Investor on board: Needs and expectations of early-stage high-tech start-ups in Berlin

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ABSTRACT

Purpose – During the last decades, venture capital has become one of the main sources to finance start-ups. However, one can still often notice that the resulting relationship between investor and start-up does not satisfy either of the parties. This can partly be attributed to investors not knowing all about the upfront expectations and needs of start-ups. Therefore, the purpose of this research is to increase the investor's awareness of these factors to enhance the matching process and enable more effective cooperation.

Design/methodology – The required data was retrieved through surveys, which were completed by 35 entrepreneurs from Berlin. First, the respondents were separated into two focus groups. The first group consisted of entrepreneurs from start-ups, which were not financed but looking for an investor. The other group was composed of entrepreneurs, whose firms had already been financed. These respondents were asked to answer the survey under the assumption that they could search their first investor again with their current knowledge and expertise. Thereby, it could be analyzed to what extent the financing process has influence on the entrepreneur's perception and compare the perceived needs between already financed and not-financed start-ups.

Findings – The analysis of the data revealed that the majority of the start-ups in the Berlin eco-system require access to an investor's network in addition to the capital. By comparing the two focus groups, it is shown that this applies to both. Furthermore, most entrepreneurs would select an investor based on the ability to engage in activities, which bring additional value to the start-up. Finally, the majority expects an investor to take a networking role and linking the entrepreneur with important stakeholders and further business contacts.

Originality/value – The uniqueness of this research refers to the consideration of start-up needs in addition to the required capital and the corresponding expectation of an investor. Prior researchers have already extensively discussed which factors enable a venture capital investor to select a promising start-up, but yet only little is known about the specific needs and corresponding expectations of start-ups.

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Keywords
Venture Capital, matching process, entrepreneur expectations, funding success, Berlin start-ups, young venture needs

7th IBA Bachelor Thesis Conference, July 1st, 2016, Enschede, The Netherlands.

1. INTRODUCTION

Over the years, venture capital has become a major source for the funding of start-up firms. Herein after the term start-up firms will be used interchangeably with entrepreneurial firms. Often, one can notice that entrepreneurial firms are rather un-experienced and have an innovative character, which triggers "a substantial risk of failure" (Bergeman and Hege, 1998, p.704). Due to this incorporated uncertainty, venture capital is the primarily available source of financing for start-ups, since the majority of funding providers are not willing to take the risk, whereas venture capital investors tend to participate "actively in the management of their investees" (Geronikolaou, 2016, p.2) to assist during emerging challenges. By comparing this to a common bank loan, which might be difficult to obtain due to the risk and the lack of collaterals being involved with a recently formed company, Venture Capital shapes up as an appropriate alternative, since "VC firms devote significant management resources to understanding new technologies and markets, finding promising startups in those spaces, providing them with financial resources, and coaching them through the early part of their lives" (Davila et al., 2003, p.691). Additionally, banks tend to not favor financing start-ups due to asymmetric information without any financial intermediaries providing further insight about the venture. Above all, the reservation concerning funding start-ups can be associated with national regulations restricting the possible amount of interest to charge in addition to the international regulatory framework Basel 3 from 2013 to increase bank's liquidity. "Thus bankers will only finance a new business to the extent that there are hard assets against which to secure debt" (Zider, 1998, p.132) and most start-ups possess only few of those collaterals.

1.1 Current Situation

One of the major European cities, where young entrepreneurial firms with no other funding options can often access the required funding through Venture Capital is the German capital Berlin. During the last decade, Berlin has gained considerable importance with reference to venture capital and start-ups. According to the Institute for Strategy Development (IFSE), a start-up is founded "every 20 hours" (Wöbken, 2016, p.5) in the German capital. Furthermore, Forbes Magazine states that Berlin is such an attractive region for young entrepreneurs due to its "relatively" cheap office space and affordable lifestyle" (Galer, 2015) in connection with an international population and close-by universities and research institutions. A McKinsey study in 2010 illustrated that Berlin could therefore "become Europe's start-up hub" (2013) and gaining 100.000 additional jobs by 2020. A study by Ernst & Young (Pruever and Selter, 2015) discovered that the funding volumes for start-ups in Berlin amounted to EUR 1.97bn in 2014, out of EUR 2.924bn in whole Germany. To further emphasize the influence, the study showed that 20 of the 30 Top German start-ups "based on total funding value in September 2015 before exit or IPO" (p.9) were located in Berlin. Finally, the study found "an increasing number of incubator and accelerator programs" (p.13) participating in the venture capital market and will therefore be considered in this research.

