doing it outside. So he goes and says, Look, guys, here is [xxx], I'm speaking on behalf of this business. Here's the potential, here's this, here's that" – Participant I

However, the use of an advisor prevented the entrepreneurs from getting direct feedback from potential investors as all feedback was then filtered through the advisor. So while the advisor was good in providing networks and providing an understanding of the industry, this drawback was something noted by Participant I.

"Even when we just got the funding. But you know, the guy might just tend to say, Oh, these guys, post the funding being deployed, that you guys should give them an update on a periodic basis and supplier. But that's, I can expect to see, but you wouldn't know what the guys, you know, thought and what the expectations were." – Participant I

5.4. Research Question Two findings

Research Question two: What signals did the VC give prior to investment to assist the entrepreneur in mitigating information asymmetry?

The signals that emerged from the data related to the following key themes that are vital to the investment process: Alignment between the entrepreneur and VC, Communication during the investment process, signals regarding the process and flexibility around the process. Table 5 below provides a summary of the key themes.

Table 5: Research question two themes

Key themes
Alignment between entrepreneur and VC
Communication throughout the process
Flexibility throughout the process
Ease of process

5.4.1. Alignment between the entrepreneur and VC

Alignment between the entrepreneur and VC was a key theme that emerged from the signals provided by VCs. The level of mandate alignment, value alignment and alignment of interests were viewed as important and there were various signals that emerged from that alignment. Mandate alignment was also assessed in various other ways including VCs understanding of early stage businesses and the associated levels of risk, and an understanding of the bigger vision of the business.

Regular communication throughout the early stages of the investment process aided Participant E in assessing the degree of mandate alignment between the VC and the participant.

"For the ones that we did go on with, we were having conversations at least daily, or even every two days, it was almost like I think we had unfortunately, we were probably trying to raise during COVID. So I think, for those funders, they would have liked to be at the table

with us, kind of going through the DD face to face, but it wasn't possible. So it was daily … conversation, or even every two days every conversation, but definitely having sort of summary conversations every end of the week to say, we're here. Now, this is what we want to do. This is where we're going. So it was the constant communication that we really appreciated…It told us that they were interested in the business, it told us that they were clear about their mandate, and they wanted to know more about what, what this specific business does. It also told us that we probably were sending the right product into the market, because it just said that they see it as received to be on the same page. – Participant E

Participant G noted that researching the VC's mandate would eventually lead to an understanding of whether values align or not and whether they understand early stage businesses in South Africa. This was assessed by checking whether the VC had previously done work in Africa and also through assessment of the quality of the initial interview when the parties eventually met.

"I would always try and find VCs that have a particular mandate. I would research the people behind it. Are they realistic enough to understand the African or South African dynamic? So, for instance, our first VC that we actually wanted to work with was someone who was from the UK, but had [sic] done a lot of work in Africa, working with African companies. And they seem to have an idea in terms of what constitutes African companies, what constitutes success and potential, and it wasn't so much about the documentation and the structures that are very much US based. And so yeah, so we approach them, it's always based on you see an interview. But you, you get that trust and that amount of trust and understanding of the individual behind the organization that makes you think, okay, maybe this person is someone who can actually get it and the more you engage with that organization, the more then you decide whether or not your gut feel goes, and there's an alignment of your values and expectations or not." – Participant G

Participant A stated that a similar background to the VC, which is a relatively technical background, aided in the level of due diligence performed by the VC's leading up to investment. This level of due diligence ensured mandate alignment between entrepreneur and VC despite the similar background being viewed as a relatively conservative background.

"I think the investors that we spoke to, look, some of have them, actually all of them have, actually, most of them come from engineering backgrounds, more technical backgrounds. And I would say that people from those backgrounds, usually, they are more risk averse. But at the same time, if they see potential in something and they understand the bigger picture of where things fit in. And it makes sense from a logical perspective, or logic. They're willing to invest in something and I think they're willing to take that risk. And you can maybe add this to the due diligence. But I think when people make a calculated decision to invest, they've taken into account things like whether this will actually work in, in such an industry, can this team implement, do they trust the people involved in the startup and once they, you know, once those kinds of boxes are ticked, they're willing to put their money where their mouth is, and what that tells me about them is that they are educated enough or educated investors. So what I'm saying is, they may not be very risky investors, but they're educated and technical enough to understand that there's an opportunity here and they're willing to take that risk" – Participant A

However, Participant E cautioned that if there are some elements about the VC that are not right from the inception of the investment process, it is better to abandon the process rather than proceed for the sake of keeping in touch with the VC. This breaking off will work better for both parties given that it is an opportunity to focus attention somewhere more productive.

"So if you pick up something that says these guys are not interested early enough, rather walk away, rather, because some people will string you along, thinking something else will come up, I'll give you an example. We spoke to a funder and they were clear from the beginning, that for seed financing, they will not advance more than 5 million. But we still went on with the deal, even though we knew that the 5 million was way less than what we needed, but because that's when you just feel like you're doing something you keep on with it. But if at the beginning, they say we can only do 5 million its best to say but we can't take discussions further"- Participant E

Participant B mentioned that the level of DD was also interpreted by the participant as an element that would determine mandate alignment. Furthermore, this participant stated that the location of investors also affected the level of due diligence, and resultantly, mandate alignment. US investors did less due diligence compared to South African investors. This would imply that there was better mandate alignment with the participant's US investors.

“…this time, …the investors that reached out that I'm talking to are South African as opposed to the American ones. So I think in South Africa, they are more risk averse. Sometimes you feel like you're dealing with government in the NEF or IDC. So in South Africa, the difference is that they're more risk averse. And you jump a whole lot of hoops. I think the culture between the US ones and the South African ones [differs in their level of risk appetite]” – Participant B

An understanding and appreciation of the associated risk levels was key in entrepreneurs assessing whether there was mandate alignment between themselves and VCs. The level of risk aversion or risk-taking behaviour was assessed by checking the level of DD undertaken by the VC. Participant H noted that based on the very low level of due diligence undertaken, the participant concluded that the entrepreneur appreciated the level of risk and there would be mandate alignment.

“So when you're raising for multiple sources, and especially when it comes to individuals, they all have different levels of risk and different levels of thoroughness. So there were some investors that were just very happy to be like, Yeah, sure. I mean, I really believe in this I see it works I know cetera. I see your model. It's very clear. I get it.” – Participant H

There were other VCs in South Africa that Participant B could not find mandate alignment with and subsequently did not proceed with. The participant was unsure how to interpret providing funding to a mere idea while ignoring a different early stage business that already has traction.

“I don't know the investment spaces it's really quite tricky or you can't even pin it down because there'll be somebody with no product, just an idea. And they get a 2 million cheque just like that and you come with traction and, you know, experience and all of that then you jump hoops. So you will never know.” – Participant B

Allowing the entrepreneur to operate the business without a lot of interference has greatly improved Participant A’s view about mandate alignment between that participant and the participant’s VCs.

“I think the [sic] investors we engaged are pretty comfortable with us doing what needs to be done. And they appreciate any communication we provide to them. They don't have too many onerous conditions for their investment. And the other thing worth mentioning is the understand how the start up space works. And if there's delays, there's delays, there's not too much pressure to return their money or give a return on investment at this stage” – Participant A

Expression of power dynamics

In the entrepreneur and VC relationship, the VC is by definition, the party with more money. This can create a lop-sided power dynamic as some VCs feel that because they have the money, they are able to dictate all terms without realising that the relationship requires both parties to be satisfied with how the relationship progresses. Expression of these power dynamics by VCs is a signal to entrepreneurs about the quality of the relationship.

Participant D expressed this power dynamic when describing how that participant felt when first interacting with their VCs.

“…it's definitely that power dynamic at play, which makes us feel like ok, you are a small player begging for money. And this is [investor] is big guy who like, you know, you're gonna follow. It's his rules or [sic] the highway and you need the money and their [sic] support so you know, you almost like bend over to subdue yourself to wherever that they are requesting. So yeah, it's definitely that power dynamic playbook.” – Participant D

Participant E expressed surprise at some of the VCs they initially approached, who used this power dynamic to their advantage as the participant was under the impression the power would be more equally shared, given what the entrepreneur brings to the relationship. This participant found it better to not take that relationship any further, given the nature of its genesis. This participant decided that this lop-sided power dynamic would not change once the VC became an actual investor.

“We've always thought that the funder and entrepreneur would be same footing. And it was quite a rude awakening, when you realize that actually, there are some funders who

think we've got a big balance sheet and you don't, so jump, but also what that has taught [sic] us to [sic]walk away, even when we didn't even have option B. Once they walk away, you need to realize upfront that this is the nature of relationship you're going to have going forward. If you've got a funder who sees themselves as a big brother, and you as the little brother, that relationship will not change. So you have to ask yourself as an entrepreneur, is this the kind of partner I want? Because there will be a lot of interactions, obviously, once the relationship takes off" – Participant E

The VC that Participant E decided to proceed with did not have this attitude around the power dynamics, and permits the participant to operate the business without too much interference in decision making. Even though Participant F realises that they still have to report on a periodic basis, this reporting is done at a high level, without a significant amount of detail required by the VC.

"Our funder has allowed us to run the business with minimal, I don't want to say involvement, because involvement is a good thing. But with minimal interruptions, maybe that's what I would say. They have a board seat, they've got access to our board and decision-making structures, but we don't have to call them every time we buy a pen or a pencil...and what that [sic] tells us is that they trust us as their partners to run the business. Of course, we do have a duty of reporting to them on a regular basis that we've preset, but I don't feel like every time I employ someone I need to tell them, every time I buy a pen I need to tell them. So you know that partner, rather than principal teacher kind of overlooking and that has been something that has helped us to work well together." – Participant E

5.4.2. Communication throughout the process

The amount of communication between an entrepreneur and the VC is a signal through the relationship. Communication as a signal can be affected by several factors; either frequent or infrequent, the availability of the VC during the relationship, the VC making first contact, and the amount of honesty in the communication.

When the process is clear and there is regular communication about what part of the process is being followed at each point, Participant K felt comfortable that these would be the right VCs to work with.

"I think all of the funders that I've met, were [sic] super experienced in it, and you know, it wasn't their first deal… at any given time, you know, you know exactly where you are, you know, exactly what's expected, you know, exactly what they're working on. So there's always been processes in place. And, you know, you're not left guessing or questioning what's going on. Yes, there are instances where it takes longer to get feedback and all of that, but you know, exactly where you are. So I think the lines of communication, were generally open." – Participant K

Both Participant A and J felt that regular communication provided them with comfort during the initial stages of the relationship as well during the post investment phase.

"We had fairly, regular communication with all. I had fairly regular communication with a range of investors. So whichever person had the relationship with them in the start-up team, would have an initial conversation with them. And I would have to follow up with them via email or call to answer any questions or queries they have." – Participant A

Participant J communicates with at least one of his VCs on a regular basis, enhancing their experience of the investment process.

"Atleast once a week, I'll chat to one of them." – Participant J

The availability of the VC for advice on quicker queries is a crucial element of Participant C's experience of the investment process. More availability during later stages of the investment process enhanced Participant C's experience and was the easiest part of working with a VC.

"Easiest part is reachability. Like, just if you need to connect, if you need to ask a favour, or have some quick conversation, whether it be what we call the therapy sessions, or just more a, do you know this person? Or what are your thoughts on this person? Very reachable? Like, extremely reachable." – Participant C

Prior to commencement of the investment process, Participant B found that the quality of their experience was enhanced when the VC was the party that was proactive about making first contact. A number of the VCs that made first contact were VCs who ended up as investors.

"So I've been building in public, usually using Twitter as well. And being active in those rooms, where they talk about tech, start-ups, etc, and just contributing a lot of content on our building journey, then investors started reaching out to us. That's how we got there, our previous investors, even now, as we were doing our seed round, I did speak about it that day that we are fundraising, the company's growing to another level, another stage, etc. And then we got investors reaching out to us, a few investors reaching out to us currently, and now we're in the DD stages. So it has been like that for me personally. – Participant B

Participant F also had VCs reach out to the participant instead of the other way around. But the source of the VC making first contact was instead a mutual contact within each other's network. The VC making first contact with Participant F had a similar effect to Participant's B's investors making first contact, it enhanced the entrepreneur's experience of the investment process.

"They contacted us, after that we said, well, it's great, we'd be keen to chat. This is via email. And what happened after that, we have our initial call that kind of took them through our pitch and our value proposition which is about an hour-long call, and it's kind of the business what we're trying to build etc" – Participant F

Participant G did a significant amount of preparatory work before meeting some of the VCs. The work mainly entailed spending time on the VC website in order to understand what mandate the VC has and what exactly the VC would be seeking in an investee company. A challenge arises when Participant G perceives the VC to have been dishonest in their public communication in relation to what the VC seeks in an investee company, resulting in troublesome start to the entrepreneur and VC relationship.

"The main preparation would have been just trying to figure out who the company is, what they stand for, what are they trying to do? What's in it for them? What are some of the pressures that they are facing, maybe they want to meet their BEE scores, or whatever it

is, do anything like that. And then you try to align with what it is, obviously, you don't get it right all the time, because not all of them are honest about what it is that they're actually looking for. But you just work with the information you have. And then you try and position yourself as best as you can." – Participant G

5.4.3. Flexibility throughout the process

Flexibility around the use of funds, systems within the VC and milestones is a useful signal for the entrepreneur to receive from the VC. More flexibility enhances the entrepreneur's experience given that early stage businesses tend to require the ability to make decisions quickly and efficiently, without the bureaucracy of a large organisation.

Operational flexibility within the VC was the most challenging part of working with a VC for Participant G, this lack of flexibility on the part of the VC is perceived as arrogance at times.

