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WORKING PAPER

Angel investors and entrepreneurs: do they live happily ever after? *

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Abstract

Adopting a multilevel approach, this study is one of the first to look into the factors that influence investors' and entrepreneurs' intentions to voluntarily remain with their businesses. Building on conflict theory, this paper examines how both perceived and latent conflicts (or perceived and actual incompatibilities) between angel investors and entrepreneurs affect their intentions to remain. Further, an assumption implicit to many entrepreneurial finance papers is also tested, namely that entrepreneurs want to outstay their investors. Using data gathered in two locations, the findings confirm this assumption and reveal a significant negative impact of both perceived and latent task conflicts, but not so for relationship conflicts.

Introduction

Over the past decade, researchers, practitioners and policy-makers have increasingly come to recognize the importance of angel investors as the primary early-stage financing source for entrepreneurial companies, among which renowned examples such as Google, Amazon.com and Twitter. Sohl (2005) estimated that 227 000 US angel investors invested $ 23.1 billion in 49 500 companies in 2005, compared to venture capitalists investing only $ 21.7 billion in 2 939 companies (PWC et al., 2006). For both venture capitalists and angel investors, a cooperative working relationship with the entrepreneurs of their respective portfolio companies is of crucial importance to the latter's success (Cable and Shane, 1997; Wijbenga and van Witteloostuijn, 2006). Unfortunately though, previous research has indicated that this particular relationship is rather prone to conflict instead and, as such, cooperation is far from self-evident (Higashide and Birley, 2002; Parhankangas and Landström, 2006; Yitshaki, 2008). Given conflict's omnipresence in the angel investor-entrepreneur relationship, there is an increasing need to understand how conflicts between these two parties affect their relationship.

In this study, I will focus on how conflicts between angel investors and entrepreneurs impact their intent to remain (invested) in the company. Building on conflict theory, I contend that *perceived* task and relationship conflicts between angel investors and entrepreneurs will negatively impact their intention to stay with the company. Extending conflict theory, I also theorize that, in addition to perceived conflicts, *latent* conflicts between angel investors and entrepreneurs will also negatively impact both parties' turnover intentions. In investigating conflict's impact on angel investors' and entrepreneurs' turnover intentions, this paper makes three main contributions, two of which theoretical and one methodological.

First, it adds to conflict theory by joining in on the debate on how to define conflict (Tjosvold, 2007; Mannes, 2008). Over the past decade conflict researchers have generally conceptualized and measured conflict as perceived task-related or interpersonal incompatibilities (Jehn, 1995; Jehn et al., 1997; Jehn and Mannix, 2001; De Dreu and Weingart, 2003). With this paper I propose to broaden this definition of conflict to also incorporate actual incompatibilities, i.e. latent conflicts, which is how conflict was

initially thought of by the very early conflict theorists (Pondy, 1967; Deutsch, 1973). This is more than merely a measurement issue as both aspects of conflict, i.e. perceived and actual incompatibilities, can vary independently and thus should not be considered equivalent. Theorizing conflict to consist of both a perceptual and an actual component provides an alternative lens on why conflict studies over the years have produced so many mixed findings (e.g. Jehn and Bendersky, 2003; De Dreu and Weingart, 2003; De Dreu, 2006) and can reunite researchers debating on whether conflict in teams and organizations should be stimulated or avoided all together (Tjosvold, 2007; De Dreu, 2008). Furthermore, by focusing on intentions to remain, this paper also addresses the call of several conflict researchers to pay more attention to softer, morale-related outcomes instead of harder, performance-related outcomes (Jehn and Bendersky, 2003; De Dreu and Beersma, 2005).

Second, this study contributes to the entrepreneurship literature in a variety of ways. Despite the importance of exit for both investors and entrepreneurs, little is known as to what factors influence their intentions and motivations to voluntarily remain with or leave their businesses (Wincent et al., 2008; DeTienne, 2008). With regard to external investors, previous exit studies have focused on investor preferences with regard to how (e.g. IPO, acquisition, trade sale) and when to exit, determinants of these exit preferences and the role of contracts in the exit decision (see, for instance, Amit et al., 1998; Mason and Harrison, 2002; Cumming and MacIntosh, 2003; Smith, 2005; Hellmann, 2006). None of them have looked into their intentions to exit though, nor approached this decision from a socio-psychological point of view. With regard to entrepreneurial exit, only recently have researchers begun to look into this crucial aspect of the entrepreneurial life cycle (DeTienne and Cardon, 2007; DeTienne, 2008; Wincent et al., 2008). Furthermore, intentions to remain or leave have been shown to be important predictors of actual turnover or exit (O'Reilly et al., 1991; Westerman and Cyr, 2004; Leroy et al., 2007), making this an outcome of vital importance to the entrepreneurship literature. This study is thus among the first to shed more light on what factors and processes drive investors' and entrepreneurs' intentions to remain with their ventures. This paper also contributes to the more narrowly focused entrepreneurial finance literature. First, notwithstanding the importance of cooperation between external investors and entrepreneurs (Cable and Shane, 1997; Wijbenga and van Witteloostuijn, 2006), there is still a lack of

studies looking into the "dark side" of their relationship (Parhankangas and Landström, 2006, p. 775). As such, this paper adds to this literature by hypothesizing that conflicts between these two parties can indeed have a substantial detrimental impact on their partnership and thus cannot be ignored. Second, research on angel financing has not quite yet outgrown its "Cinderella status" (Mason, 2006, p. 3) due to a plethora of studies ungrounded in theory. By adopting a conflict theory lens on the post-investment interaction between angel investors and entrepreneurs, this study thus aims to help reduce this status and shed some more light on how these two parties work together.