1.2 Problem Statement

However, previous research by Sahlman (1990) indicates that the cooperation between entrepreneurs and Venture Capitalists does not always flow smoothly. Hence, it is not seldom that conflicts arise. According to Sapienza and Amson (1993), conflicts especially occur in the context of start-ups with technological and innovative background. Additionally, Knockaert and Vanacker (2011) found that VC's are more involved in activities with early stage high tech start-ups than low-tech entrepreneurial firms in later stages. Therefore, it is assumed that the higher degree of involvement will lead to more conflicts in relationship between investors and early-stage high-tech start-ups.

Cumming and Dai (2013), discovered proof with their research for the assumption of occurring conflicts between venture capitalists and entrepreneurs by the fact that "23% of the follow-on rounds of financing have lead VCs that are different from those of previous rounds" (p.1000). They explain this with the information asymmetry being associated with the matching process between entrepreneurs and investors. Although this percentage points out that there is still a significant amount involved and some investors might finance on purpose only the first round, it shows that there can be a mismatch between entrepreneur and investor. This mismatch is highly relevant for the assumption that first round investors should also be involved in later rounds to constantly support their investees over a longer period.

Zacharakis and Shepherd (2001) deliver insight about resons for this mismatch causing conflicts by stating that investor are overconfident in their assessment of startups and "may not fully consider all relevant information, nor search for additional information to improve their decision. To neglect this additional information and don't realize the entrepreneurial firm's capabilities could be a reason why startups often not "meet the high expectations of their VC investors" (Streletzki and Schulte, p.29, 2013). In their additional research, Zacharakis and Shepherd propose therefore "more emphasis should be placed on making adjustments accommodate the needs of the entrepreneur" (2001, p.143) with regard to the matching process. Building on this statement, it can be determined that the overarching problem lies within the matching process and investors not being aware of the upfront expectations and needs of start-ups.

1.3 Research Goal

To counteract this problem of misaligned goals and expectations, this research aims to examine what start-ups need and expect to receive from their investors. Due to the above-mentioned features, only start-ups, which can be labeled as high-tech and are situated in the early-stage will be comprised for this research. The focus will be placed on two types of start-up groups. On the one hand, the first group consists of start-ups, which did not receive financing of VC's so far, but are looking for it. On the other hand, start-ups, which have been funded yet and are working with a venture capital firm or corporate incubator will be examined. However, this group will be asked to assess the questionnaire by hypothesizing that they could select their first investor again with their current possession of experience about the relationship with an investor. This enables to examine the extent to which the perception of needs and expectations differ between entrepreneurs, who have no experience with funding and those who already have.

On the basis of these findings, generalizable recommendations for Venture Capitalists can be created to enhance the relationship with entrepreneurs, since the upfront expectations are better communicated. Considering that VC's increase their awareness with reference to the start-up's requirements and needs, it can be expected that prospective matching processes will be improved. On top of that, it can be assumed that the efficiency of the emerging relationships will be enhanced.

Nevertheless, one has to keep in mind that it is rather difficult to construct recommendations and general guidelines, which are suitable for each start-up due to different regional, cultural as well as industrial backgrounds. This is the reason for setting a territorial focus on the region of the German capital and only considering start-ups from the high-tech sector. This is due to the fact, that the amount of high-tech start-ups is constantly growing and gaining international importance. Further research by Ernst & Young highlighted that Berlin "now threatens to unseat London as the epicenter of the European tech start-ups" (2015, p.4). The importance of Berlin as an eco-system for start-ups is further backed by the fact that the "German Tech Entrepreneurship Center" (GTEC) has been founded in Berlin in 2015.

1.4 Research Question

The corresponding research question to this goal is: "Which needs and expectations have early-stage high-tech start-ups of their investors in the Berlin eco-system?"

The two expressions "expectations" and "needs" refer to a given necessity for the start-up. In terms of venture capital, this need is, certainly, about receiving the required funds. However, these needs can also refer to an investor's advice, extended network or even further resources. Corporate incubators are predestinated to provide start-ups with access to their resources as well as other start-ups and contacts within the networks. Nevertheless, several venture capital firms also claim to offer similar features to start-ups. Therefore, it will be expected that there is no difference between the requirements and needs of the considered startups regardless of their choice for a venture capital firm or a corporate incubator.