"I would say that's been the most difficult part of our relationship, maintaining the autonomy, of being able to run the business, while at the same time understanding that an investor who comes in will have systems in place that I need to at least have an understanding of and create some sort of flexibility. On my side, I've been willing to create the flexibility structures, but they haven't on their own, they come with a dynamic of, well, this is how we do. And you're a start-up, you don't know any better, you're not doing things properly, which is again, very condescending, very arrogant… So sometimes when you're dealing with a very rigid investor in terms of their system and processes, they can really cripple you… And so I think the realization and the honest reflection from an investor to say, if I want to really work with start-ups, I need to be nimble, I need to be flexible, I need to be able to meet with someone within 24 hours, if there's something that comes up in his industry made, I need to be able to put a team together in place,... So obviously, you're not going to have that in the VC kind of set up, because then there are structures and systems. But I would hope that, then you don't get to extremes. There has to be an element of understanding and people trying to meet halfway to say, Okay, we can't always operate like an individual. But how do we operate in a way that we don't become a barrier." – Participant G

Flexibility around milestones can also be useful in signalling the VC’s flexibility in general. This flexibility is what provides the signal of a quality VC that empowers entrepreneurs to do the work required in order to grow the business.

“I know, entrepreneurs really struggled with …VCs setting unrealistic KPIs for them to meet for the second disbursement. And also, just as a side note, things happen. Like maybe you think, something's gonna cost X amount of money and you start burning more cash than you had planned, and you need money earlier. And you can't access it Because now for stage two, you need to meet all these KPIs, but chelete e fedile, like, there's no more money. And now it's difficult for you to even move forward with the business because you can't access the second tranche of funding. Fortunately, we were able to set our own KPIs and basically agree and say, Guys, this is what we are hoping to achieve. And we set them pretty low so that we don't also feel that pressure, we know we're gonna definitely overshoot those, those marks, but again, because they have industry experts, we're able to almost like sway them.” – Participant D

5.4.4. Ease of process

The ease of the initial stages of the investment process is a signal to entrepreneurs about the quality of the VC. Generally, participants noted that the easier the early stages of the investment process, the more entrepreneurs were able to understand the process, decreasing information asymmetry between the parties.

While Participant B noted that their VC helped guide them through the process, the participant noted that the onus was still on the entrepreneur to do their own research as the amount of guidance provided by a counterparty will be limited given the inherent conflict of interest that arises when too much guidance is provided.

“They were but it's good also you have your independent research… they were helping but you can't be asking for help from people who you are signing contracts with, hence my answer saying I wish I would have learned about other things before going to investors, like the investment world… But I should have done more research so that even when you go to that people's table, you also have knowledge yourself.” – Participant B

Participant K expected a much shorter period than what was actually experienced. However, this participant acknowledges that the reason for the longer execution process may have been the stage of the participant's business, with transactions that were executed faster being on simpler businesses or businesses that were at an earlier stage.

"So my expectation was that it would be a much shorter period… And I think some of my colleagues were lucky in that way. They were lucky. But I think they processed quicker [sic] because their businesses were not as in depth as mine, it took them a shorter period of time to gain funding. So in my head, I expected it to be a shorter year, but because it took so long, I mean, that was the one thing, the speed." – Participant K

A faster execution process was indeed experienced by Participant F.

"I think the first thing that [sic]was surprising was the speed of light from pitch to close, because typically, you know, it doesn't happen that way. Right? Usually, what you hear from most entrepreneurs is that processes take a really long time. You know, it's a very long process. I think that was a pleasant surprise... And so for us, it was, it was a good surprise." – Participant F

Participant A also experienced a relatively speedy process, with disbursement occurring within a month of making first contact. This participant acknowledges that a key reason for the speedier process is the stage of the business. Participant B had a similar experience around the reason for a speedier process that involved an early stage business. When Participant B later raised more funding, the business had gained more traction and the due diligence process was significantly lengthier.

"So in that investor presentation, what we had was some financial forecasts and covered things like conversion scenarios, etc. which we went through in a fair amount of detail with everyone so there wasn't too many requests before that session for things like financials and financial models, and other aspects. So I think in terms of due diligence, there was a few questions that were asked in terms of our go to market strategy, or how we plan to onboard users. Those are some of the questions that came through. Other than that, I don't think there was any formal due diligence, but I'm sure they probably did some market research in terms of the whole economy, where things are going, and also from their own

experience in that sector, which I think helped a lot to fast track that due diligence process" – Participant A

"…when we were pre-seed, with nothing to show, things will be done and the money will be dispersed in three weeks… And within a month, the money was dispersed … but now that we are raising again, the DD has really surprised me, because now it's more intense. And I feel like it just takes a lot of work from you. Now they want to know, deeper things, the technology, how you get in the team is more important. So I think those are the things that are surprising me that now, DDs are no longer as fast as they were, when it was just an idea and small traction. Now that you have big traction, the DD is more intense. And the processes take longer." – Participant B

5.5. Research Question Three findings

Research question three: What effect did those signals have on the quality of the relationship through the investment process?

The four main themes that emerged for this research question were the active efforts that were undertaken by the VC to build the relationship, followed by an understanding or an appreciation of the South African context, the quality of initial interactions and the internal VC dynamics. Table 6 below provides a summary of the key themes.

Table 6: Research question three themes

Theme
Active efforts in relationship building
Understanding of context
Quality of initial interactions
VC internal dynamics

5.5.1. Active efforts in relationship building

The quality of the relationship between the entrepreneur and the VC is affected by the efforts put in by both parties to nurture that relationship. The early building of trust, the focus on the individual as a person rather than only the business, and allowing that individual the space to operate the business without interfering, were all positively working towards building the relationship. Follow on investment in subsequent rounds and association with the business post exit were results of a good relationship, while a lack of transparency and authenticity were hindrances in relationship building.

Participant H started relationship building efforts with investors well before raising capital to ensure that by the time the business was ready to raise capital, the investors were also ready to take the relationship to the next stage.

"So there were some investors that were just very happy to be like, Yeah, sure. I mean, I really believe in this, I see it works. I see your model. It's very clear" – Participant H

Trust building was also important for Participant E, given the long-term nature of the relationship. This participant had noticed certain elements with other investors which were taken into consideration when choosing which particular investor to work with.

"But eventually, at some point, I mean, it has to be a working relationship. So I wish we knew that. But I don't think it's something that you can be taught. I think it's something that you sort of learn with the investor that you are [sic] with, because I mean, think about it, if we had gone with the other investor, that was a big brother type of investor, it would have been a different relationship. It would be every two weeks, send us management accounts. If there's movement in your bank, tell us what it is, give us records. What are your cash flows?" – Participant E

Participant K was surprised at how much the initial interactions focussed on the entrepreneur as a person rather than the business, which was something the participant was not necessarily prepared for. This helped form the initial bonds in the relationship given that the investor was interested in things other than the business. This participant found that this was the case almost exclusively with the investors that were at that stage.

"And what I found was, which was quite interesting …initially it was, I went there with my hat on as an entrepreneur, with the objective of selling my business to investors. But what I found, and this was, I can't remember how many exactly, I saw, I think it was around about six or seven different VCs. But every single one of them, the core objective of them investing was based on who I was not about my business. So yes, there was obviously

the elements of revenue, and you know, everything about the concept of the business, but the common thread that I've seen throughout was, they were investing in me, and not the business only because of where I was going to take the business. So the initial meeting was always about, you know, my background, how I grew up, who my parents were, what they did, how I was influenced, growing up, my experience, how, you know, all the experience that led me to where I am … everything that built up my character to be able to come up with a concept like that. So that was essentially every single investor that I met, that was the first meeting, that was essentially what it was about at the end of it. And, you know…they obviously have prior documents that … I would have sent it to them. So they know about the business already before we even meet. But that initial meeting is all about me, all about, you know, everything I do, what my objectives are, etcetera." – Participant K

Participant A had provided various rights to his own investors, enabling the potential for a long-term relationship on favourable terms.

"We did agree that we will give everyone a right of first refusal for any subsequent rounds, or investment. So we will invite them to participate in this next round... So a few of them have already expressed that they would like to like to participate in this round" – Participant A

An association post exit was something the investor with Participant C was keen to have.

"So post a particular point. They still wanted to continue reporting, and continue giving feedback, but there's nothing we do with them" – Participant C

When disagreements in deal elements such as valuation occurred, mechanisms such as clawback milestones were put in place by both parties. If the milestones were met, the investor would get a lower valuation than otherwise.

"So I think ultimately, what they might put in there, and it happened to me also, is that they would put in some sort of performance milestone to say, Hey, if you don't meet this performance milestone in the next 12 months, then I'm going to clawback some shares, right, so they put some clawbacks in there to make the sale." – Participant J

A lack of transparency and authenticity were barriers to building stronger relationships between the entrepreneur and VC. This turned out to be a particular frustration for Participant G, as this lack of accountability and lack of authenticity ended up as a barrier to accessing funding in the first instance, and subsequently, hindered the building of any type of relationship in the subsequent interactions.

"It's also people, like I said, knowing that there's a certain method of accountability, because entrepreneurship or financing entrepreneurship is the buzzword right now, every company wants to be seen as doing something to support small businesses. And so there's a lot of rhetoric of people just talking about supporting Black businesses or wanting to support black businesses or allocating budgets and funds that goes into small businesses. Private sector is the same as in government. Everyone is always saying that there's a fund. There [sic] are billions, there's money somewhere, right? When entrepreneurs actually try and access those funds it becomes a different story. So everyone is talking about having money, wanting to support businesses. But because there's no clear commitment, nothing ever happens. So I think that's the frustration, a lot of the times what [sic] we face is that when you actually do go to these organisations, and when people say these things, there's really, yeah, there's never really any follow up or any processes that you can work with." – Participant G

Participant G went on to provide an example of a successful relationship with one of their investors in which there was transparency and authenticity from the beginning, resulting in a fruitful relationship for all parties that continues to this dy.

"So for instance, [VC name] was the first one, they were the first African… startup incubator accelerator, they needed African businesses. And they were clear that they've got this much money, and they need to select X number of companies. And this is the process to apply. And same thing with the [VC name] program, they were clear, they're looking for [xxtech]. And out of those, they were gonna fund these two. And this is the amount that they're putting in place. And these are the vehicles, they're doing convertible notes, they're doing this. So there was a clear process. And so you understood exactly, you know, what you need, you knew what you needed to do, to get in and so therefore you were able to prepare, get our things in order to be able to position ourselves well with them. So there was transparency from the beginning in terms of what was needed, why it

was happening, who was funding it, and you could see who are the people behind it." – Participant G

5.5.2. Understanding of context

An understanding of the South African and African context is important for relationship building. The disconnect between what some investors expect and the reality on the ground turned out to not be beneficial to Participant G, as the participant voiced their frustration with investors not adapting their methods to an African context. This was expressed as having a "Silicon Valley mentality", even though the foreign understanding could apply to any country that is not in Africa.

"VCs in South Africa have got a very Silicon Valley kind of mentality. You know, we engage with a lot of companies in Silicon Cape and all those guys who are in VCs in South Africa, and we get an understanding of their expectations. And some of the [sic] understanding of African businesses, as well as the understanding of the requirements and expectations were [sic] very much based on a Silicon Valley framework, which wasn't really applicable in this African context, which is why you will find that for a lot of these companies... when you look at their company portfolios, it's boys from Cape Town, who traveled to Silicon Valley and back and have got ties or studied in Europe. Meanwhile, we're in a country where black South Africans are also entrepreneurial, there's a lot of them, too." – Participant G

5.5.3. Quality of initial interactions

The quality of the initial interactions is a key signal that was provided by VCs throughout the investment process. Feedback provided by the VC in the initial interactions was useful in assessing the quality of initial interactions. These interactions were further enhanced based on the availability of experts on the side of the VC, whether that expert is employed full time in the VC or is a consultant that the VC could rely on. The level of interest displayed by the VC in those initial interactions was also considered by the participants as an enhancement or detracting from the quality of initial interactions. The nature of the prior relationship and the attitudes of the VCs in initial interactions also gave an indication of what a future relationship could look like.

Participant E noted that the VCs that were first contacted via personal networks were the VCs that provided the most useful feedback, whose feedback was used to improve the business plan and get ready for the next VC engagement.

"The ones that were a personal contact, or through personal contracts, they were the most useful. That's where you got the best quality of response, a considered response, the ones where, you know nobody, and you're just throwing it out there, not so much. [The feedback] it allowed us to go back and refine some parts of our business plans, because some of these funders that had seen similar transactions, But what it would tell us is that you go back and you refine your business plan. For instance, I'll give you an example. There was a funder that we spoke to, initially, when we wanted to approach a certain segment of the market, not the one that we've approached now. And it was through those discussions that we realized that actually perhaps going in that direction in that industry, the [name of industry] industry, for instance, maybe that industry might be slower in adopting our product. And so it made us think maybe let's look at someone who would adopt it a bit faster. So that was really helpful. And it is a thinking that we sort of started carrying, after we had discussions with that specific funder" – Participant E

Even though Participant F noted that the feedback they received from an accelerator programme that could have been an investor was not as useful because the accelerator was US-based and the participant felt that the accelerator did not grasp the African context well.

"So what they do traditionally, if you don't make it into [Accelerator name], after the interview process, you know, they say this is the feedback we had for your venture. This is where we think you could have improved. This is where, you know, and this is why we didn't go ahead with the investment." – Participant F

Participant I noted that when first interacting with VCs, there was uncertainty on the participant's part about some of the feedback that had initially been received because the participant was not familiar with the language employed by VCs. However, over a period of time, this language became more familiar and the participant understood the feedback significantly better, enhancing the quality of initial interactions with their VCs.