Third, by adopting a multi-level perspective to explaining individual-level variation in intent to remain (invested) in the company based on group-level conflict, this paper also has an important methodological contribution. Theory underlying conflicts between team members is mostly focused on the group level (Jehn and Bendersky, 2003; Bezrukova and Jehn, 2008). When linking this to inherent individual-level outcomes such as satisfaction, intent to remain and well-being, conflict researchers up to now have generally adopted either one of two approaches: (1) they aggregate the individual-level data to the group level and hence analyse the relation between, for instance, conflict and group satisfaction (e.g. DeChurch and Marks, 2001; Homan et al., 2007) or (2) they disaggregate group-level conflict data and hence analyse the relation between conflict as perceived by the individual team member and their individual-level satisfaction (e.g. Jehn et al., 1999; Duffy et al., 2000; Guerra et al., 2005). As such, this study firstly contributes to the conflict literature, which so far has largely neglected the inherent multi-level nature of the relationship between conflict and these softer individual-level outcomes (De Dreu and Gelfand, 2007). Secondly, it also adds to the entrepreneurship literature by addressing the call for more multilevel research (Davidsson and Wiklund, 2001; Ireland et al., 2005). Finally, this paper also contributes to the literature on the relationship between external investors and entrepreneurs, which has generally focused on either one side of the equation, i.e. either the investors or the entrepreneurs (e.g. Higashide and Birley, 2002; Parhankangas and Landström, 2006). By gathering quantitative data from both angel investors and entrepreneurs within the same company, this paper can thus provide a more comprehensive view on their conflicts, interactions and relationship in general.

The paper will proceed as follows: first, hypotheses will be developed regarding the impact of perceived and latent conflicts between angel investors and entrepreneurs on their intentions to remain (see figure 1 for the conceptual model). Then I will describe the methodology, present the findings and discuss the results, contributions and limitations.

Angel investors and entrepreneurs as a team

In an average angel-backed company, angel investors and entrepreneurs are dependent on each other in that they make a deal to exchange the angel investor's human, social and financial capital for the opportunity or potential to make financial gains (Prowse, 1998; Yitshaki, 2008). In order for the portfolio company to survive and grow, the entrepreneurs need the angel investor's capital, although the degree to which can differ from company to company (Freear et al., 1994; Berger and Udell, 1998). Similarly, the angel investors, whose degree of active participation in a portfolio company can also vary, need the entrepreneurs to run and manage the company in a way that will maximize their financial gain (Mason, 2006). In other words, both parties have their own particular role to play, but both roles are vitally and equally important to the company's final success and growth. Being interdependent individuals who work together to reach important, mutual goals, angel investors and entrepreneurs are thus teams (De Dreu et al., 1999; Kozlowski and Ilgen, 2006). Although united by the overarching goal of value creation, angel investors and entrepreneurs could have different sub-goals. For instance, entrepreneurs could see their company as a life-long commitment, whereas investors could only want to maximize their short-term returns (DeTienne, 2008; Yitshaki, 2008). This, in turn, will lead to potentially rather divergent views between investors and entrepreneurs as to what the best way to run the company or to allocate resources is (Cable and Shane, 1997). As such, the distinction between angel investors and entrepreneurs forms a natural divide between these two parties. Therefore, when referring to conflict between angel investors and entrepreneurs, one is in fact, *strictu senso*, talking about intersubgroup conflict instead of intragroup conflict (Bezrukova and Jehn, 2008). In what follows, whenever necessary, this distinction in level of analysis is made explicit.

Theory and hypotheses

Differences between angel investors and entrepreneurs in intent to remain

Before delving into the conflict literature, potential differences between angel investors and entrepreneurs in terms of their intention to remain are investigated. Angel investors, like venture capitalists, are generally assumed to want to exit from their portfolio companies at the same time or earlier than the respective entrepreneurs, this as exit represents their main harvesting opportunity (see, for instance, Berger and Udell, 1998; Black and Gilson, 1998; Mason and Harrison, 2002; Schwienbacher, 2008). Research has shown that angel investors, on average, prefer to exit their portfolio companies between 4 to 7 years after the initial investment (Mason and Harrison, 2002; Freear et al., 2002). Similar research on (voluntary) entrepreneurial exits is scarce (DeTienne, 2008), which, in fact, means that there is no real benchmark to compare the investor numbers on preferred time-to-exit to. In other words, although entrepreneurs wanting to outstay their investors represents one of the key assumptions in many entrepreneurial finance papers, no research to date has actually explicitly tested this assumption. Furthermore, counterarguments to this assumption could be made as well. For instance, angel investors, often having been entrepreneurs themselves, are known to be rather patient investors compared to venture capitalists with some not necessarily wanting to exit *at all* (Mason, 2006). Entrepreneurship literature has also often showed that there is no such thing as "the entrepreneur". The various types of entrepreneurs (e.g. life-style, serial, habitual) could all differ in terms of how long they would like to remain in control of their company (e.g. Stewart et al., 1999; Westhead et al., 2005). Adopting the conservative point of view from the entrepreneurial finance literature, I however hypothesize that:

H1: Entrepreneurs will have a higher intent to remain with their company than their angel investors.

Perceived conflict and intent to remain

According to the most recent literature on intragroup conflict, conflict is defined as "*perceived* incompatibilities or discrepant views among the parties involved" (Jehn and Bendersky, 2003, p. 189). Following this view, the impact of two particular types of conflict between angel investors and entrepreneurs is studied, namely relationship conflicts and task conflicts (Jehn, 1995; De Dreu and Weingart, 2003).

Relationship conflicts are defined as "an awareness of interpersonal incompatibilities" between angel investors and entrepreneurs (based on Jehn and Mannix, 2001, p. 238; Bezrukova and Jehn, 2008). This type of conflict is generally seen as dysfunctional, regardless of the outcome studied (De Dreu and Weingart, 2003; Jehn and Bendersky, 2003). For instance, focused on the relationship between venture capitalists and entrepreneurs, Higashide and Birley (2002) showed that relationship conflicts (as perceived by the venture capitalist) negatively affected the perceived performance of their portfolio companies. With regard to more emotional-laden outcomes, relationship conflict's personal nature may cause feelings of anger, stress, anxiety, avoidance, suspicion, cynicism and animosity on both the angel investors' and entrepreneurs' side (Jehn, 1995; Amason, 1996; Pelled, 1996; Jehn and Bendersky, 2003; Bayazit and Mannix, 2003). Further, a substantive amount of literature has shown that individuals do not generally enjoy the experience of personal attacks, criticisms and the along-going bad feelings. As such, relationship conflicts between angel investors and entrepreneurs will lead to a general feeling of dissatisfaction and thus decrease their intention to remain with the company (Jehn, 1995; Jehn et al., 1999; Jehn and Bendersky, 2003; Medina et al., 2005). Or, put differently:

H2: Higher levels of relationship conflicts between angel investors and entrepreneurs will decrease their intent to remain (invested) in the company.