1.5 Academic Significance

By answering this research question, farther understanding will be gained pertaining to the matching process and relationship between entrepreneurial firms and start-ups. So far, academic literature suggests, "the cooperative relationship between a VC and an entrepreneur is more important to the success of the business than the capital itself" (Zacharakis et al., 2010). Dijk et al. (2014) define a successful relationship as "one that promotes low-cost exchanges of information and contributes to a venture's efficiency, productivity, and effectiveness". However, there has been considerable research conducted with reference to the investor's perspective with recommendations on how to select a promising venture and build a positive relationship. Yet, there is only little known about the reasons for a start-up to opt a venture capital firm or a corporate incubator and how investors can enhance and contribute to such an efficient relationship. By gaining valuable insight into the causes for start-ups to choose a specific venture capital firm, investors will receive recommendations on how to respond to the start-ups needs. Finally, the research delivers deeper understanding for VC's, entrepreneurs, local governments as well as people in general participating in the matching process of start-ups and investors.

2. LITERATURE REVIEW

The following discussion of already existing academic literature will be structures as follows: First of all, a general overview will be delivered to emphasize the actors and concepts being involved in venture capital. The overview will be complemented with the major theoretical concepts to answer the research question. These refer to expectations and needs, as well as value-added services in the scope of venture capital. Based on the overview and theoretical concepts, it is shown that the two main parties entering a relationship in venture capital are start-ups and investors. The investors will be distinguished into venture capital firms and corporate incubators, since these are the two types of investors being considered for the research. Due to the fact that the research question only focuses on early-stage high-tech start-ups, the corresponding two characteristics of start-ups to further clarify then are "high-tech" and "early-stage".

2.1 Venture Capital

As stated by Sahlman (1990), Venture Capital is in general a "professionally managed pool of capital that is invested in equity-linked securities of private ventures at various stages in their development"(p.473). The necessity for receiving capital differs between the individual cases of a start-up and can vary covering research & development costs, productions costs or even marketing and sales activities to enter a market and ensure further growth of the company. This investment however is not intended to remain for the long-term in the entrepreneurial firm. When the start-up reaches a given size and attracts bigger companies for acquisitions or even can go public, the investors intend to achieve a profit through exit and changing their securities for funds to be then reinvested into the pool.

According to Tyebjee and Bruno (1984), start-ups possess several different kinds of characteristics, which make cooperating risky for an investor. First of all, there are not data available about past performance of the company. Additionally, the scope of operational activities is rather small compared to already matured companies. As a following aspect, start-ups have limited knowledge and networks to reach supply and distribution markets. On top of that, they often developed an innovative or new technology, which success is in the future is almost impossible to predict.

2.2 Theoretical Concepts

2.2.1 Needs and Expectations of start-ups

As already alluded to previously, the needs of a start-up, respectively the entrepreneur amount to receiving additional financing for allowing the company to grow. Nevertheless, it is often the case that an entrepreneur possesses little or no experience at all about managing and leading a company. Due to that it can be said that an entrepreneur has sometimes further needs in addition to the required capital. These can be either the necessity for active support and the investor's engagement in the operative business procedures or access to the investor's resources, which could be not reached otherwise. According to Hall (1992), Ho and Williams (2003) and Chen et al. (2005), the complying resource base of firm consists of (1) physical resources and (2) intellectual resources. On the one hand, these refer to aspects like buildings, materials, manufacturing equipment or office furniture. On the other hand, these are also about patents, trademarks, copyrights and any form of property rights. Firer and Williams (2003) however also add the (3) human resources and network to a company's resource base. This surrounds the employee's skill set as well as experience and education in addition to the connection with other companies and contacts to enhance the operational processes.

Previous literature has primarily referred to relational expectations in the context of a psychological contract. Levinson et al. (1962) were one of the first to describe this concept as a "series of mutual expectations to which the parties to the relationship may not themselves be dimly aware" (p.21). This underlines the assumption that one party may not realize what the other expects from the relationship. However, this concept was initially intended to describe the relationship between employees and organizations, but Roehling argues that the concept can be extended to further relationships, including those between organizations (1997, p.212). With regard to venture capital, Parhankangas and Landström (2006) define the psychological contract as a "set of expectations about what each party is entitled to receive, and obligated to give" (p.776).