"But in the process we have engaged like VC funds. And VC firms is completely different to that experience that I sort of captured, there is more, some, they would have seen your profile summary [sic] on CrunchBase, whatever the case might be. And then they ask [sic] you a whole bunch of questions. But not even that much. There'll be like, come back to us when you got more traction. The tough part about that is that you don't know what traction looks like. What must my financials look like? What must I have done? Now looking back, I know exactly what they're looking for. But at that point, it's kind of like, you're kind of thrown into a space where you received a no. And then we even did an interview with [Accelerator name], yeah, we did a program through there, you end up going through the process, going through the selecting, like, you end up maybe in the top five or whatever. But then there's a no, then like, again, you don't understand, you don't understand why you are not being progressed. And then you also don't understand why you got to a no. So I think that's the frustrating part about dealing with … venture capital firms directly" – Participant I

The availability of experts on the side of the VC enhanced the quality of initial interactions. This availability could have been in-house at the VC, or some VCs have made funds available to outsource this capability. Participant D found this availability of expertise particularly helpful.

"I'm very big on partnering with VCs, who at least have some industry expertise…" – Participant D

"…because they were industry experts, I mean, I pitched my business idea, and they got it immediately. And they were like, Oh, my goodness, this is what we've been looking for. We found you… they understood they were like, okay, great, we're going to bet on you with these resources, what do you need, and this IBM research team that's working on [Insert sector], we're gonna partner you with them. And it was just an easier conversation…" – Participant D

If a VC is interested in investing, they will let you know early in the interactions and they will want the process to move as quickly as possible to post investment; this was the response given by Participant J when asked what feedback he got from his investors. This fast progression was experienced by Participant J in the early stages of his own investment process.

"So I think that if a VC is interested, they will be very direct in their engagement with you…Yeah, once they give you a term sheet, they want to get it done as quick as possible. Yeah, they want to deploy their funds. In fact, it just things never happen quickly in South Africa. So you just gotta have to go with it. I will say as entrepreneur, you want to … have a data room as clear as well, as robust as possible. I'm still not getting it right. But it will speed up the process…" – Participant J

The nature of the prior relationship affected the quality of initial interactions, as Participant H noted when responding about the quality of the Participant's initial interactions with VCs. This participant spent a significant amount of time building the business network even prior to officially launching the business. By the time the participant raised funding, the VCs were ready to commit and the initial stages of the investment process were effortless.

"So my strategy was one of, you know, proving genuine ethos, and philosophy. So proving it meant, firstly doing, doing what we say we're going to do, which is creating a community that actually empowers. And we did that first. And we spent the whole first year bootstrapping the business…So we built this community, as we were building this community, we were able to then really understand the needs of the [Customers] within that broader network. So, you know, we understood the pain points of [customers], we understood the interests of [investors who would be interested in this type of opportunity]. So it emerged out of that, the opportunity to structure an investment that was genuine and its philosophy, but was also structured in a way that provided value monetarily to the investors. And those investors…we met as part of the community building portion." – Participant I

Participant F noted that a relaxed attitude soon after investment was made improved the quality of the early part of the relationship, given that those attitudes helped relax the participant as an entrepreneur, greatly improving the early stages of the relationship.

"I think it's just them being themselves. And I guess they understand like, what post investment looks like right. So they understand that they are here to support founders. And I guess that's also speaks to the nature of the VCs we've partnered with. They [sic] didn't just say, here's a check, goodbye. See you later. But they really want to be there.

And they want to like connect. I think knowing what they are [sic]interested in, and I think also making it very easy going, very light hearted. very compassionate, I think is really helpful." – Participant F

5.5.4. VC internal dynamics

The influence of certain individuals within a VC was an important factor that arose from Participant D. It begins with the background of the people within the VC firm.

"And for me, that's also part of the challenge that I had at the time, especially with a particular individual that in retrospect, I'm just like, this guy was just not really, he just wasn't getting it. And he hadn't come from this industry. And I was at, I think I was also disadvantaged in that sense, that he didn't understand what I was talking about. I was talking about [Industry name], and he had come from the banking industry, but he didn't really understand the concept and was also a little bit more risk adverse, compared to other people that I have engaged with so he [sic] just felt that would not be a good use of the money. And yeah, so that was that process. And unfortunately, that application was rejected, also, because a part of me also thought that the people who are involved in the communication during the process [sic], were not knowledgeable in the field that I was talking about, because some of the trends that are actually taking place are things that I pitched, like three years ago, and now they're starting to become commercial." - Participant D

This participant found that there had to be an alignment between the entrepreneur and individuals within the VC as a whole, especially because those individuals are the people who would be maintaining the relationship should it progress further.

"But I've also started to see how the influence of certain personalities and … how [sic] you could be a representative of a particular organisation. And when I pitch, I don't pitch to Lebo, I pitch to an organisation, but at the same time your personality also infiltrates your thoughts and views, which … infiltrate through to the process, and which can, in essence, also hamper the process. Personality fit is so important, let me know you can go into, you know, go and approach a VC that has all the bells and whistles and you know, great reviews. But if the people that you're going to be working with intimately with lack, you know, the Investment Principal that you assigned to, there's no chemistry or there's no

alignment, also in value systems and way of thinking, I'd rather you walk out of the room and go look for someone else. Because in as much as you're saying, we can say that I am approaching [VC name], you know, and you're going to be engaging with an institution, you're actually also going to be engaging with the people behind the institution. And you need to make sure that the people that you're working with are actually vouching for you. And they understand the business that you have to run …in terms … of where you want the business to go, and how you want it to grow. Because the issue becomes, let's say this investment professional comes into [VC name] and now I'm working with that person, but let' say but there's a personality clash, or there's a clash in views on how this business should go, you're going to make my process as an entrepreneur very difficult, because now I'm having to clash with you, and convince you as to why we should go a particular route, which also is very energy consuming. So it's better when you find someone, that you have alignment … and both actually see and understand where the [sic] business is going. That will make it a much more seamless process. So the fact that a particular organisation is bringing money is not enough. And also the fact that a particular individual, or organisation is even bringing context or access to markets. That's not enough, the people behind who you're going to be working with intimately; that is so important. And you have to make sure that they have the same views and alignment." – Participant D

This participant noted that the VC added other skills to their team to improve their experience in future.

"They diversified their team. So it's not only people who will talk from like, investment banking, you know, there are [sic] people like who've worked in management, consulting, and just different industries as a whole." – Participant D

While Participant D above had a poor experience because of misalignment, Participant G notes that there is a good relationship between the participant and one particular investment professional. However, because that investment professional works within an organisation, the experience can still be poor at times. As a result, Participant G makes an effort to understand the internal politics in order to improve their investment process experience.

"Again, when you have one guy, great, great guy, very entrepreneurial, but you deal with the organization, and the organization, the processes, things are slow, when things need

to be signed, you have to deal with... egos and arrogance. And they basically operate like that because they work in a corporate environment. So the expectations are, if you give me something I'm busy, I've got board meetings, I need to, I need to take a month to do something for you because you are not a priority. Meanwhile for you, you have to get them to sign whatever needs to be signed, because this deal needs to happen in the next like three to five days. And so a lot of the time you have to fight back and forth.

So I think you try and understand the dynamics, the political and inter relational dynamics within the organisation and try and leverage certain people within, bring them in, you're gonna build stronger relationships. So that's when the overall entity is not playing ball, to help you get to the next step. You're able to pull those people in, and they're able to fight on your behalf on the inside… And I found that very few, within those organizations, one or two people, potentially, usually the mouthpieces, would have an understanding and flexibility as individuals, but the organisation structures themselves will not allow for those people to be able to implement and operate with that kind of flexibility.
" – Participant G

5.6. Research Question Four findings

Research question four: What support was provided to entrepreneurs post investment to prove or disprove the signals provided prior to investment?

The key themes that emerged from the data to address this research question were under the broad theme of VC value add. Within this theme, the following key sub-themes emerged.

Table 7: Research question four themes

Theme
Use of networks
Operational improvements
Governance improvements
Reporting requirements expectations vs reality

VCs made several value-add initiatives that were appreciated and increased value for the relationship, which included the use of the VC's networks for various purposes, operational improvements, governance improvements, the reality of reporting requirements and their link to an improvement in governance, and other partnership-based value add initiatives.

5.6.1. Usefulness of networks

Introductions via personal networks can ease the process and also adds credibility. Those personal relationships can take time to build, such as was experienced by Participant H. However, once this Participant pierced those networks, there were further endorsements from within.

"Relationships really matter, and who vouches for you matters. So that's why I'm emphasizing the relationship building portion before even capital raising, and also the vouching for you through [VC firm name], like the endorsement. So if an entrepreneur's already been endorsed, and he or she is already in that network of VC funders, I mean, the network is small, people talk, then I feel the DD process is slightly more friendly, although you still have to tick the boxes" – Participant H

Referrals within the network can help with certain operational advice or views requested.

"I think, when you need assistance or advice, or they would help or if they can, they will refer you to people in their network." – Participant B

Participant D was looking for collaborators rather than competitors.

"So one thing I definitely look for is non-disclosure and non-compete clauses, especially because it's becoming more apparent that certain VCs will have businesses that are in a similar industry and may actually become your competitor, rather than your collaborator. It's great when they are [sic] a collaborator, but if there's a potential competitor, and you guys are all doing the same thing, but you're sponsored by the same person, I need that

reassurance as an entrepreneur that you're not going to tell this one business what I'm doing that will favour them and disadvantage me." - Participant D

5.6.2. Operational improvements

VCs were useful to Participant I in making minor operational improvements to the business such as the suggestions to improve the security of the system the entrepreneur was using.

"You shouldn't be worried about capacity at the onset. So for me is, it's already just on that modeling side, you just look at how do you make this business or, and even on the tech, the initial tech infrastructure we had was not scalable, so like a typical Bootstrap. So it's like, it can probably handle five customers at most. So like they told me, when you [sic] go in, you're gonna need to have an enterprise ready database, because your customers are gonna want security, they're gonna want to be sure that all their data can be catered for. So now you at least have a decent level forward." – Participant I

However, the promised operational improvements were not always realised. The promised improvements were limited in their effectiveness at times as mentioned by Participant F.

"Um, look, they've tried, but I think, you know, talent is so difficult on the continent, especially tech talent, which is where we really needed help. So I think I think they tried their best in terms of reaching out to their network, like getting the support they needed, but ultimately … it wasn't to be." - Participant F

5.6.3. Governance improvements

From the perspective of governance, investors often insist on a board being constituted, which the entrepreneur may not have had in the past. Resultantly, the board composition was something Participant D specifically looked for when negotiating with VCs.

"We also look for board seats, to see how many board seats they'd like like" – Participant D

Participant E noted that setting out principles or ways of working early can significantly help the relationship in future. This setting of principles provides a framework for both parties to work around in the future. This particular investor had notdone that to the extent that Participant E would have liked; as doing this would have prepared the participant better for the later parts of the investment process.

“I think probably just articulating what they what they would have wanted the relationship to be like, and knowing that it's contracted. So, you know, do we follow that, you know, as a book of law? Or is there a preference on [sic] how they want to do things? So there's that. But I mean, after a year or two years, actually, you kind of know how things run. So we're not in the dark anymore. But certainly initially, it would have been great to know how they want to run this relationship” – Participant E

Some of the governance terms requested by VCs seemed contradictory from a growth perspective. The terms could at times prevent the company from scaling efficiently. Black Economic Empowerment (BEE) principles are often out into contracts with VCs, and the restriction on those principles make it difficult to grow at times.

“I think the one thing that is more contradictory is just that the terms that they put in place is not really helpful to scale. I mean, it's the same thing like the Reserve Bank. They want foreign investments, but they don't want investors taking money out. So where are you gonna get the foreign investments. Yeah, it's like that. And then of course, BEE works really well, for large enterprises with a lot of money, a lot of capital and other wealth that they need to share. But when you when you start up, and you are growing, i you hit that … then that stops your growth, like right there, right, you need to restructure your business entirely to look like a perfect business.” – Participant J

5.6.4. Reporting expectations vs reality

Reporting has been one of the most challenging parts for entrepreneurs to deal with in the investment process. A significant number of the participants noted that the frequency and style of reporting can be a frustrating element of the relationship as different investors have different requirements. Participants B and C both noted that the number of reports to different VCs is something they did not expect, with Participant B noting that following negotiations with their VCs, the reporting load became more manageable.

“The most challenging part, for me, has been the reports, but we did manage to get around that to say, you know, at least doing it [sic] once every three months… Some of them will l want different reports. And it was time consuming, that time you are building as well, with limited capacity, etc. Then we started saying we would send them the same report, once quarterly. And, and just have follow ups in between quick follow up sessions with them.” – Participant B

“The most difficult part is reporting, and managing, what information to report and how to report it, not hiding information, but just making sure that when you report, your report is exact and understand what's actually going on” – Participant C

5.6.5. Market access

VC’s have added value in various other ways, including market access and product development support. However, if the business is one of many in a portfolio, it becomes challenging for the VC to devote as much attention as initially expected and it can give a view that the business is not important at all.

Market access was one of the most important value adding initiatives, with various participants noting the value that’s been provided by their VCs.

“[VC1] actually delivered a lot more than we had thought they would… So they didn't really have an incentive to give us any more than that. But they've actually done more than [VC2], for instance, they got us into a partnership with [client name], and [client name], into the enterprise development program, they've covered, they've given us grant funds, and they've raised I think, over 600000 in grant funds for us, and then more so during tough times it covered some of our costs, which included, you know, our accountants to make sure that we remain compliant.” – Participant G

While a number of the participants expected market access support, Participant F and J realised that their US investor base was limited in their access to the South African market, therefore, their market access value adding was limited. Both of these participants have noted that South African investors will be key in their next funding rounds due to this limitation.