Task conflicts are defined as perceived disagreements or differences in opinion between angel investors and entrepreneurs (within the same company) about the task performed (based on Jehn and Mannix,

2001; Bezrukova and Jehn, 2008). For instance, being key strategic decision agents, angel investors and entrepreneurs can perceive to disagree on what short-term and long-term objectives to set for the company (e.g. what products to develop, what markets to enter and what growth strategy to pursue). While relationship conflicts have consistently produced negative results, the effects of task-related disagreements have been the subject of a lot more debate in the conflict literature (De Dreu and Weingart, 2003). The controversy concerning task conflict though revolves around its impact on performance-related outcomes and not morale-related outcomes (Jehn and Bendersky, 2003; De Dreu, 2006). In other words, regardless of how positive task-related disagreements between angel investors and entrepreneurs might be in terms of their impact on the team/company performance or decision quality/ innovativeness (for instance, Jehn, 1995; Higashide and Birley, 2002; Matsuo, 2006), similar to relationship conflict they will also produce feelings of frustration, discomfort and tension (Ross, 1989; Jehn, 1995; Amason and Schweiger, 1997; Jehn et al., 1997). Hence, perceived task-related disagreements between angel investors and entrepreneurs will also make both parties less satisfied and less inclined to stay in their conflictual partnership. Thus, I hypothesize:

H3: Higher levels of task conflicts between angel investors and entrepreneurs will decrease their intent to remain (invested) in the company.

Latent conflict and intent to remain

As can be deducted from the discussion above, over the years, the definition of intragroup conflict has converged on a conceptualization where the emphasis is on the *perception, experience or awareness* of incompatibilities or frustrations, regardless of whether these relate to objectives, needs or desires (e.g. Thomas, 1992; Jehn, 1995; Janssen et al., 1999; Jehn and Bendersky, 2003; Medina et al., 2005). Although researchers within this stream of the conflict literature are generally firm believers of conflict having both beneficial and detrimental effects (e.g. Jehn, 1995; Pelled, 1996; Bayazit and Mannix, 2003), empirical findings do not always support this view (e.g. De Dreu and Weingart, 2003). In a recent paper, De Dreu even formulated it as follows: "positive functions of conflict are only found under

an exceedingly narrow set of circumstances" (De Dreu, 2008, p.5). In other words, more and more conflict researchers are starting to doubt whether conflict really is something to be stimulated in teams and organizations. Taking a more positive view are the advocates of another stream in the conflict literature, namely the cooperative and competitive goal approach to conflict (see, for instance, Tjosvold, 1998; Chen et al., 2005; Yi-Feng et al., 2008). Based on Deutsch (1973), these researchers state that when team members perceive their goals to be positively or cooperatively linked, conflicts can still be constructive to team effectiveness through increased mutual trust, positive attitudes towards other team members and open-minded debate (Deutsch, 1973; Tjosvold, 1998). Perceptions of competitively or negatively linked goals on the other hands will lead to the opposite. Although both streams adopt a different approach to conflict, they are united by their common focus on perception.

What this conflict literature thus has come to neglect is that *perceived* incompatibilities do not necessarily reflect *actual* incompatibilities, nor will actual incompatibilities necessarily be perceived as such (Deutsch, 1973; Thomas, 1976; Fisher, 1998). While perceived incompatibilities represent overt conflict, actual incompatibilities could be thought of as latent conflict (Pondy, 1967; Schmidt and Kochan, 1972). As opposed to the traditional conflict literature that has emphasized the former and ignored the latter, I propose that a definition of conflict should incorporate both components. Based on a decision-making task with MBA students, Mannes (2008) shows that both dimensions can indeed have a differential impact on performance and as such could provide an answer to the mixed findings conflict studies have produced over the past decade.

As opposed to much organizational behavior literature that is experimental in nature (e.g. Mannes, 2008), the relationship between angel investors and entrepreneurs provides us with an excellent real-life setting of what these actual incompatibilities could include. In the previous section task conflicts between angel investors and entrepreneurs were defined as perceived disagreements between these two parties regarding strategic decisions to be taken (such as what short-term and long-term objectives to set for the company). In other words, angel investors and entrepreneurs will experience task conflicts when both parties *perceive* the other party to have *other* short-term and/or long-term objectives than

themselves. However, these perceptions do not necessarily represent an accurate view of the *actual* incompatibilities in objectives between these two parties. In this context, I contend actual goal incompatibilities between angel investors and entrepreneurs to represent a *latent* form of task conflict. Based on agency theory, the existence of incompatible goals between external investors and entrepreneurs is likely (Sapienza and Gupta, 1994; Cable and Shane, 1997). For example, the entrepreneur might conceive the company as a lifestyle company versus the investor conceiving it as a short-term, high-growth investment. Both parties might try to conceal these actual objectives though, resulting in each operating under their own particular hidden agenda. If this were to be the case, the existence of actual goal incompatibilities between the angel investor and entrepreneur is not necessarily perceived as such. That, however, does not preclude it from having a deleterious effect. Previous research on goal incongruence between exchange partners for instance has associated this phenomenon with several undesirable side-effects. More specifically, it has been theorized to lead to less cooperation, less positive feelings towards the partner (being the investor or entrepreneur) and lower quality of information exchanged (Sapienza and Gupta, 1994; Si and Bruton, 2005; De Clercq and Sapienza, 2006).

In this paper, I thus hypothesize that latent conflict, i.e. the degree of goal incompatibility between angel investors and entrepreneurs, will have a negative effect on both parties' intent to remain with the company. This as actual goal incompatibilities between angel investors and entrepreneurs will increase the likelihood of competitive tactics and will make problem-solving more difficult (Deutsch, 1973; Fisher, 1998; Tjosvold, 1998). In other words, when angel investors and entrepreneurs truly and substantially differ in terms of the objectives they want to achieve, it will be a lot harder for them to find a compromise and forge a cooperative relationship. The hypothesis is thus:

H4: Higher levels of latent conflicts between angel investors and entrepreneurs will decrease their intent to remain (invested) in the company.