2.2.2 *Value-added services*

As previously mentioned, the main function of investors is to provide the required funds for young entrepreneurial firms. Nevertheless, venture capitalists and corporate incubators can often be referred to as active investors. This is due to the fact that these investors usually manage several start-ups in their portfolios and possess considerable experience concerning the growth of young enterprises to advise and guide the start-ups after the allocation of funds.

Brander et al. (2002), emphasize this assumption with the explanation of circumstances "under which venture capitalists are presumed to add value to ventures rather than simply trying to select the best ventures" (p.426). This shows that these investors not only tend to invest in the most promising start-up, but also intend to actively engage and increase the likelihood of success through their knowledge and experience. In relation to this insight, Cumming and Johan (2010) add that the degree to which VC's add further value to high-tech and early-stage investments is higher "to that for investees in traditional industries and in the later stages of development" (p.231). This seems reasonable, if one considers the already emerged aspect of risk and uncertainty for start-ups with these characteristics.

2.3 Start-ups

2.3.1 *Early-Stage Start-ups*

As already outlined in the introduction, the term "start-up" refers to a recently formed company. After the formation, the start-ups pass through certain phases of growth. According to Ruhnka (1987) the three major characteristics during the early-stage phase are (1) a formal business plan has been created in addition to market research for intended proposition, (2) the start-ups already developed a beta version of the product and (3) the management team is incomplete at present (p.173). Furthermore, the researcher found that the main objective for ventures in this stage is to get to the market and that "a real demand for the product" (p.174) does not exist so far.

Further research by Marion and Meyer (2011) and Festel et al. (2013) has emphasized the importance of receiving financing in this stage for start-ups to grow and develop the ability to compete in the market. Though, it has to be underlined that this is complicated due to absent information about past performance and the degree of uncertainty being associated with a start-up in this stage. To counteract the uncertainty, Berglund (2011) suggests the VC to act as a coach to "shape the product categories, business models and standards that will define future markets" (p. 122).

By concluding it can be said that early-stage start-ups are in the position to start with the business operations but require the financial support to fully reach competitive manufacturing and sales activities to step into the market.

2.3.2 *High-tech Start-ups*

In academic literature, "high-tech" firms are also often called new technology-based firms (NTBF). For these start-ups, the necessity to receive financing becomes even more apparent "due to necessary investments for technological developments" (Clarysse and Bruneel, 2007, p. 141). As stated by Audretsch (1995), NTBF have considerable impact on the development of the economic system and creation of jobs. Though, Colombo (2010) urges "lack of adequate resources hurts the development of these firms and may even threaten their survival, with obvious negative effects on social welfare" (p. 261). Carpenter and Petersen (2002) provide insight about this lack of financial resources for high-tech start-ups. Foremost, it is hard to predict any profits for high-tech investments, since "R&D projects have a low probability of financial success" (p.54). Additionally, the researchers illustrate the aspect of information asymmetries, since NTBF are "difficult to evaluate and frequently embody new knowledge" (p.55).

Considering the restriction to financial access in connection with the associated risk of high-tech start-ups, Bertoni et al. (2011) argue, "VC-backed NTBFs are likely to outperform their non-VC-backed counterparts (p.1028). The researches explain this assumption with the fact that VC's can provide the required funds and access to networks, which non-backed start-ups do not receive. On top, VC's are able to engage with valuable support and underline the quality of the start-up by functioning as an investor, who is convinced of this investment. Finally, it can be said that venture capital has crucial influence on the growth of start-ups, since it contributes to internal factors like capabilities or strategy and provides required financing.

2.4 Venture Capital Investors

The existing literature on venture capital assigns multiple roles for the investor. Naturally, this is related to the transmission of funding but can also deal with "a number of value-adding activities, including monitoring, support, and control" (Bottazzi et al., 2008, p. 489).