"My first prize was going to go straight to US investors and accelerators, which we did. But we were quick to realize that because our attraction was mainly in our markets, we had to raise here too, you know, just to get some capital quickly." – Participant J

"Actually, the actual real big thing that was very difficult for them to deliver on is you wanting introductions to companies to sign deals so that they could be our customers. So we had a list of all these companies in South Africa. And, you know, they would have said [sic] they'll try make introduction. But the challenge is that, I guess being international, they don't really have connections, right. And I think before they were very keen, yeah, saying we'll figure out a way to do it." – Participant F

5.6.6. Conclusion

This chapter provided the findings from the data collection methodology provided in Chapter four. The findings were presented per research question, with the main themes per research question outlined, providing the overarching themes, and the sub-themes presented in more detail using evidence from the data collected. The findings indicate various points in which participants agreed and others in which they contradicted each other. Given that the participants were requested to provide a narrative of their experiences, these contradictions and confirmations would not be surprising.

6. Chapter 6 – Discussion

Chapter six provides a discussion of the results presented in Chapter five. The chapter is structured per research question wherein the results are stated and discussed in relation to the literature review with a view of corroborating, extending or contradicting previous research.

6.1. Research Question One discussion

What measures were taken by the entrepreneur to prepare for the investment process?

Preparation for the investment process can be done in various ways. The findings in earlier Chapter five of this report indicated that there were three main ways in which participants prepared for their own VC processes. Firstly, the entrepreneur can prepare by making a conscious effort to understand the VC ecosystem themselves, secondly, they can participate in a programme that would prepare them for this venture and lastly, they could make use of an advisor that would coach and counsel them throughout this process. These three key findings are discussed further below.

6.1.1. Understanding the VC ecosystem

In as much as VCs may have a responsibility in assisting entrepreneurs get through the investment process, entrepreneurs cannot only rely on the VCs as their primary mode of preparation. This is particularly due to the principal agent problem or the inherent conflict of interest that could arise from the VC assisting the entrepreneur too much (Greiner & Lee, 2017). As a result, it is then necessary for the entrepreneur to make their owns means of preparation for the VC engagement process before it begins. One such a way the findings revealed this could be achieved, is by the entrepreneur conducting their own research into further understanding the dynamics and different requirements of the stages involved in the funding cycles. They aim to uncover all the potential points of discussion, what potential VCs would be most interested in seeing and the kind of expectations they would be likely asked to prove. Almost all participants conducted research on the process in various forms depending on how well the participants understood the investment process prior to engaging in it. This finding extends from the literature uncovered on investment readiness as it adds an extra preparation method that has been overlooked in the literature, perhaps because of its simplicity. Entrepreneurs are already understood to know a fair amount about their own businesses, but have normally been found lacking in their understanding of the ecosystem they aim to enter when initiating a partnership with VCs (Greiner & Lee, 2017).

When exploring two-sided information asymmetry, Glucksman (2020) noted that preparation was one of the mechanisms that could assist entrepreneurs mitigate their information asymmetry disadvantage. The participants in the Glucksman (2020) study noted that entrepreneurs conducted research about the manner in which VCs operate prior to commencing with the VC process. In particular, there was research on how a VC fund is set up formally with regards to having limited and general partners as well as the phases followed by a VC fund from raising to closing the fund, and there was more informal research about how a VC fund functions internally, with an Associate and Partner giving different levels of attention to different transactions (Glucksman, 2020). This overall requirement to prepare was consistent with the findings of this study, although the methods of preparing differed.

The findings of this study also suggest that there are various ways in which entrepreneurs raising capital could prepare for the VC investment process, with the most effective being not only researching the VC that the entrepreneur will potentially be forming a relationship with, but also joining an accelerator or incubator programme and potentially using an advisor. Mason & Kwok (2010) noted that there are different types of programmes available to entrepreneurs to make them investment ready. The use of a method or programme such as an accelerator or incubator in order to prepare for the investment process is also consistent with current literature (Choi & Kim, 2018; Cusolito et al., 2020; Roland Berger, 2019)

6.1.2. Joining a programme / accelerator / incubator

Joining an accelerator or incubator programme was beneficial in various ways for the research participants, a finding that is consistent with Kim and Choi (2018). There are differences between an accelerator and incubator, however, the benefits of taking part in an accelerator or incubator are similar and will be discussed together for the purposes of this study. These programmes bridge the gap between entrepreneurs and investors in assisting entrepreneurs appreciate the value of equity funding, becoming more investable, and improving presentation of the business. It is therefore of no surprise that even the participants of this study had made use of such platforms to improve their chances of converting their VC cycles into long lasting partnerships for the benefit of their business.

As previously mentioned in Chapter 2, the benefits of being part of an accelerator and incubator are similar, and study participants used the two type of support interchangeably, therefore, the researcher did not differentiate between the two types of support. The benefits of joining such a programme were that it became easier for participants to familiarise themselves with the VC ecosystem, the programmes were a first step in understanding how to operate a business and were often a first step in building social capital [Insert benefits of social capital in early stage], which was useful in later stages of the business and finally, accelerators were beneficial to participants as they were often the first investors in the business, signalling to other investors that the business had been sufficiently de-risked and is consequently safer to invest in (Everett & Casparie, 2018).

.

While participants noted that being part of a programme or accelerator was beneficial, the global nature of the VC ecosystem was highlighted as participants were either part of the South African programmes or international programmes. Various participants noted that one of key benefits of being a part of the international incubator program is the exposure to global investment community that comes with it; a benefit that greatly aids even for company valuation purposes. This finding was also consistent with the presented literature, which also noted the usefulness of the location of the accelerator, which can also be a relevant factor in the entrepreneur choosing which programme to take part in.

6.1.1.2. The use of an advisor

An advisor can be defined as a person or entity separate to the entrepreneur who assists the entrepreneur in their capital raise. These advisors are often entities that are well versed in the capital raising process and can assist entrepreneurs in the process. Particularly, advisors can assist the entrepreneur in providing a narrative for the business and the entrepreneur, access to social capital and being an investor themselves within the business. This study uncovered that some of the participants made use of such advisors to get them through the investment process. This is consistent with findings from Everitt and Casparie (2018), who also had noted that using a financial advisor can be beneficial for the investor in not only getting the entrepreneur investment ready, but also being a signal to other potential investors about the potential success of the business. The use of an advisor was beneficial in similar ways to the business as joining an accelerator or incubator programme.

A key point noted by study participants has been that the use of an advisor only works in circumstances in which the participants have direct contact with potential investors and can engage those potential investors on the participant's own terms. Without that direct contact, the participants receive sanitised information from potential investors, which can hinder the building of long-term relationships with those investors (Warnick et al, 2018).

6.2. Research Question Two discussion

What signals did the VC give during the investment process to assist the entrepreneur in mitigating information asymmetry?

6.2.1. Alignment between entrepreneur and VC

Alignment between the entrepreneur and VC was a key theme that emerged from the findings. There were various signals that entrepreneurs outlined as key identifiers for the assessment of alignment between themselves and the potential VCs. These included: mandate alignment, values alignment, and alignment of interests. Mandate alignment was also assessed in various other ways including VCs being understanding of early stage businesses and the associated levels of risk, and an understanding of the bigger vision of the business.

Respondents in this study noted that there were certain signals they sought when assessing alignment between themselves and VCs. Regular communication was one such noted by the participants, which confirmed the findings from Shepherd and Zacharakis (2001), who posited that regular communication strengthened the building of trust in the relationship despite between the two parties. Middlehoff et al. (2014), however, noted that regular communication was found not to affect how trust was built when entrepreneurs considered the VC's benevolence, abilities and integrity. Given that the definition of a VC in this study was much wider and included other equity funding types such as corporate venture capital and angel investors, there will be certain signals that will be applicable to specific equity funding types.

A key element of mandate alignment was ensuring that the VC understands and appreciates the risks associated with this stage of financing. This understanding was interpreted as a level of risk aversion or risk-taking behaviour, with the key signal being the level of due diligence undertaken by the VC. This level of due diligence was viewed by participants as a signal to understanding the risks involved in investing in early stage businesses. Panda and Dash (2016) noted that fairness was a key mechanism in building trust between the entrepreneur and VC, and this fairness was viewed by entrepreneurs as the VC being open to the risks involved and understanding that the business may fail.

Other signals of alignment between the entrepreneur and the VC were communication throughout the early stages of the investment process, and not interfering in the daily business operations. This is similar to what Panda and Dash (2016) also concluded, wherein the researchers noted that communication, particularly at the earlier business stages, contributed to the increase in trust between the parties.

Expression of power dynamics

In the entrepreneur and VC relationship, the VC is by definition, the party with more money. This can create a lop-sided power dynamic as some VCs feel that because they have the money, they are able to dictate all terms without realising that the relationship requires both parties to be satisfied with how the relationship progresses. Expression of these power dynamics by VCs is a signal to entrepreneurs about the quality of the relationship. The findings from this study indicated an expectation that there would be a mutual appreciation that both parties need each other in the relationship and that one party would not be dominating the other party. This expectation was corroborated by Nieschke and Mauer (2022) , who noted that relational norms in such a relationship are created not contractually, but also with clarity around each party's role.

Nature of prior relationship

A key criterion when VCs consider investing is their prior relationship with the entrepreneur, with VCs more likely to invest in entrepreneurs with which they have a prior positive relationship (Kaiser & Berger, 2021; Yang & Li, 2017). Therefore, the finding that the nature of the prior relationship was significant in the entrepreneur's decision making and in improving the quality of the relationship with the VC is unsurprising and is in line with the literature.

6.2.2. Communication throughout the process

The communication from a VC is a signal through the relationship and helps build trust between the two parties. Within communication, there are various ways of assessing the signal, including the frequency of that communication, the availability of the VC when required by the entrepreneur, the VC making first contact and the amount of honesty that is shown by the VC. The study's findings largely support and extend the literature as discussed in more detail below.

The theme of regular communication building a solid relationship permeated through a number of participants in the study. Panda and Dash (2016) expounded on the signal of communication when noting that the higher the frequency of communication, the higher the trust that is developed. The authors also found that the frequency of communication between the two parties was increased when the VC made themselves available to the entrepreneur for different types of communication including advice and not only the formal communication that is undertaken when the entrepreneur is reporting. The findings about the VC being available for informal advice corroborated Panda and Dash's 2018 study in confirming that this availability increased trust between the entrepreneur and VC.

A surprising number of study participants had the VC contact them first at the commencement of the relationship. This first contact led to positive interactions and signalled the trustworthiness and commitment of the VC in the building of a working relationship. This first contact signal was not corroborated with prior research on the building of trust between the parties or any of the research on the genesis of the relationship between entrepreneurs and VCs (Huang & Knight, 2017).

The VC making first contact was an unexpected finding, given that often it is the entrepreneurs that have to be the parties seeking financing from VCs and the inherent difficulty in convincing outsiders about the prospects of the business (Colombo, 2021). The VC making first contact happened a surprising number of times in this study with the effect of this being a significantly more trusting relationship that is built over time given that the power dynamic (discussed above) is more balanced than in other situations where the entrepreneur makes first contact. The VC making first contact likely also leads to more closed transactions for the VC than the other entrepreneur making first contact as it implies the supply of funding is readily available. It is assumed that by showing such initiative, the VC would have already made a preliminary review of the business and would have built an interest in the business through a knowledge that is already established, which can be however, limited at the time of contact.

Honesty and integrity were key signals in the building of trust and improvement in communication. The dishonesty on the part of the VC led to a barrier in the building of trust between the parties. The study by Middelhof et al. (2014) found that benevolence, investor ability and investor integrity were the key antecedents of building trust in the entrepreneur and VC relationship. The finding that the difference in public statements and actions in reality eroding the level of trust or removing that possibly of trust confirms that investor integrity is indeed an antecedent of trust.

6.2.3. Flexibility throughout the process

The findings of the study indicate that overall flexibility around various parts of the investment process is also a key signal to entrepreneurs that the relationship between themselves and the VC will be a quality relationship, while also being a factor that helps them reduce the information asymmetry disadvantage. This flexibility can be in regard to different elements that include: the use of funds, fluidity with the VC's internal systems, and flexibility around the milestones that tend to be agreed upon upfront.

6.2.4. Ease of process

The flexibility requested by some interview participants is juxtaposed, with some other participants noting that the ease and clarity of the process had improved their investment process experience. While some participants had noted that a lack of flexibility withing the investment process had been a poor signal, other participants noted that a clear process with defined steps was a signal indicating higher quality. This difference in view likely comes about merely because the interviewed participants are unique characters on their own, with their own unique nuances and expectations of an investment process.

Nonetheless, the ease of the process and clarity was a signal which improved the entrepreneur's VC investment experience. This ease of process signal included the expectations around the length of the investment process, with some participants expecting a longer process and being surprised by a speedier process, while other participants were frustrated by a longer than expected process. This clarity and constant communication worked to reduce the information asymmetry that existed between the parties during those early stages. The onus was still under entrepreneur to ensure that they play their fair role during the process by conducting their own research about the process.

The ease of the initial stages of the investment process is a signal to entrepreneurs about the quality of the VC. Generally, participants noted that the easier the early stages of the investment process, the more entrepreneurs were able to understand the process, which decreases information asymmetry between the parties. Panda and Dash (2016) noted that the shorter a negotiation process, the more trust developed between the parties. The findings in this study extended the discussion regarding the length of the negotiation process by suggesting that as long as entrepreneur expectations are managed throughout the process, trust can potentially still be built between the parties. It is the researcher's view that these expectations are managed through constant communication, thereby confirming conclusions by Shepherd and Zacharakis (2001), who noted that constant communication is critical to the development and sustenance of trust between the two parties.