Methodology

Data collection

Data for this study were gathered in two locations, namely Continental Europe (Belgium) and USA (California). For the Belgian sample, 20 different data sources were used including a random directory of start-ups, deal lists of BA networks, GEM data, directories of high-technology companies, media articles, incubators and snowballing. This way a list of 305 Belgian potential angel-backed companies was constructed, who were telephoned during the summer of 2007 in order to identify whether or not they fulfilled the conditions of the research. These conditions were (1) at least one angel investor needed to be a member of the Board of Directors or actively involved in strategic decision-making in their portfolio company and (2) the company had to have received angel financing between January 2003 and August 2006. The latter condition was imposed in order to avoid the exit period. This was deemed important as conflict's effects can change as teams are approaching the end of their relationship (Jehn and Mannix, 2001). Further, it is also general practice in venture capital research to avoid recall and survival bias (Higashide and Birley, 2002; De Clercq and Sapienza, 2006). This resulted in 107 (potentially) eligible companies of which 49 agreed to participate and 58 that either did not want to participate (18) or I was unable to contact (40). For the Californian sample, the data sources included Zephyr, VentureXpert, Growthink and the members' or participants' lists from the Angel Capital Association, C21 BioVentures and the California Clean Tech Open competition. This resulted in a list of 1265 Californian potential angel-backed companies. Through e-mails and the use of a YouTube video in which the research project and the above-mentioned conditions were explained, this was reduced to 805 (potentially) eligible companies. Of these 805 companies 43 agreed to participate and 762 either did not want to participate (28) or I was unable to contact (734).

Responses were sought from all entrepreneurial team members and angel investors who had a seat on the Board of Directors or were actively involved in the company. The entrepreneurial team was defined

as those individuals who, at the time of the study, had an equity stake and were actively involved or played a key role in strategic decision making (Ucbasaran et al., 2003; Forbes et al., 2006). The definition used for angel investors was external individual investors who invest some of their own wealth in unlisted companies in exchange for shares and who have no family or friend connection to the entrepreneurs (Mason, 2006). When parties agreed to participate, questionnaires were e-mailed either directly to the team members concerned or, in some cases, through the CEO when angel investors preferred to remain anonymous. When necessary, follow-up phone calls were performed. On the first page of the questionnaire, it was clearly stated who should be considered to belong to the angel investors or the entrepreneurial team. Individuals were then asked to fill in the questionnaire referring to these two definitions. Using a team member response rate criterion of 50% (e.g. Ensley et al., 2002; Mooney et al., 2007) and the condition that at least one response was needed from the angel investor side and one from the entrepreneurs' side, a final sample was obtained of 28 Belgian teams (representing 75 individual responses) and 26 Californian teams (representing 62 individual responses)[‡]. Analyses revealed no substantial differences between early and late respondents regarding the primary variables of interest, indicating that non-response bias should be limited (Armstrong and Overton, 1977).

Hypotheses were tested using hierarchical linear modelling (Raudenbusch and Bryk, 2002). As the number of higher-level units (i.e. teams) was rather small in both locations separately it was deemed desirable to combine them into one larger sample. In order to do so a multigroup confirmatory factor analysis was run to check for measurement invariance (Steenkamp and Baumgartner, 1998; Cheung and Rensvold, 2002). The goodness-of-fit indices suggested by Hu and Bentler (1998) were all above the minimum values (CFI= 0.96, TLI=0.95, SRMR=0.06). As such, this provided support for combining the Belgian and Californian samples into one larger sample, consisting of 54 teams and 137 individuals, of which 72 entrepreneurs and 65 angel investors.

[‡] See appendix 1 for some descriptive statistics on both samples.

Since most of the variables used in the analyses were gathered through the same questionnaire, concerns around common method variance might arise. Several aspects were taken into account in designing the questionnaire as to reduce the risk of this potential bias, e.g. reverse scoring of items, use of variation in wording of items, use of different scaling anchors for the key variables and guaranteeing absolute anonymity to respondents (Lindell and Whitney, 2001; Podsakoff et al., 2003). Further, all variables were measured using scales which had been previously validated and shown to have good psychometric properties (see below). In addition to the design of this study, the Harman's single factor test also suggests common method bias may be limited (Podsakoff and Organ, 1986). Namely, the exploratory factor analysis resulted in a 3-factor solution, with the first factor accounting for only 34% of the total variance (and 31% and 13% for the second and third factor respectively). Finally, in order to account for potential negative affectivity bias the hypothesized models were rerun based on the Belgian sample[§] while controlling for negative affect (Watson et al., 1988; Spector, 2006). This, however, did not change the results. Taken together, this suggests that the risk of common method bias is limited.

Dependent and independent variable measures

Intent to remain was measured at the individual level using two items based on O'Reilly et al. (1991) and Brigham et al. (2007). The questions were "How long do you intend to remain with Venture X?" and "If you have your own way, will you be working for this organization three years from now?". Both questions were slightly adapted for the angel investors (for the first item "remain *invested* in" was added and "working for this organization" in the second item was changed into "still be a shareholder"). The two items were measured on a 7-point scale ranging from less than 1 year to more than 5 years for the first item and from definitely yes to definitely no for the second item. The second item was reverse scored such that higher scores indicated a higher intent to remain. For the final score the two items were averaged. The mean value across all respondents was 5.35 (st.dev. 1.50), indicating a negative skew (for further details see section on robustness checks). The Cronbach's alpha value was satisfactory (0.74).

[§] The scale for negative affect was only included in the questionnaire sent to the Belgian companies due to space restrictions in the U.S. questionnaire.