Level of interest

If a VC is interested in working with an entrepreneur, they will try to move the process as quickly as possible as they do not want to waste any more time on elements of the investment process that would not be value adding to both parties. Therefore, the sending of a term sheet is a key signal in displaying their interest, and from there, the VC would want to make sure that the deal moves to part four as quickly as possible.

A new finding in the study indicated that there seems to be a difference in approach in the manner due diligence is managed, based on the location of the potential investor. For a number of international investors, the term sheet is a key signal in displaying their interest and progressing a transaction. However, in South Africa, the VCs tend to want to do a little bit more work to satisfy their conviction on the strength of the investing before issuing a term sheet. This then suggests that term sheets can be treated as signals at specific locations. The local investors tend to want to spend a lot more time conducting preliminary due diligence during part one of the process, hence their insurance of a term sheet is a later step in the process.

6.3. Research Question Three discussion

What effect did those signals have on the quality of the relationship through the investment process?

6.3.1. Quality of initial interactions

The quality of initial interactions between the entrepreneur and the VC was a key theme with various signals provided by the VC. The various signals included: the quality of feedback in Parts one & two of the investment process, the availability of technical expertise on the part of the VC, the level of interest displayed by the VC, the nature of the prior relationship between the parties and the attitudes of the VCs during Parts one & two.

Given that Warnick et al. (2018) stated openness to feedback as one of the key attributes sought by VCs, especially when evaluating whether entrepreneurs are passionate about entrepreneurship and passionate about the venture itself, the provision of this feedback by VCs becomes critical for the entrepreneur in evaluating the quality of their experience in the investment process. The feedback in the findings had several nuances. Feedback was found to be more thoughtful if the introduction between the parties was from a personal contact rather than a neutral platform. A study participant had received feedback from a US-based VC and noted that there seemed to a misunderstanding of the South African context from the VS's part. Additionally, for another participant, the initial feedback was not understood immediately but only after receiving feedback from various sources.

The study participants were not only concerned about receiving feedback from VCs, but were more concerned about the quality of the feedback received. The findings indicate that quality feedback was not received in all instances. In general, any feedback received was appreciated, however, it is the quality of the information that was most appreciated. This quality feedback was a signal of the type of feedback the entrepreneur would be receiving should the entrepreneur and that particular VC work together in the future and it was a signal of the type of relationship they would have.

Availability of experts

It is helpful for the investment process when the VC has specific technical skills on hand in order to accurately assess the business's prospects, and potentially even provide appropriate technical advice the entrepreneur could use to enhance the business. The availability of expertise on the side of the VC was a signal about the seriousness of the VC in any of the potential ventures. On the other side of the spectrum, the lack of expertise was it a poor signal and reflected poorly on any of the VC's. It is important to note that having permanent expertise that is sector agnostic may well be expensive for VCs given that the VCs do not always have a large variety of people hired within their organisation. A number of them tend to keep their cost based very low. However, the option to outsource various expertise through the investment process is a key value add when available.

The researcher interprets the availability of experts as a finding that indicates that internal skills at the VC are important for alignment between the entrepreneur and VC. When a VC is able to add technical expertise to a business, entrepreneurs interpret that value add as something that enables the entrepreneur and VC to build trust. The usefulness of the expertise within the VC structure is consistent with the findings of Gompers & Mukharlyamov (2022) and Moritz et al., (2022), who concluded that VC skills make a difference to the businesses in which they invest. The amount of investment experience within the VC influences how much the VC focuses on the management team as their criteria, and such focus on the management team helped the entrepreneurs relax through the investment process.

6.3.2. Active efforts in relationship building

The quality of the relationship between the entrepreneur and the VC is affected by the effort put in by the VC. The effect of that effort put in by the VC was that there was further trust built between the parties. The VC did several actions which increased the trust in the relationship, which included starting to build that trust very early in the relationship which improved the due diligence experience of the entrepreneur. This is a result of the VC focusing on understanding the entrepreneur as an individual and their strengths, rather than focussing too much on the business metrics.

The effort to build trust between the entrepreneur and VC using the methods above was a positive signal to the entrepreneur and improved the quality of the relationship as trust is built, which is a finding supported by Burns et al. (2016), Pollack et al. (2017) and Shen et al. (2020); all noting that a relationship that is perceived by both parties to have a lot of trust, is beneficial to both parties in the long term.

When VC's participated in follow on investments, either as the lead investor, or as any other investor, it translated into a positive signal to the entrepreneur that a quality relationship had been built in the past, and could be built into the future. The above positive signals that the VC gives the entrepreneur bode well for the relationship in future. This finding supported the literature by Mideelhof et al. (2014), who noted that trustworthiness is signalled by perceptions about the investor's ability, the investor's integrity, and the investor's benevolence.

Even though the entrepreneurs may not have been consciously seeking out these quality signals, the findings indicate that the entrepreneurs picked up the signals in any case when probed about them. Connelly et al. (2011) and Taj (2016) noted that signals were more effective if the receivers of those signals had been specifically seeking those signals. However, the signals noted above around the VC building trust early, understanding the entrepreneur as a person and allowing the entrepreneur to operate the business with minimal interference turned out to not only be positive, but also very effective signals. Taj (2016) had also added that the signals are more effective when the receiver has interpreted signals from a similar group of signallers in the past. The participants in this study and subsequently, the findings, do not suggest that the entrepreneurs had prior experience in dealing with VCs. In fact, all the participants in the study were first time entrepreneurs as opposed to being serial entrepreneurs.

Connelly et al. (2011) had noted that signal frequency improves its effectiveness. The above signals described were in fact typically received in the early stages of the investment process, and were not frequently given by VCs. For instance, focussing on the entrepreneur rather than the business may have been an action that was repeated in later stages of the investment process, but that signal was particularly more effective at the earliest stages of the investment process because it was such a surprise at those early stages of the process. If the focus on the entrepreneur only happened at a later stage, that focus on the entrepreneur would not be as effective as a signal as at that later stage, it would be expected.

The association with the business post exit is a signal of a good relationship that was built during the investment process. VCs invest in businesses in order to make a financial return in some form or another (Nieschke & Mauer, 2022). Therefore, once the VC has exited an investment, it is implied that the financial return can no longer be made as the VC is no longer invested. However, it appears the types of returns that can be made are in more than one form, as the reputation of association even post exit seems to be a signal that the VC would have wanted to send to the market for the use of any other entrepreneur in relation to that VC. The association post exit may have signalled to the market that the VC is a quality partner if they are associated with this entrepreneur or this business, thus making it a worthy consideration for other entrepreneurs or firms to partner with that VC.

While the findings indicate that some participants had a transparent and authentic relationship with their VC from its early stages, there were also some participants that felt there were VCs that were not authentic in their interactions. Those VCs would have made particular public statements and not followed through with their public statements. This lack of authenticity was a barrier in the building of trust, in contrast to the building of trust by other signals that have been discussed (James & Lenna, 2019). The lack of transparency may have come about as a result of public pressure or public relations pressure to be seen to be supporting small businesses. However, this finding may have come about due to mere frustration from an entrepreneur with the inability to access funding in order to help their businesses grow. It was beyond the scope of this study to collect data on the reasons for entrepreneurs not obtaining funding.

6.3.3. Understanding of SA context

The study indicated that an understanding of the early stage business context in South Africa was important for relationship building, and the signals from VCs indicating that they understood the South African context were the portfolio of the VC has diversified South African assets and that their expectations aligned with a South African context. In particular, the findings indicate that a diversified portfolio which represents local demographics better, with more local businesses is a positive signal and assists with building a relationship. This finding is consistent with that of Panda and Dash (2016), who had noted that partner fit is enhanced by a common background between the entrepreneur and VC, especially so in relation to early stage businesses as opposed to later stage growth businesses.

VCs should also align their expectations about an early stage business within a South African context, rather than using an international context. This was interpreted by the researcher to mean that returns in the local market would not be the same as returns in other parts of the world from the perspective of timing and the perspective of absolute amounts, given the size of the market, because there are local aspects that are different to other parts of the world. This finding is consistent with a 2021 research conducted by SAVCA, who indicated that the South African VC market is significantly smaller than other global markets.

6.3.4. VC internal dynamics

The findings of the study indicated that the individual at the VC who is the direct contact with the entrepreneur had an influence on the quality of the relationship between the two parties. Specifically, this speaks to the individual's background together with their familiarity and interest with the technicalities of the business and the willingness and ability of the VC to diversify skills sets within the VC. The more willing the individual contact was to learning about the business and work with the business in achieving its goals, the better the quality of the relationship. The higher quality relationship was useful in increasing trust between the entrepreneur and VC if communication with that individual was frequent, honest and open. This finding was consistent with that of Panda and Dash (2016), as well as Glucksman (2020), who all confirmed that honest, open and frequent communication built trust between the entrepreneur and VC.

6.4. Research Question Four discussion

What support was provided to entrepreneurs post investment to prove or disprove the signals provided prior to investment?

The findings indicate that there are various ways in which VCs supported entrepreneurs in the post investment phase, including the use of the VC's social capital (networks), the assistance in improvement of various operational aspects within the business, as well as leading governance improvements within the business. The literature supports a number of the value-add initiatives in the findings, however, there are others that were unexpected. The specific initiatives are discussed below.

6.4.1. Use of networks

A number of the participants in the study argued that the VC's networks were extremely important in their decision making to what VC they work with. Initial introductions that were from a common contact between the entrepreneur and VC, referrals when requiring specific technical assistance and collaborations within the VC portfolio. This is in line with Vaidyanathan et al's. (2019), who were of the view that value add from a VC can be in different forms, including portfolio development.

From a networking perspective, VC's have also added in assisting with market access for study participants. However, if the business is perceived to only be a small part of the portfolio, it became challenging for the VC to devote as much attention as initially expected and it can give a view that the business is not important at all. The findings corroborated those of Lutz and Henn (2020), who also emphasized that the VC is most useful when utilising its network to add external value to the business. This type of value add from a VC was said by Lutz and Henn to be significantly more valuable than any other type of value add such as financial networks, business development, and strategic development.

6.4.2. Operational improvements

The findings indicate that some VCs also had operational involvement for instance by assisting entrepreneurs with minor operational improvements for some participants, while others preferred for the VC to stay completely away from operations as they felt that too much operational involvement from a VC amounted to interference. Exactly how much operational involvement was allowable likely depended on various factors including the stage of the business, the experience of the entrepreneur, and the profile of the VC. Even though data about the stage of business was collected, this data was collected as it was not relevant to answer the research questions in this study.

6.4.3. Governance improvements

Governance improvement and other operational improvements such as advice about scaling and assistance with talent were noted by the participants as appreciated value add that made a difference to the entrepreneur. The assistance with operational matters extended the research by Vaidyanathan et al. (2019), who found that VCs often assist with the internal development of the business and also assist the business with professionalisation. Governance improvements included insisting on a Board being constituted, which would likely bode well for the business in the long term. However, some of the terms that were out in place contractually made it challenging to scale the business, such as BEE rules and the preferred procurement policies that are in place at various large corporate customers. In this instance, the findings specifically referred to classification of a firm as either an Exempted Micro Enterprise (EME) or a Qualifying Small Enterprise (QSE), which are terms relating to BEE Codes of Good Practice and limit the status of a company when dealing with large corporate counterparties.

Governance improvement confirmed the research by Vaidyanathan et al. (2019) that value add can be in various forms, including monitoring, strategy and professionalisation. Reporting requirements were the most challenging part of working with VCs. The frequency and style of reporting were often different with different investors, with the entrepreneur resultantly spending a significant amount of resources preparing and presenting the reports. The requirement to report to investors is not surprising given that entrepreneurs are the custodians of VC financial resources – VCs can be seen as agents that are employed to act in the best interests of their principal – the VC. In turn, Traditional VCs are expected to report to their own investors. Based on the VC being a custodian themselves, and the entrepreneur being a custodian, the requirement to report is unsurprising. However, what is the challenging part for entrepreneurs is the different reporting requirements and reporting frequencies required by VCs. The differences themselves also are not surprising given that the VCs themselves are interested in different elements of the business and have different reporting requirements themselves. The VC industry does not have a standard way of reporting, which includes templates, requirements or frequencies. This translates into a number of different reporting requirements from different VCs. The findings indicated that the frequency of reporting could be reduced, and the style of reporting could be standardised so that all VCs get the same report with the same data.

6.4.4. Reporting requirements vs reality

Even though the different VCs had differing reporting requirements and frequencies, almost all of the VCs had an element of flexibility in their reporting as well. It appears the

VCs understood that the entrepreneur’s main role is in the operating of the business, with reporting to stakeholders being significantly less important. Given this order of priorities, the VCs preferred the entrepreneur to focus on operating and growing the business by reducing or amending their own initial reporting requirements to accommodate the entrepreneurs and possibly, accommodate the reporting requirements and frequencies of other VCs invested in the same business.

6.4.5. Research discussion visualisation

A visualisation of the summary results is presented below per research question. The first question addressed the preparation that is undertaken by entrepreneurs prior to commencement of the investment process. The second research question addressed the signals identified by entrepreneurs during the earlier parts of the investment process while the third research question addressed the quality of the relationship based on the signals. The last research question addressed the post investment value add from VCs.

The investment process as defined by Klonowski (2007) was the foundation of the attempt to understand entrepreneur experiences.

Prior to commencement of the investment process, entrepreneurs were found to prepare in various ways including their own research on the process, participation in a programme or the use of an advisor.

The two main groups of themes linked to signal identification emerged from this preparation: personal signals and process-related signals. The personal signals are further divided into those that relate to entrepreneur and VC alignment, which is supported by signals that denote communication norms. The opinion that the VC was making an attempt to establish a relationship was influenced by both of the personal signals and supported by the caliber of the first contacts. Overall, the signals from the individual parties may increase the entrepreneur-VC partnership's level of trust.

The signals that are related to the process are those that point to a higher-quality process, which is supported by the degree of flexibility in the process. If the VC was seen to understand the local context and was backed by the VC's own internal dynamics, the process-related signals had an impact on the quality of the connection. Through the funding process, the signals associated to the process may have given the entrepreneur better process clarity.

The last research question concerned the value that venture capitalists added post their investments and how that affected the relationship. The usage of networks, improvements in operations, improvements in governance, and reporting style and frequency were found to be the four key categories of value.

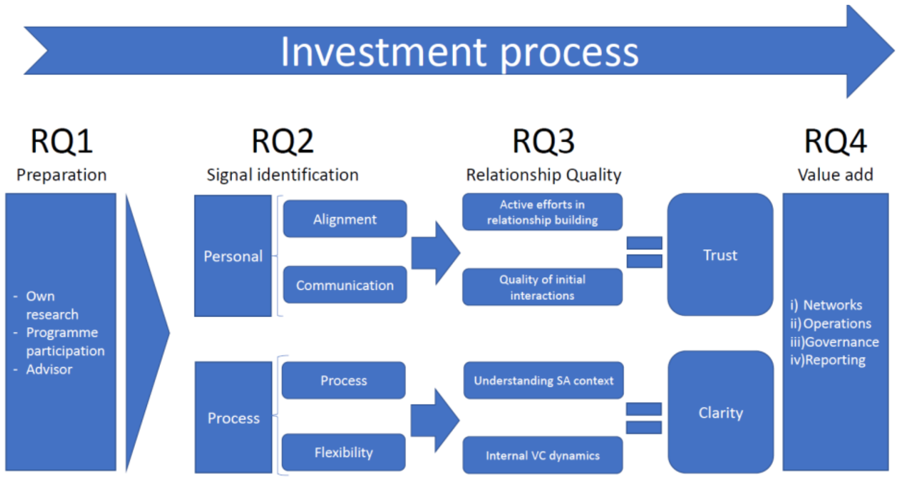

Figure 2: Visualisation of summary results

6.4.6. Conclusion

The findings from Chapter five were discussed together with the literature that was presented in Chapter two. This discussion indicated that entrepreneurs do indeed undertake a level of preparation in various forms prior to undertaking the VC investment process. These entrepreneurs go on to identify and interpret various signals from VCs during Parts one and two of the investment process, with these signals giving an indication to entrepreneurs about the potential quality of the VC. A large number of the signals identified and interpreted were in support of the literature, with the findings indicating various new signals. In Part three of the investment process, the earlier signals are either confirmed or not confirmed, with the VC providing various elements of value add in Part three of the investment process.

7. Chapter 7 – Conclusions and Recommendations

7.1. Conclusion

The purpose of this research study research report was to analyse the experiences of entrepreneurs throughout the entire investment process with VCs. The consideration began at the origin of the relationship, when the two parties met, down to the end of their relationship, after having exited their terms and gone in separate ways. While there has been conducted research on the dynamics of the entrepreneur-VC relationship in the past, these have mostly always been from the perspective of the VC, and little research covered the angle of the other party, the entrepreneur. With that understanding, the study used signalling theory in order to assist entrepreneurs identify and interpret signals that are provided by the VC counterpart right through the investment process. The study considered the investment process chronologically, commencing prior to the parties meeting and concluding after the parties have achieved their exit.

This chapter presents a summary of the findings per research question, a brief interpretation of those findings as well as the implications for theory as well as the expected contribution to the relevant stakeholders. The limitations of the study are also discussed, with the chapter concluding with recommendations for future research.

7.1.1. Research Question One: What measures were taken by the entrepreneur to prepare for the investment process?

This question aims to understand the steps that the entrepreneur could take prior to the origination of the investment process to ensure that they are adequately prepared for all that is to follow. There were three main ways in which entrepreneurs prepared themselves for the investment process, these being: independent research, participation in a program such as an accelerator or an incubator, and through the use of an advisor. Klonowski (2007) notes that the first step in the investment process is origination. For that origination to take place, there are steps that the entrepreneur can take beforehand that will place them at an advantage. .

To begin, the entrepreneur can do their own research, either online or through seeking informal advice from industry players. if an entrepreneur would be looking to approach a particular VC, the research can be more concentrated on that particular VC. A program such as an accelerator or an incubator was found in the study to be beneficial to entrepreneurs. These programs assisted entrepreneurs in understanding the venture capital ecosystem and were useful in introducing entrepreneurs to other ecosystem players, thus improving the entrepreneur's social capital. Some of the programs concluded with a demo day, which showcased the entrepreneurs and their businesses to potential investors with even some of these programs being hosted by investors themselves. The program being hosted by a potential investor was a very strong signal to the market, that not only has the business been de-risked but it already has other investors in that particular round of funding. Another method of preparations presented by the research findings involves the entrepreneur working with an advisor, closely seeking counsel on all matters regarding the both the investment process and potential VC partner lined up. The advisor would work with the entrepreneur to help them raise capital and increase their social capita, while also advising them on various aspects of the investment process.

The findings above will help entrepreneurs who are contemplating undergoing the investment process with options on how to prepare for that investment process.

7.1.2. Research Question Two: What signals did the VC give during the investment process to assist the entrepreneur in mitigating information asymmetry?

The second research question attempted to deal with how VCs help entrepreneurs close the information asymmetry gap between themselves during the investment process. The VCs help entrepreneurs through the investment process by providing signals, which the entrepreneurs identify and subsequently interpret. The signals provided can be grouped into two larger groups: the first group of signals dealing with personal elements between the entrepreneur and VC, and the second group of signals dealing with process elements during the investment stages. Within the personal elements, it is crucial that there is alignment between the entrepreneur and VC, and this alignment factor can be considered on multiple dimensions: mandate alignment, values alignment and interest alignment. Further, the alignment can be enhanced with an increased understanding on the VS's part regarding the nature and risks associated with small businesses; that way they will be more able to buy more into the future than what they see now.t

Communication between the entrepreneur and VC is of vital importance for the reduction of the information asymmetry gap between the two parties during the investment process. For communication purposes, there are a number of signals that can be provided by the VC, including the frequency of communication, accessibility of the VC during the investment process, the VC making first contact and the amount of honesty in the VC's communication. Overall, alignment between the entrepreneur and VC is enhanced by greater communication, with both alignment and communication leading to more trust between the parties.

The process elements include the ease of the investment process as well as the VC's flexibility during that process as well. There were a number of different signals picked up, including the guidance provided by the VC during the process, even though the onus was still on the entrepreneur to conduct their own research in preparation for the investment process. The expectations and realisations on the length of the execution process was another key signal, with findings indicating that the longer the execution process, the more frustrated the entrepreneurs became, also showing a pleasant surprise whenever this process would be quicker that initially anticipated. Long investment processes also did nothing to aid the information asymmetry phenomenon between the two parties. Overall, the process matters were improved by constant and clear communication between the two parties; resulting in greater clarity and ease.

7.1.3. Research Question Three: What effect did those signals have on the quality of the relationship through the investment process?

The findings for this research question resulted in four themes. The first main theme resulted in signals relating to active efforts in relationship building with the second theme being the quality of initial interactions. The third main theme related to signals that indicated an understanding of the South African context. The fourth theme was the internal dynamics at the VC. The extent of the active efforts by the VC to build a relationship with the entrepreneur, and especially in the early stages of the investment process, were positive for relationship building between the parties. The VCs that displayed an understanding of the South African context also represented positive signals for relationship building. The internal dynamics at the VC, including the background and experience of the individual VC contact person for the entrepreneur, were signals that could be interpreted as active efforts from the VC to the entrepreneur for the building of a positive and strong relationship.

7.1.4. Research Question Four: What support was provided to entrepreneurs post investment to prove or disprove the signals provided prior to investment?

VCs provided various forms of support post investment that confirmed the quality of the relationship they had established with the entrepreneur with entrepreneur, with signals provided for earlier in the relationship. Firstly, the networks provided by the VCs were useful, especially those networks which resulted in market access. Secondly, the VC assisted with various types of operational improvements. Thirdly, the VC assisted in making various governance improvements and finally, the VC's reporting requirements were found to be the most challenging part of the relationship.

The research questions attempted to understand the experiences of the entrepreneur through the research process. The findings were consistent with prior research that prepared by the entrepreneur is indeed key, with various forms of preparation proposed. The signals identified and interpreted were either personal or process related signals, with the personal signals resulting in an effect on trust, while the process signals led to more or less clarity. Post investment, the findings confirmed that value add from VCs is provided in a variety of different ways.

7.2. Contribution to theory

The study contributes to the theory on information asymmetry as well as signalling theory in the context of the relationship between a VC and the entrepreneur. Information asymmetry exists when one party in a relationship has more or better information than the other r party (Bergh et al., 2019). Past research on the entrepreneur-VC relationship has been undertaken from the perspective of the entrepreneur attempting to raise capital for the venture, thus it has often been the entrepreneur who is presented to have more information regarding the prospects of the business than the VC (Yang et al.; 2021). However, as noted by Glucksman (2020), information asymmetry can be two sided, especially at the inception of the funding process as the VC is the party with the most knowledge regarding the invested process both have entered into with each other. This imbalance can then introduce an unfair advantage to the VC and as a result, this study aimed to use signalling theory to find mechanisms that can reduce information asymmetry between the parties in relation to the investment process.

Signalling theory has been used in other settings involving information asymmetry in an effort to reduce that information gap between two parties. The signals identified by entrepreneurs during the investment process that assisted in closing the information asymmetry gap were identified and interpreted by the researcher.

7.3. Implications for entrepreneurs, and VCs

The study mainly contributes to entrepreneurs and VCs in the entrepreneurial ecosystem.

7.3.1. Entrepreneurs

Firstly, the study contributes to entrepreneurs by providing them with findings and learnings extracted from the experiences of other entrepreneurs, a knowledge pool that can be an effective tool if applied correctly. The VC investment process outlined in the study by Klonowski (2007) was renamed in order to differentiate the different types of preparation that can be done by entrepreneurs in order to maximise their own experience of the process. The study not only outlines the mechanics of the investment process, but it also provides entrepreneur experiences in how to practically ensure adequate preparation before the undertaking of the investment process. From the sharing of other entrepreneurs' experience, the reader can prepare better by applying the exact method of preparation that will be most beneficial to their context and background. The study concluded that the best form of preparation would be independent research, participation in a programme such as an accelerator and the use of an advisor. The above three forms of preparation for Parts one and two of the investment process are useful for entrepreneurs to know.

Secondly, the dark side of being an entrepreneur can be the various negative emotions, including loneliness. Entrepreneurs understanding the experiences of other entrepreneurs can help reduce those negative emptions, thus potentially increasing the chances of success for that particular entrepreneur.

Lastly, the use of signalling theory in the study contributes to entrepreneurs being better prepared for later stages of the investment process by assisting in the identification and interpretation of signals provided by VCs. The identification of various signals, together with the interpretation of those signals, assists entrepreneurs in their own experience of the investment process and assists entrepreneurs in ensuring that the VC selected is the best partner for their business. The signals and their interpretation will result in a better partner fit for entrepreneurs and ultimately, more value created in the form of financial returns for all equity holders. The signals provide an opportunity for entrepreneurs to reduce the information asymmetry that is present during the investment process, thereby making the entrepreneur more “equal” to the VC throughout the process.

7.3.2. VCs

While it is acknowledged by the researcher that not all VCs will follow the exact same steps noted by Klonowski (2007) in the investment process, most VCs will broadly follow this outline, with modifications only for context purposes. VCs knowing the experience of entrepreneurs and understanding the signals that entrepreneurs are identifying and subsequently interpreting, will allow them to better express their intentions throughout the process, aiding the development of trust between the two parties and levelling any areas of uncertainty. This may also help VCs become more intentional on the kind of entrepreneurs they pursue and enter into investment processes with, making better use of every party’s time.

7.4. Limitations

The South African VC industry has a few key features which in turn result in limitations to the study. Firstly, the VC industry is relatively small in absolute size when compared to the global VC industries such as those in the United States, Europe or Asia (African Private Equity and Venture Capital Association, 2022; AVCJ, 2021; Kraemer-Eis et al., 2022; Pitchbook, 2022). Secondly, capital allocation to VC is relatively small when compared to private equity in South Africa, an industry that is more mature and has a larger community in South Africa (SAVCA, 2021). Thirdly, a number of VC investors in South Africa do not participate in industry surveys that are conducted by the industry body, SAVCA, therefore limiting the completeness of the data collected by SAVCA (SAVCA, 2021). The above three features of the South African VC industry limit the sample size as data collected is from a relatively small pool of investors who are actually reporting data as would be compared to a pool of participants if the data was collected from private equity entrepreneurs, or entrepreneurs from a different part of the world. The limited size of the industry results in a smaller population and resulted in a smaller sample size. Cober and

Adams (2020) noted that a sample size that is too small results in a lack of generalisability into other contexts.

Due to the nature of the VC industry's limited size, the researcher has used a broad definition of VC investors, which also includes other early stage equity market investors, including angel investors, corporate venture capital and crowd funders. Given that the different types of equity investors have their unique features, using the VC definition for all of the investors may at times be viewed as inappropriate. Furthermore, the researcher used the SAVCA definition of VC by stage of business which includes seed stage, start-up capital, later stage funding and growth capital.