Both perceived conflict variables, *task conflict* and *relationship conflict*, were measured using three items for each. I used the revised version by Pearson et al. (2002) of Jehn's intragroup conflict scale (Jehn, 1995), adapted to the intersubgroup level (Bezrukova and Jehn, 2008). On a scale from 1 (= none) to 5 (= a great deal), respondents were asked to rate how many disagreements concerning task-related issues and how much personal friction and tension there had been between the angel investors and the entrepreneurs (see appendix 2 for specific items used). The mean value for task conflict was 2.24 (st.dev. 0.72) and 1.80 (st.dev. 0.89) for relationship conflict. Both Cronbach's alpha values indicated excellent reliability (0.92 and 0.93 respectively). In order to check whether aggregation to the team level was appropriate, the intraclass correlation coefficient (ICC) and within-group agreement index were calculated (James et al., 1984; Klein and Kozlowski, 2000). Both ICCs are significant ($p < 0.001$) and the median $R_{wg(J)}$ values for both constructs exceed the 0.7 threshold (0.94 for both task and relationship conflict), which thus justifies aggregation.[**]

Latent conflict was measured as the degree of goal incongruence based on Sapienza and Gupta (1994). First, respondents were asked to allocate 200 points across 11 objectives (6 financial and 5 non-financial criteria) and this according to their individual perception of each of these criteria's importance to the achievement of the short-term financial goals of Venture X. Second, they were asked how much emphasis should be given to financial and non-financial goals respectively (percentage). For each criterion a weighted score was then calculated. Illustration: new product development (NPD) is a non-financial criterion. Assume the respondent allocated 20 out of 100 non-financial points to this criterion and, in general, thinks that non-financial goals should be given 80% emphasis, then the weighted score for NPD would equal 20x0.80. Sapienza and Gupta (1994) then proceed by calculating the absolute differences between the weighted scores of the venture capitalist and the CEO and then summing these differences across criteria. As, in this study, the focus is on the degree of goal incongruence between angel investors and entrepreneurs, one step was added. First, the average of the weighted scores per

[**] Median $R_{wg(J)}$ values were also calculated based on a triangular and moderately skewed distribution instead of the generally used uniform null distribution (LeBreton and Senter, 2008). These values also all exceeded the 0.7 threshold, thus confirming adequate within-group agreement for aggregation.

criterion was calculated for the two subgroups (i.e. angel investors and the entrepreneurs) separately. Only then I proceed in the same way as Sapienza and Gupta (1994), i.e. taking the absolute differences of the average weighted scores of the angel investors and entrepreneurs within the same company and summing them across criteria. The mean value was 76.57 (st.dev. 26.29). As a point of comparison, the average degree of goal incongruence between VCs and CEOs in the study by Sapienza and Gupta (1994) was somewhat higher, i.e. 93.92 (st.dev. 31.61).

Finally, in order to test hypothesis 1, a dummy variable was created representing whether the individuals were angel investors (value 0) or entrepreneurs (value 1).

Control variable measures

Based on relevant turnover literature, controls were added for *age* and *tenure* of the respondent at the time of data collection (Jehn, 1995; Bayazit and Mannix, 2003; Giebels and Janssen, 2005). Tenure was deemed especially relevant as this could also be seen as a measure for time since investment for the angel investors. Finally, I also controlled for *perceived performance* (range 1-5) based on the measure used in several venture capital studies (Sapienza and Gupta, 1994; Higashide and Birley, 2002). I believe it was necessary to control for this variable as it has often been suggested to positively influence the nature of the relationship between external investors and entrepreneurs as well as the former's intention to keep on investing in the company (e.g. De Clercq and Sapienza, 2006). In a more general form, Bayazit and Mannix (2003) also showed that perceived team performance positively affects team members' intent to remain. All control variables were measured at the individual level.

Results

Table 1 provides an overview of the means, standard deviations and correlations between the individual-level and team-level variables. I find significant, negative correlations between intent to remain and all conflict constructs, both perceived and latent, which provides some preliminary evidence in support of

the hypotheses. Further, in tradition with previous conflict studies, the correlation between task and relationship conflict is very high (.85) and significant. Variance inflation factors suggest though that the threat of multicollinearity is limited (VIF of 3.4 for both perceived conflict constructs). Finally, correlations between both perceived conflict constructs and latent conflict are trivial, corroborating that these are indeed distinct concepts.

As this study combines data from two levels, i.e. individuals nested within teams/companies, hypotheses were tested using hierarchical linear modeling (HLM) (Raudenbusch and Bryk, 2002). Applying standard OLS regression to multilevel data is inappropriate as it does not take into account the non-independence of observations, resulting in misestimated standard errors and increased type I and type II errors (Raudenbusch and Bryk, 2002; Bliese and Hanges, 2004). As a first step it is generally advised to run a fully unconditional model (i.e. without any predictors) to check whether there is significant between-group variance in the outcome of interest and thus whether multilevel modeling is useful. Running this null model on intent to remain indicates that there is indeed significant between-group variation in intent to remain (τ_{00} = .85, χ^2 (53) = 132.83, $p < .001$). More particularly, 63% of the variation in intent to remain seems to be between individuals, while 37% of the variation is between teams. The hypotheses are tested following the standard process used for HLM, i.e. first build and test the lower-level unit or individual model and only then proceed to testing the higher-level unit or team model. In this study, this corresponds with first analyzing the model including the control variables, which are all at the individual level (model 1). Then, hypothesis 1 is tested by adding the angel investor/entrepreneur dummy to the individual-level model (model 2). Finally, all other hypotheses are tested by modeling the intercept (model 3). The results for all models are shown in Table 2.