The VC investment process by Klonowski (2007) that guided that study has nine steps, which the researcher has in turn renamed into four stages for the purposes of this study. The final stages of the exit step exist as one of the steps in the investment process. However, very few exits have taken place in the South African market as there as according to SAVCA (2021), there were only 43 exits achieved by VCs, with the figure skewed by the exit of two investors from the asset class, which amounted to a majority of the exits (SAVCA, 2021). Therefore, the number of exits in South Africa is limited, resulting in the number of exits from study participants being limited as well. The limited number of exits is a limitation for the study given that not enough data was collected for Part four of the study.

The narrative research strategy places a limitation on whether the data collected can be viewed as truth or not, as the narrative is typically dependent on the memory of the participant (Chunfeng et al., 2015; Patton, 2002). Furthermore, interview heterogeneity in the sample given that entrepreneurs are different people with different traits and operating in different industries, is a limitation for the study as the nature of these differences limits the generalisability.

7.5. Recommendations for future research

The VC industry in South Africa is still developing, resultantly, there are very few exits that have been achieved by VCs. A view with a larger sample size which includes entrepreneurs that have exited would add more knowledge about the experience of entrepreneurs throughout the entire VC investment process. A study around the signals provided by different VCs that would assist entrepreneurs in choosing what type of equity funding is appropriate for them would then be beneficial to both entrepreneurs and VCs.

Private equity practitioners function in a similar way to VCs and are often represented by the same associations in different regions of the world. For instance, SAVCA represents both private equity as well as venture capital in South Africa. Private professionals are also professional investors in a similar sense to VCs, therefore, the information asymmetry that exists to the advantage of VCs in the entrepreneur-VC relationship, also exists to the advantage of private equity investors in their relationship with the entrepreneurs they work with. A similar study to the one undertaken can be conducted with private equity professionals on the one side of the scale and entrepreneurs seeking private equity investment on the other side of the scale.

8. Reference List

Adams, W. C. (2015). Conducting Semi-Structured Interviews. In *Handbook of Practical Program Evaluation: Fourth Edition* (Issue August, pp. 492–505). https://doi.org/10.1002/9781119171386.ch19

African Private Equity and Venture Capital Association. (2022). *2022 H1 African Venture Capital Activity Report*. www.avca-africa.org

Ahlers, G. K. C., Cumming, D., Günther, C., & Schweizer, D. (2015). Signalling in Equity Crowdfunding. *Entrepreneurship Theory and Practice*, *39*(4), 955–980. https://doi.org/https://doi.org/10.1111/etap.12157

Akerlof, G. A. (1970). The Market for " Lemons ": Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics*, *84*(3), 488–500.

Allison, T. H., Warnick, B. J., Davis, B. C., & Cardon, M. S. (2022). Can you hear me now? Engendering passion and preparedness perceptions with vocal expressions in crowdfunding pitches. *Journal of Business Venturing*, *37*(3). https://doi.org/10.1016/j.jbusvent.2022.106193

Amit, R., Brander, J., & Zott, C. (1998). Why do venture capital firms exist? Theory and Canadian Evidence. *Journal of Business Venturing*, *13*(6), 441–466.

Arcot, S. (2014). Participating Convertible Preferred Stock in Venture Capital Exits. *Journal of Business Venturing*, *29*(1), 72–87.

Association, S. A. V. C. and P. E. (2021). *2021 SAVCA VC Survey*.

AVCJ. (2021). *Asian Private Equity and Venture Capital Review*.

Azorín, J. M., & Cameron, R. (2010). The Application of Mixed Methods in Organisational Research : A Literature The Application of Mixed Methods in Organisational Research : A Literature Review. *The Electronic Journal of Business Research Methods*, *8*(2), 95–105.

Bapna, S. (2019). *Complementarity of Signals in Early-Stage Equity Investment Decisions : Evidence from a Randomized Field Experiment Complementarity of Signals in Early-Stage Equity Investment Decisions : Evidence from a Randomized Field Experiment*. *May 2022*.

Bergh, D. D., Connelly, B. L., Ketchen, D. J., & Shannon, L. M. (2014). Signalling theory and equilibrium in strategic management research: An assessment and a research agenda. *Journal of Management Studies*, *51*(8), 1334–1360. https://doi.org/10.1111/joms.12097

Bergh, D. D., Ketchen, D. J., Orlandi, I., Heugens, P. P. M. A. R., & Boyd, B. K. (2019).

Information Asymmetry in Management Research: Past Accomplishments and Future Opportunities. *Journal of Management*, *45*(1), 122–158. https://doi.org/10.1177/0149206318798026

Bernstein, S., Korteweg, A., & Laws, K. (2017). Attracting Early-Stage Investors: Evidence from a Randomized Field Experiment. *Journal of Finance*, *72*(2), 509–538. https://doi.org/10.1111/jofi.12470

Braun, V., & Clarke, V. (2012). Thematic analysis. *APA Handbook of Research Methods in Psychology, Vol 2: Research Designs: Quantitative, Qualitative, Neuropsychological, and Biological.*, *2*, 57–71. https://doi.org/10.1037/13620-004

Bruno, A. V, & Tyebjee, T. T. (1985). The entrepreneur's search for capital. *Journal of Business Venturing*, *1*(1), 61–74.

Burns, B. L., Barney, J. B., Angus, R. W., & Herrick, H. N. (2016). Enrolling Stakeholders under Conditions of Risk and Uncertainty. *Strategic Entrepreneurship Journal*, *10*(1), 97–106. https://doi.org/10.1002/sej.1209

Busser, J. A., & Shulga, L. v. (2019). Involvement in consumer-generated advertising: Effects of organizational transparency and brand authenticity on loyalty and trust. *International Journal of Contemporary Hospitality Management*, *31*(4), 1763–1784. https://doi.org/10.1108/IJCHM-10-2017-0685

Chakraborty, I., & Ewens, M. (2018). Managing Performance Signals Through Delay : Evidence from Venture Capital Managing Performance Signals Through Delay : Evidence from Venture Capital. *Management Science*, *64*(6), 2875–2900.

Choi, Y., & Kim, D. (2018). The effects of investor types on investees' performance: Focusing on the seed accelerator. *Cogent Economics and Finance*, *6*(1), 1–19. https://doi.org/10.1080/23322039.2018.1550870

Christensen, E., Wuebker, R., & Wustenhagen, R. (2009). Of acting principals and principal agents : goal incongruence in the venture capitalist-entrepreneur relationship Esben Christensen Robert Wuebker Rolf Wüstenhagen *. *International Journal of Entreprenuership and Small Business*, *7*(3), 367–388.

Ciuchta, M. P., Letwin, C., Stevenson, R., Mcmahon, S., & Huvaj, M. N. (2018). Betting on the Coachable Entrepreneur : Signalling and Social Exchange in Entrepreneurial Pitches. *Entrepreneurship Theory and Practice*, *42*(6), 896–885. https://doi.org/10.1177/1042258717725520

Cober, W., & Adams, B. (2020). When interviewing: how many is enough? *International Journal of Assessment Tools in Education*, *7*(1), 73–79. https://doi.org/10.21449/ijate.693217

Colombo, O. (2021). The Use of Signals in New-Venture Financing : A Review and Research Agenda. *Journal of Management*, *47*(1), 237–259. https://doi.org/10.1177/0149206320911090

Connelly, B. L., Ireland, R. D., & Reutzel, C. R. (2011). Signalling Theory : A Review and Assessment. *Journal of Management*, *37*(1), 39–67. https://doi.org/10.1177/0149206310388419

Cottle, G. W., & Anderson, B. S. (2020). The temptation of exaggeration: Exploring the line between preparedness and misrepresentation in entrepreneurial pitches. *Journal of Business Venturing Insights*, *14*. https://doi.org/10.1016/j.jbvi.2020.e00190

Cuevas, J. M., Julkunen, S., & Gabrielsson, M. (2015). Power symmetry and the development of trust in interdependent relationships: The mediating role of goal congruence. *Industrial Marketing Management*, *48*, 149–159. https://doi.org/10.1016/j.indmarman.2015.03.015

Cusolito, A. Paula., Dautović, Ernest., & McKenzie, D. (2020). *Can government intervention make firms more investment-ready? : a randomized experiment in the Western Balkans.*

Donovan, J. (2021). Financial Reporting and Entrepreneurial Finance: Evidence from Equity Crowdfunding. *Management Science*, *67*(11), 7214–7237. https://doi.org/10.1287/mnsc.2020.3810

Drover, W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A., & Dushnitsky, G. (2017). A Review and Road Map of Entrepreneurial Equity Financing Research: Venture Capital, Corporate Venture Capital, Angel Investment, Crowdfunding, and Accelerators. *Journal of Management*, *43*(6), 1820–1853. https://doi.org/10.1177/0149206317690584

Duffner, S., Schmid, M. M., & Zimmermann, H. (2009). Trust and success in venture capital financing - An empirical analysis with german survey data. *Kyklos*, *62*(1), 15–43. https://doi.org/10.1111/j.1467-6435.2009.00426.x

Everett, C. R., & Casparie, J. (2018). Equity investment by startup board members can attract new capital. *Graziadio Business Review*, *21*(1).

Ewens, M., Nanda, R., & Rhodes-Kropf, M. (2018). Cost of experimentation and the evolution of venture capital. *Journal of Financial Economics*, *128*(3), 422–442. https://doi.org/10.1016/j.jfineco.2018.03.001

Glücksman, S. (2020). Entrepreneurial experiences from venture capital funding : exploring two-sided information asymmetry Entrepreneurial experiences from venture capital funding : exploring two-sided information asymmetry. *Venture Capital*, *22*(4), 331–354. https://doi.org/10.1080/13691066.2020.1827502

Gompers, P. (1995). Optimal Investment , Monitoring , and the Staging of Venture Capital Author (s): Paul A . Gompers Source : The Journal of Finance , Vol . 50 , No . 5 (Dec ., 1995), pp . 1461-1489 Published by : Wiley for the American Finance Association Stable URL : *The Journal of Finance*, *50*(5), 1461–1489.

Gompers, P. A., & Mukharlyamov, V. (2022). *NBER WORKING PAPER SERIES TRANSFERABLE SKILLS? FOUNDERS AS VENTURE CAPITALISTS*. http://www.nber.org/papers/w29907

Gompers, P., & Lerner, J. (2000). Money chasing deals? The impact of fund inflows on private equity valuations. *Journal of Financial Economics*, *55*, 281–325.

Granz, C., Lutz, E., & Henn, M. (2021). Scout or coach? Value-added services as selection criteria in entrepreneurs' venture capitalist selection. *Venture Capital*, *23*(1), 5–40. https://doi.org/10.1080/13691066.2020.1824603

Greiner, M., & Lee, J. (2017). The Dark Side of Venture Capital: Considering the Implications of Agency Theory. *Academy of Management Proceedings*, *2017*(1), 12606. https://doi.org/10.5465/AMBPP.2017.12606abstract

Guest, D. E., Sanders, K., Rodrigues, R., & Oliveira, T. (2021). Signalling theory as a framework for analysing human resource management processes and integrating human resource attribution theories: A conceptual analysis and empirical exploration. *Human Resource Management Journal*, *31*(3), 796–818. https://doi.org/10.1111/1748-8583.12326

Hanif, H., Rakhman, A., & Nurkholis, M. (2019). Building a concept of entrepreneurial control. *TEM Journal*, *8*(4), 1198–1206. https://doi.org/10.18421/TEM84-13

Hellmann, T. (2006). IPOs, acquisitions, and the use of convertible securities in venture capital. *Journal of Financial Economics*, *81*(3), 649–679. https://doi.org/10.1016/j.jfineco.2005.06.007

Higginbottom, G. M. A. (2004). Sampling issues in qualitative research. *Nurse Researcher*, *12*(1), 7–19. https://doi.org/10.7748/nr2004.07.12.1.7.c5927

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial Behaviour, agency costs and ownership structure. *Journal of Financial Economics*, *3*, 305–360.

Jinsoo, K., Tae-Jun, B., & Sang-Myung, L. (2021). Key elements that affect selection of the venture capital by a startup. *Asia-Pacific Journal of Business Venturing and Entrepreneurship*, *16*(2), 1–17.

Jones, M., & Mlambo, C. (2013). Early-stage venture capital in South Africa : Challenges and prospects. *South African Journal of Business Management*, *44*(4).

Kaiser, M., & Berger, E. S. C. (2021). Trust in the investor relationship marketing of startups: a systematic literature review and research agenda. *Management Review Quarterly*, *71*(2), 491–517. https://doi.org/10.1007/s11301-020-00191-9

Kalu, F. A. (2017). What makes qualitative research good research? An exploratory analysis of critical elements. *International Journal of Social Science Research*, *5*(2), 43–56. https://doi.org/10.5296/ijssr.v5i2.10711

Karsai, J., Wright, M., Dudzinski, Z., & Morovic, J. (1998). Screening and valuing venture capital investments : evidence from Hungary , Poland and Slovakia Screening and valuing venture capital investments : *Entreprenuership and Regional Development*, *10*(3), 203–224. https://doi.org/10.1080/08985629800000012

Klonowski, D. (2007). The venture capital investment process in emerging markets. *International Journal of Emerging Markets*, *2*(4), 361–382. https://doi.org/10.1108/17468800710824518

Koerber, A., & McMichael, L. (2008). Qualitative sampling methods: A primer for technical communicators. *Journal of Business and Technical Communication*, *22*(4), 454–473. https://doi.org/10.1177/1050651908320362

Korstjens, I., & Moser, A. (2018). Series : Practical guidance to qualitative research . Part 4 : Trustworthiness and publishing. *European Journal of General Practice*, *0*(0), 120–124. https://doi.org/10.1080/13814788.2017.1375092

Kraemer-Eis, H., Block, J., Botsari, A., Diegel, W., Lang, F., Legnani, D., Lorenzen, S., Mandys, F., & Tzoumas, I. (2022). *EIF VC Survey 2022*.