The results for model 1, the control model, reveal the highly significant, positive impact of perceived performance[††]. The higher angel investors and entrepreneurs perceive the performance of their (portfolio) company, the longer they intend to remain with that company. Not only does this effect

[††] As a robustness check, a model was also run including a quadratic term, but this was insignificant. However, we acknowledge that this could be due to small sample size, thus inhibiting us to uncover a potential curvilinear effect for perceived performance.

remain highly significant throughout all models analyzed, it is also the strongest effect of all variables considered. Together the three control variables (perceived performance, age and tenure) explain 16% of the between-individual variance in intent to remain. Model 2 indicates clear support for hypothesis 1, in that entrepreneurs do indeed intend to stay longer with their companies than their respective angel investors. Although it does not explain much incremental variance in intent to remain (2.32%), its impact remains significant throughout all models. I then turn to testing the group-level effects (model 3). Perceived relationship conflicts (H2) and task conflicts (H3) between angel investors and entrepreneurs were hypothesized to have a significant negative impact on their intent to remain above and beyond the impact of the individual-level variables. While hypothesis 3 is clearly supported, hypothesis 2 is not. This is quite surprising given that previous conflict studies have generally either confirmed both effects on morale-related outcomes (e.g. Jehn, 1995) or at least relationship conflict's negative effect (e.g. Bayazit and Mannix, 2003). In this study though, relationship conflicts are not only less important in terms of their impact on intent to remain compared to task conflicts, but they are actually *un*important all together. Further, latent conflicts between angel investors and entrepreneurs, measured by degree of goal incongruence, were predicted to have a negative impact on their intention to remain (H4). Model 3 indicates significant support for this hypothesis. Adding these three team-level predictors to the control model explains 22% of the level-2 variance in intent to remain. In other words, of all the variation between angel-backed teams or companies in terms of their average intention to remain, 22% is explained by the degree of conflict, both perceived and latent, between the angel investors and entrepreneurs.

Several additional analyses were performed to check the robustness of these results (numbers not shown in tables). First, in order to control for potential differences in conflict dynamics across countries, the models were rerun controlling for location (Belgium or California) by including a dummy variable in the level 2 model. Not only was this variable insignificant, it also did not improve the fit of the model (as illustrated by a slightly higher level-2 residual variance) nor did it change the above-mentioned results. Second, the models were also rerun including more traditional control variables such as team size, company age, industry and investment stage. There were no substantial changes in the

hypothesized relations, nor did any of these control variables have a significant impact. Adding these variables, however, did increase the residual team-level variance, indicating a worse model fit. Third, two individuals had extreme values with regard to their tenure (12 and 15 years respectively), so analyses were redone without the two companies these individuals belonged to. Results remained the same. Fourth, as mentioned in the measures section, intent to remain is a highly skewed variable. Therefore it was deemed appropriate to also run the models on a transformed, i.e. squared, version of the intent to remain variable. Again this did not alter the results and, moreover, this version of the model did not fulfill the level 1 homogeneity of variance-assumption. Fifth, considering the rather high correlation between task and relationship conflict, the final model was also run without relationship conflict. Although this resulted in a somewhat lower level-2 residual variance, it did not significantly alter the results. Sixth, in order to rule out a potential mediation effect for perceived performance, two additional models were run: one with all variables discussed above, but without perceived performance and one regressing perceived performance on the conflict variables (separately). The perceived performance models show a significant, negative effect for both perceived task and relationship conflict, but not for latent conflict. When running model 3 without perceived performance as a control variable, the same results are found, i.e. a significant, negative effect for perceived and latent task conflict, but not for relationship conflict. As adding perceived performance to this model does not change the significance levels of perceived task conflict, mediation does not provide an alternative explanation for our findings. Finally, in order to shed some light on the rather untraditional results for the perceived conflict variables, a model was also built for individual-level satisfaction as this is traditionally strongly correlated with intent to remain (which is confirmed in this study: $r = .27$, $p < .001$). When running the satisfaction model, results were in line with what conflict literature predicts. Namely, relationship conflicts between angel investors and entrepreneurs had a significant negative impact on their individual-level satisfaction ($p < .001$), while task conflicts did not. Conflict theorists have generally classified intention to remain and satisfaction under the label “morale-related outcomes” and hence treated them as equivalents. The results in this study though would seem to indicate that while satisfaction of angel investors and entrepreneurs does fit this traditional box, intention to remain does not. The implications of this difference will be further elaborated upon in the discussion section.

Discussion

The goal of this paper is to study the impact of conflicts between angel investors and entrepreneurs on both parties' intent to remain with their respective (portfolio) companies. Based on conflict theory, both *perceived* task and relationship conflicts between these parties were hypothesized to have a negative impact on their intentions to stay. Further, I also hypothesized *latent* or objective task conflicts between angel investors and entrepreneurs to negatively impact their intent to remain. The findings reveal a significant, negative effect of perceived and latent task conflict on the angel investor's and entrepreneur's intent to remain, but they do not confirm the hypothesized effect for perceived relationship conflict. This study also confirmed the assumption implicit to many entrepreneurial finance papers that, all else constant, entrepreneurs want to remain with their companies longer than their angel investors. As such this paper has several contributions.

First, this study contributes to the conflict literature by broadening the definition of conflict to incorporate both a perceptual and actual component. Regardless of the specific approach taken, conflict studies over the past 20 years have been united by their common focus on perceptions or awareness (Thomas, 1992; Jehn, 1995; Pelled, 1996; Tjosvold, 1998; Chen et al., 2005; Mooney et al., 2007). Perceived incompatibilities however do not necessarily reflect actual ones, nor are actual incompatibilities necessarily perceived as such. This paper responds to this neglect of actual incompatibilities or latent conflict, as it was labeled by early conflict theorists (such as Deutsch, 1973; Thomas, 1976). The findings of this study support the view that latent conflicts, through increased competition between conflicting parties and a lack of problem-solving, result in lower intentions to remain. As such, it should be considered equally important as perceived conflicts in that both have a significant, separate and unique impact on team members' morale. Distinguishing between perceived and latent conflicts could prove especially useful for those conflict studies which have been the subject of most debate, namely those focusing on its effect on performance-related outcomes. Considering both concepts quite clearly capture different aspects of the conflict process, both could also have a

differential impact on task performance and innovation (see, for instance, Mannes, 2008). The lack of conformity in the definition, conceptualization and measurement of conflict may have proven to be the perfect breeding ground for the mixed findings that conflict studies have produced over the past few years. Incorporating both objective and subjective differences of opinion into future research should allow us to gain a better insight into the complex relationship between conflict and team effectiveness.

Second, this study also contributes to the conflict literature by shedding more light on how perceived conflict impacts intent to remain. The results provide support for perceived task conflict's negative effect on intent to remain, due to associated feelings of stress, tension and discomfort, but not so for perceived relationship conflict. When the same model was run for individual-level satisfaction, the opposite results (i.e. a significant, negative effect for perceived relationship conflict and an insignificant effect for perceived task conflict) were found. This could point to an assumption implicit to previous conflict studies on morale-related outcomes, namely that these outcomes are mainly emotion-driven. More specifically, when both satisfaction and intention to remain are conceptualized as affective-based outcomes, it is not surprising that relationship conflict, given its rather personal nature, would have a stronger impact than task conflicts (see for instance, Bayazit and Mannix, 2003). The results of this study though would seem to indicate that, in this particular setting, treating both outcomes as purely morale-related is not warranted. The absence of a significant effect for relationship conflict combined with the presence of a significant effect for both actual and perceived goal incompatibilities would seem to indicate that deciding whether or not to remain with their ventures is more of a business decision for investors and entrepreneurs, rather than an emotional one. Having highly divergent goals and perceiving to have highly divergent goals and opinions will reduce the probability of forging a successful business partnership with each other (e.g. Si and Bruton, 2005). Although interpersonal similarities are preferred to differences, even in a partnership between investors and entrepreneurs (see for instance Franke et al., 2006), these potential differences are easier to overcome and do not have such a direct impact on the partnership, the business and how it is being run compared to differences in goals and opinions, both actual and/or perceived. Therefore, the likelihood of angel investors and entrepreneurs desiring to stay with their companies should be much higher in a situation where both angel investors and entrepreneurs

have highly aligned goals (both perceived and actual) but firmly dislike each other compared to a situation where both parties like each other but have a completely different view on the goals to set and strategic decisions to be taken. The significant positive effect for perceived performance would further seem to substantiate viewing intention to remain as more business- than emotion-driven.

Finally, this paper also contributes to the entrepreneurship literature. Despite the importance of exit, both to entrepreneurs and external investors, little to none is known about what factors drive their intentions and decisions to remain with or leave their ventures. By supporting conflict's effects on intention to remain this study is one of the very first studies to apply and confirm the importance of a socio-psychological perspective to investors' and entrepreneurs' decision to remain with a company. Furthermore, it also confirms that conflicts between external investors and entrepreneurs can indeed have a detrimental impact on their partnership and, as such, should not be ignored. Second, many entrepreneurial finance papers, both on venture capitalists and angel investors, implicitly assume that external investors want to exit at the same time or earlier than the respective entrepreneurs. This study confirms this previously untested key assumption, which is especially relevant for angel investors who are not always considered as professional and rational as venture capitalists. Considering this assumption holds for angel investors, it will probably also hold for their more professional and formal venture capital counterparts.

Limitations, future research and implications

This study is not without its limitations. First, all data were self-report data, which might give raise to concerns regarding common method variance. However, I believe that the several precautions taken in the design of the questionnaire, statistical tests conducted afterwards, the fact that there were several insignificant correlations in the study as well as the different resulting models for satisfaction and intent to remain all increase the probability that the results were not distorted. Second, considering the data were cross-sectional, caution is advised in drawing causal inferences. Some might argue that low intentions to remain, regardless the underlying motivation, could distort respondents' perceptions of

conflict. In other words, as some kind of self-fulfilling prophecy, entrepreneurs and investors could make themselves *think* there is a lot of conflict *because* they want to leave and as such justify this decision or motivation to themselves. Although I cannot completely rule it out, I do believe its impact should be limited given the firm theory used to formulate hypotheses. Furthermore, reverse causality could not provide an adequate explanation for the results on latent conflict. Third, data were collected in two geographic locations (California and Belgium) and pooled based on the results from the multigroup CFA. An argument could be made that differences in degree of development of their respective risk capital markets could have an impact on the degree of professionalization of investors and entrepreneurs and hence on the intragroup dynamics that are at play in this relationship. Although the USA and Western-European countries are both known to have rather individualistic cultures, it would be interesting to see whether there are cross-cultural differences in conflict's impact in the angel investor-entrepreneur relationship. This was however beyond the scope of this paper.

Based on the results and limitations of the study, there are several avenues for future research. First, in order to build further support of the importance of distinguishing between perceived and latent conflicts, it would be interesting to see how latent conflicts between angel investors and entrepreneurs impact their performance, creativity and innovativeness. Second, considering the focus on conflict, this paper only serves as a first step to gather more insights into the underlying motivations and reasons as to when and why investors and entrepreneurs decide to exit their business. Considering the importance of this topic though, it definitely warrants further research. Third, it would also be valuable to extend this study by gathering follow-up actual turnover data. Not only would this help to relieve concerns regarding self-report data and reverse causality, it would also serve to see whether entrepreneur and investor intentions serve as a good proxy for their actual behaviour. Fourth, angel investors and venture capitalists not only have many similarities, but also many differences. Therefore it would be interesting to see to what extent the findings of this study apply to the venture capitalist-entrepreneur relationship. Furthermore, as, to my knowledge, this represents the first study looking into latent conflict's impact on individual-level outcomes, it would also be interesting to see to what extent these findings could be generalized to other, more traditional teams.

Finally, this paper also has several practical implications. First, these findings suggest that both entrepreneurs and angel investors should pay careful attention to conflicts that might arise between them. Although personal criticisms will affect both parties' satisfaction, it will not necessarily affect their intention to remain. More important in this regard is when the objectives, both actual and perceived, of the angel investors and entrepreneurs diverge too much as this might result in the exit of one or both parties, which, if prematurely, is less than desirable for both. Hence, this paper suggests that careful goal alignment between entrepreneurs and angel investors should be a top priority from the very start of their partnership, i.e. even in their selection process of the optimal entrepreneur/investor. Having highly aligned goals from the very start will substantially increase the chances of a subsequent cooperative and harmonious relationship between these two parties.