Kumar, S. (2018). Understanding different issues of unit of analysis in a business research. *Journal of General Management Research*, *5*(2), 70–82.

Lerner, J., & Nanda, R. (2020). Venture capital's role in financing innovation: What we know and how much we still need to learn. *Journal of Economic Perspectives*, *34*(3), 237–261. https://doi.org/10.1257/jep.34.3.237

Mason, C., & Kwok, J. (2010). INVESTMENT READINESS PROGRAMMES AND ACCESS TO FINANCE: A CRITICAL REVIEW OF DESIGN ISSUES INVESTMENT READINESS PROGRAMMES AND ACCESS TO FINANCE: A CRITICAL REVIEW OF DESIGN ISSUES +. *Local Economy*, *25*(4), 269–292. www.entrepreneur.strath.ac.uk

McGrath, C., Palmgren, P. J., & Liljedahl, M. (2019). Twelve tips for conducting qualitative research interviews. *Medical Teacher*, *41*(9), 1002–1006. https://doi.org/10.1080/0142159X.2018.1497149

Middelhoff, J., Mauer, R., & Brettel, M. (2014). Antecedents of entrepreneurs' trust in their investor in the postinvestment phase – do something good! *Venture Capital*, *16*(4), 327–347. https://doi.org/10.1080/13691066.2014.988381

Mlambo, C., & Portmann, D. (2013). Private equity and venture capital in South Africa: A comparison of project financing decisions. *South African Journal of Management and Economic Sciences*, *16*(3), 258–278.

Morgan, R., & Hunt, S. (1994). The_Commitment-Trust_Theory_of Relationship Marketing Morgan Hunt 1994. *Journal of Marketing*, *58*(3), 20–38.

Moritz, A., Diegel, W., Block, J., & Fisch, C. (2022). VC investors' venture screening: the role of the decision maker's education and experience. *Journal of Business Economics*, *92*(1), 27–63. https://doi.org/10.1007/s11573-021-01042-z

Morse, J. M. (1995). The significance of saturation. *Qualitative Health Research*, *5*(2), 147–149.

Morse, J. M., Olson, K., & Spiers, J. (2002). Verification Strategies for Establishing Reliability and Validity in Qualitative Research. *International Journal of Qualitative Methods*, *1*(2), 13–22. https://doi.org/10.1177/160940690200100202

Moser, A., & Korstjens, I. (2018). Series: Practical guidance to qualitative research. Part 3: Sampling, data collection and analysis. *European Journal of General Practice*, *24*(1), 9–18. https://doi.org/10.1080/13814788.2017.1375091

Nheta, D. S., Shambare, R., Sigauke, C., & Tshipala, N. (2020). Entrepreneurship gaps framework model: An early-stage business diagnostic tool. *The Southern African Journal of Entrepreneurship and Small Business Management*, *12*(1). https://doi.org/10.4102/sajesbm.v12i1.297

Nieschke, S., & Mauer, R. (2022). "Let's have a chat!": a field study on relational governance in the evolution of new venture-accelerator relationships. *Venture Capital*, *24*(2), 137–171. https://doi.org/10.1080/13691066.2022.2091493

Panda, S. (2018). Adequacy of agency theory in explaining the venture capitalist-entrepreneur relationship : A firm life-cycle perspective. *International Journal of Entreprenuership and Small Business*, *34*(3). https://doi.org/10.1504/IJESB.2018.092745

Panda, S., & Dash, S. (2016). Exploring the venture capitalist – entrepreneur relationship: evidence from India. *Journal of Small Business and Enterprise Development*, *23*(1), 64–89. https://doi.org/10.1108/JSBED-05-2013-0071

Panda, S., Srivastava, S., & Pandey, S. C. (2020). Nature and evolution of trust in business-to-business settings: Insights from VC-entrepreneur relationships. *Industrial Marketing Management*, *91*, 246–256.

https://doi.org/10.1016/j.indmarman.2020.09.011

Pitchbook. (2022). *National Venture Capital Association Yearbook*.

Pollack, J. M., Barr, S., & Hanson, S. (2017). New venture creation as establishing stakeholder relationships: A trust-based perspective. *Journal of Business Venturing Insights*, *7*, 15–20. https://doi.org/10.1016/j.jbvi.2016.12.003

Roland Berger. (2019). *How accelerators and incubators can reinvent themselves.*

Roulston, K. (2010). Considering quality in qualitative research. *Qualitative Research*, *10*(2), 199–228. https://doi.org/10.1177/1468794109356739

Sahlman, W. A. (1990). The structure and governance of venture-capital organizations. *Journal of Financial Economics*, *27*(2), 473–521. https://doi.org/10.1016/0304-405X(90)90065-8

Saunders, M., & Lewis, P. (2018). *Doing Research in Business and Management* (Second). Pearson.

Saunders, M., Lewis, P., & Thornhill, A. (2016). Research methods for business students. In *Research methods for business students* (pp. 162–209).

Schmidt, K. M. (2003). Convertible Securities and Venture Capital Finance. *Journal of Finance*, *58*(3), 1139–1166. https://doi.org/10.1111/1540-6261.00561

Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, *25*(1), 217–226.

Shen, L., Su, C., Zheng, X. (Vivian), & Zhuang, G. (2020). Between contracts and trust: Disentangling the safeguarding and coordinating effects over the relationship life cycle. *Industrial Marketing Management*, *84*, 183–193. https://doi.org/10.1016/j.indmarman.2019.06.006

Shepherd, D. A., & Zacharakis, A. (2001). The venture capitalist-entrepreneur relationship: Control, trust and confidence in co-operative behaviour. *Venture Capital*, *3*(2), 129–149. https://doi.org/10.1080/13691060110042763

Southern African Venture Capital and Private Equity Association. (2021). *Savca 2021*.

Spence, M. (1973). Job Market Signalling. *The Quarterly Journal of Economics*, *87*(3), 355–374.

Spence, M. (2002). Signalling in Retrospect and the Informational Structure of Markets. *The American Ecnomic Review*, *92*(3), 434–459.

Svetek, M. (2022). Signalling in the context of early-stage equity financing : review and directions. *Venture Capital*, *24*(1), 71–104. https://doi.org/10.1080/13691066.2022.2063092

Taj, S. A. (2016). Application of signalling theory in management research : Addressing major gaps in theory. *European Management Journal*, *34*(4), 338–348. https://doi.org/10.1016/j.emj.2016.02.001

Tennert, J., Lambert, M., & Burghof, H.-P. (2018). Moral Hazard in High-Risk Environments: Optimal Follow-on Investing in Venture Capital Finance. *Venture Capital*, *20*(4), 323–338.

Vaidyanathan, R., Vaidyanathan, V., & Wadhwa, V. (2019). Exploring Entrepreneurs' Perceptions of Venture Capitalists' Added Value. *Journal of Macromarketing*, *39*(4), 447–462. https://doi.org/10.1177/0276146719884610

Vance, H., Management, R. D. F., & Vol, T. (1994). Toward a model of venture capital investment decision making. *Financial Management*, *23*(3), 1–16.

Wang, J. (2018). Inclusion or expulsion: Digital technologies and the new power relations in China's "Internet finance." *Communication and the Public*, *3*(1), 34–45. https://doi.org/10.1177/2057047318755528

Warnick, B. J., Murnieks, C. Y., McMullen, J. S., & Brooks, W. T. (2018). Passion for entrepreneurship or passion for the product? A conjoint analysis of angel and VC decision-making. *Journal of Business Venturing*, *33*(3), 315–332. https://doi.org/10.1016/j.jbusvent.2018.01.002

Whitener, E., Brodt, S., Korsgaard, A., & Werner, J. (1998). Managers as initiators of trust: An exchange relationship framework for understanding managerial trustworthy beh... Cite this paper. *Academy of Management Review*, *23*(3), 513–530.

Xiangping, L. (2018). Research on the effect of entrepreneurial preparedness on resource acquisition - a mediation mechanism based on cognitive legitimacy. *Journal of Marketing and Consumer Research*, *46*, 99–106. www.iiste.org

Yang, H., Shi, H., Wu, Y., Zhang, L., & Xie, S. (2021). Entrepreneurial Passion and Venture Capitalists ' Willingness to Invest : The Role of Relational Capital. *Frontiers in Psychology*, *12*(November). https://doi.org/10.3389/fpsyg.2021.728589

Yasar, B., Martin, T., & Kiessling, T. (2020). An empirical test of signalling theory. *Management Research Review*, *43*(11), 1309–1335. https://doi.org/10.1108/MRR-08-2019-0338

Zacharakis, A., Erikson, T., & George, B. (2010). Conflict between the VC and entrepreneur: The entrepreneur's perspective. *Venture Capital*, *12*(2), 109–126. https://doi.org/10.1080/13691061003771663

9. Appendices

9.1. Appendix 1 – Interview Guide

Interview guide

Please provide a brief professional history of yourself and the venture you run

Initial phase

1. Were you aware of the different types of capital available?
2. How did you decide which VC's to approach for funding?
3. What did you find challenging with regard to initial interactions with the VC?
4. Were you kept abreast of all developments in the process?
5. What sort of due diligence was undertaken on the venture?
6. If you were to advise other entrepreneurs about this phase, what would you say?
7. How similar or different was the initial phase compared to your expectations / knowledge?

Negotiation phase

8. What were your non-negotiable elements?
9. What were the VC's non-negotiable elements?

Post investment

10. Outside of capital, what else did the VC contribute to the venture?
11. What was the most difficult part of working with the VC post investment?
12. What was the easiest part of working with the VC post investment?
13. How often did you communicate with the VC?
14. What did you know and what surprised you about this phase before the relationship?
15. What surprised you about this phase of investment?

Adapted from Glucksman (2020)

Commented [TK1]: Does this refer to the entire interview?

9.2. Appendix 2 - Codes

Importance of data room		Mandate alignment
Put yourself in investor shoes		Value alignment
Preparing helps in getting to know the business even better		Interests alignment
Being part of an accelerator helps		Understanding of early stage businesses
Understanding of ecosystem		Risk aversion
Accelerator investment a signal for investors		Regular communication
Accelerator participation can be local or global		Regular initial communication
Lead investor acting as transaction advisor		Availability
Particular individual		Proactive about first contact
Particular firm in order to attract US investors		Honest communication
Can't get direct feedback so not all positive		Communication and organisation
Doesn't have to be formal advisors, can also be a mentor		Flexibility around internal VC systems
Confirming reputation from other people		Flexibility around use of funds
Also about building relationships		Flexibility around milestones
Supportive capital vs paternalism		Centralised decision making
Attention provided to the business		Being part of a large portfolio can be an incovenience
Onus still on entrepreneur		Paternalism
Data room accessibility		Pushback against confidentiality
DD Process		Scale of value add
Ease of raising capital		Dictating of terms
Effectiveness of screening process		Allowing entrepreneur to run the firm
Exceeding expectations		Expertise availability
Guidance through investment process		Level of interest
Integrity through process		Nature of prior relationship
Length of execution process		Introduction via personal networks
Post decision paperwork ease		Quality of initial feedback
Patience		Further engagement enhances understanding of feedback
Process clarity		Relaxed attitudes
Process timing strictness		VC individual contact alignment
Transparency around criteria		Diversified team
Openness to feedback		Organisational flexibility
		VC individual background
Transparency		Setting relationship principles early
Building trust		Number of board seats
Early building of trust		Some terms may hinder scaling
Focus on the person		Seeking collaborators
Management allowed to operate		Introductions via personal networks
Disbursment milestones can be a benchmark		Referrals within network for advice

Follow on investment investment indicate a good relationship		Scale of value add
Lack of authenticity		Don't set expectations too high
Association post exit		Tried to assist with talent
		Advice about scaling
Understanding entrepreneur language		Reporting frequency
Silicon Valley mentality		Reporting style
		Most difficult part of working
		Trying not to hide information
		Market access
		Different types of support that resulted in a viable product

9.3. Appendix 3 – Informed consent letter

Informed consent letter

I am currently a student at the University of Pretoria's Gordon Institute of Business Science and completing my research in partial fulfilment of an MBA.

I am conducting research on the relationship between entrepreneurs and Venture Capitalists from the perspective of entrepreneurs. Our interview is expected to last about an hour and will help us understand how much entrepreneurs know about the venture capital funding process, and what signs from Venture capitalists help them in making a decision about which venture capital firm to work with.

Your participation is voluntary, and you can withdraw at any time without penalty. All data will be reported without identifiers. If you have any concerns, please contact my supervisor or me. Our details are provided below.

Name of researcher:	Molebogeng Raolane
Student number:	21819140
Researcher email address:	21819140@mygibs.co.za
Signature of researcher:	___________________________
Date:	___________________________
Researcher name:	Dr Thembekile Ntshakala
Email:	thembie.ntshakala@gmail.com
Signature of participant:	___________________________
Date:	___________________________

9.4. Appendix 4 – Ethical clearance

Gordon Institute of Business Science
University of Pretoria

Ethical Clearance Approved

Dear Molebogeng Raolane,

Please be advised that your application for Ethical Clearance has been approved.
You are therefore allowed to continue collecting your data.
We wish you everything of the best for the rest of the project.

Ethical Clearance Form

Kind Regards

This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS Research Admin team.