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Tables and figures

Variables	Mean	s.d.	1	2	3	4	5	6
1. Age	46.58	10.09	-					
2. Tenure	2.98	2.06	.52**	-				
3. Perceived Performance	3.07	0.77	.08	-.04	-			
4. Task conflict	2.24	0.72	-.10	-.10	-.21*	-		
5. Relationship conflict	1.80	0.89	-.04	-.08	-.24**	.85**	-	
6. Latent conflict	76.58	26.29	-.01	-.04	-.12	-.01	.06	-
7. Intent to remain	5.35	1.50	.04	.04	.40**	-.28**	-.26**	-.26**

Table 1: Descriptive statistics and correlations[a]

* p < .05; ** p < .01

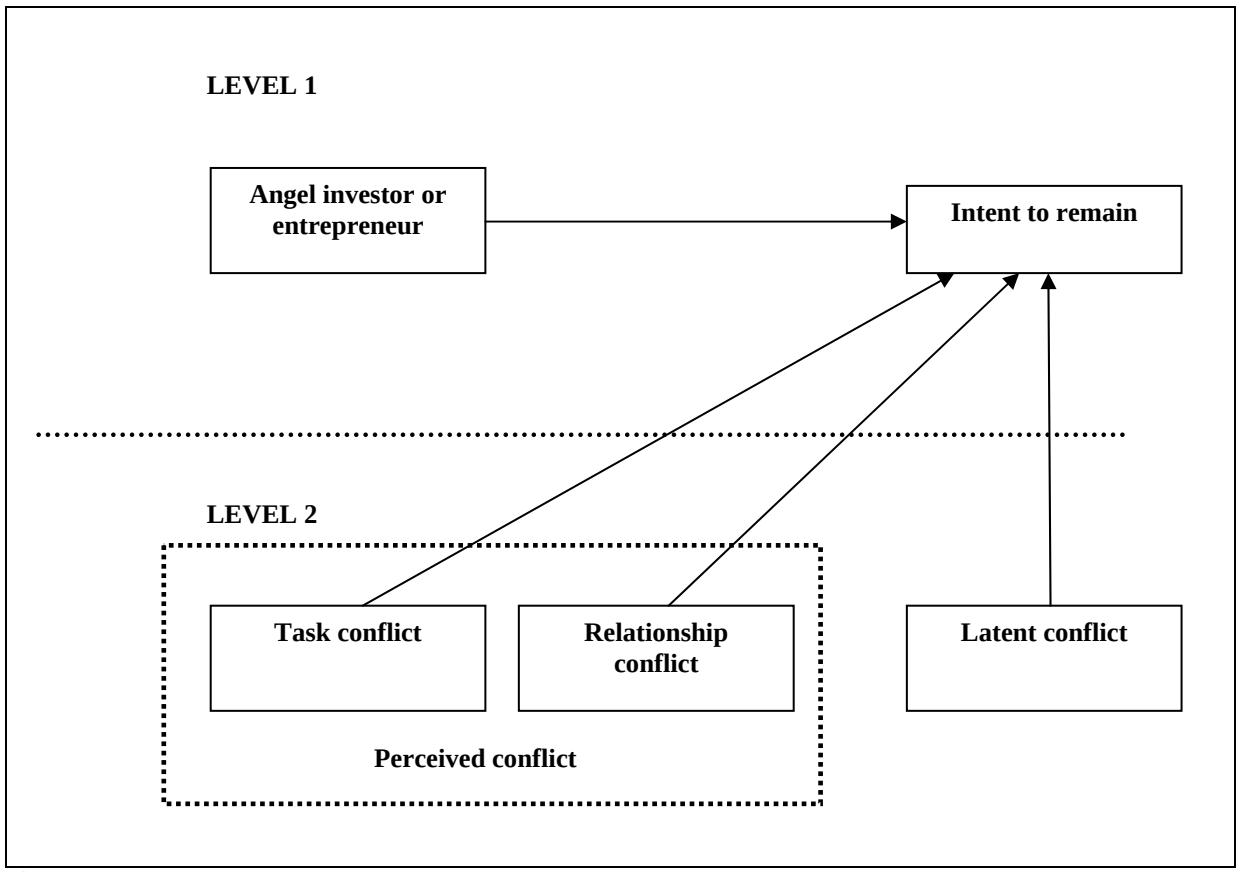
[a] Note: N = 137. Although the correlations between the group- and individual-level variables were calculated using N=137, the group-level scores were assigned down to the individuals within those groups. Thus, the effective sample size for task conflict, relationship conflict and latent conflict is 54.

Variables	Model 1	Model 2	Model 3
Individual Level			
Age (γ_{10})	-.03**	-.01	-.02
Tenure (γ_{20})	.05†	-.00	-.01
Perceived Performance (γ_{30})	.73***	.76***	.68***
Investor/entrepreneur (γ_{40})		.54*	.52*
Team Level			
Task conflict (γ_{01})			-.51*
Relationship conflict (γ_{02})			.12
Latent conflict (γ_{03})			-.01**
R^2	0.16[b]	0.19[b]	0.22[c]

Table 2: Hierarchical Linear Modeling results – fixed effects with robust standard errors[a]

† < .10; * p < .05; ** p < .01; *** p < .001 (one-tailed tests for hypothesized effects)
[a]Level 1, N = 137 individuals; Level 2, N = 54 companies
[b]R^2 = proportion of within-group variance explained by level 1 predictors (Raudenbusch and Bryk, 2002)
[c]R^2 = proportion of between-group variance explained by level 2 predictor(s)

Figure 1: Conceptual model [a]



[a]Level 1 refers to the individual level, level 2 to the team level (i.e. angel investors and entrepreneurs together).

Appendix A: Descriptives for Belgian and Californian teams in the sample

Variables	Belgium	California
Team size	3.46	3.77
Age company	5.36	3.38
Early stage investment**	0.57	0.88
Age respondent**	44.35	49.29
Education respondent (No. years)	6.13	6.87
Entrepreneurial experience respondent No. years)	8.54	11.05

** Mann-Whitney test, $p < .01$

Appendix B: Items for task and relationship conflict

Task conflict

a. How many disagreements over different ideas have there been between the entrepreneurial team and the angel investor(s)?
b. How many differences about the content of decisions have the angel investor(s) and the entrepreneurial team had to work through?
c. How many differences of opinion have there been between the angel investor(s) and the entrepreneurial team?

Relationship conflict

a. How much tension has there been between the angel investor(s) and the entrepreneurial team during decisions?
b. How much personal friction has there been between the angel investor(s) and the entrepreneurial team during decisions?
c. How much anger has there been between the angel investor(s) and the entrepreneurial team?