According to Bertoni et al. (2015), there are four main VC investor types: (1) independent VC, (2) corporate VC, (3) bank-affiliated VC and (4) governmental VC. The independent VC investor is the most common type of venture capital firms, who acts "as general partner in a limited partnership in which the fund providers serve as limited partners" (p.543.). The other three types can be described as non-independent investors, which act on behalf of a parent company or other institution. Corporate venture capitalists "(CVC)" are business units of parent company, which target to attract start-ups with unique skills and knowledge. By comparing CVC to the other types of investors, it becomes apparent that achieving financial returns is certainly one of the targets. However, as stressed out by Wadhwa and Basu (2013), the major goal is about strategic profits by gaining "access and learn about the knowledge possessed by their portfolio companies in the form of novel technologies or unfamiliar markets" (p.917). The bank-affiliated VC can be seen as the financial intermediary between a start-up and a bank. Finally, the governmental VC represents a governmental agency or body.

Despite this extensive illustration of investors acting in the venture capital market, the researchers disregard the business angels. These are "predominately actual or former entrepreneurs who invest their own money" and "have good knowledge of a specific technology, industrial sector or market" (Bonnet and Wirtz, 2002, p. 95). Due to the fact that they invest their private money, they "do not need to justify and validate their decisions to anyone, while VCs {…} need to justify and defend their selection and rejection of decisions to their investors" (Rostamzadeh et al., 2014, p. 699).

2.4.1 *Venture Capital Firms*

Regarding the previously mentioned types of investors, the predominantly associated type of investor with reference to venture capital investments are the venture capital firms (independent VC). These "buy stakes in promising young ventures hoping to establish successful companies, {…} that return high multiples of the invested money" (Streletzki and Schulte, 2012, p.29). By spending considerable time to screen prospective investments, VC firms intend to diminish the degree of risk as much as possible. Looking back to the definition of Sahlmann (1990), this "managed pool of capital" does usually consist of pension funds and other institutional investors in terms of venture capital firms.

Important to mention is that venture capital firms might focus on specific industries or start-ups in specific growth stage, which means that not every venture capital firm is confronted with the same amount of risk.

2.4.2 Corporate Incubators

Corporate Incubators can be indicated as a form of corporate venture capital. This is underlined by the concept of incorporating the start-up into the own network for nurturing and support during the growth process. Nevertheless, the existing literature (Allen and McClusky, 1990), (Gassmann and Becker, 2006) distinguishes between non-profit and for-profit types of incubators. Non-profit incubators usually refer to governmental or publicly owned organizations, which aim to support new non-profit start-ups and industrial upturn with the establishment of jobs. The latter group is "owned by independent shareholders or a private company, seeking to benefit financially or technologically" (Branstad, 2010, p. 296).

In general, it can be said that both parties benefit from this integration. The start-up, on the one hand, lacks usually the expertise and more significantly key resources to create consistent growth. The incubator can to some extent close this gap between existing and desired resources. Schwartz and Hornych (2010) therefore entitle the corporate incubator as an "intermediary organization, helping the firms to establish formal and informal contacts and to gain access to various resources" (p. 486). These contacts consist, for instance, of potential customer and suppliers, specialized experts like lawyers or tax accountants or further financial institutions like banks or other investors. Furthermore, Bollingtoft and Ulhoi (2005) add the advantage with reference to providing "access to affordable office space and shared administrative services" (p. 268). On the other hand, the incubator can extend its current assets to create strategic advantage in the long run or gains access to novel ideas and developments. Besides, there is the obvious opportunity to increase the startups value by active support to achieve higher profits with an exit.

2.4.3 Investor Selection Criteria

When contemplating of an investor, it has to be highlighted that an investor can function in several ways. In the following part it will be examined how the entrepreneur assesses certain characteristics and roles of investors. As previously outlined by Bruno and Tyebjee, 1983; Smith, 1999; Zacharakis, 2002 and Hsu, 2004, there are several criteria for the selection of an investor. Referring to Valliere and Peterson (2007, p.292), the combined main criteria of these past suggestions are the following seven: (1) Valuation, (2) Terms and conditions, (3) Value-added services, (4) Reputation, (5) Skill and independence, (6) Personal compatibility and (7) Ease of deal making. First of all, valuation is about determining the value of equity the investor receives for his provided funds. Secondly, terms and conditions cover the scope of an entrepreneur's action by setting operational or financial constraints in addition to the form of exit of the investor. Then, value-added services deal with the additional support of investors as providing access to corporate networks, strategic advice and managerial support. The following fourth criterion, reputation, contains of two aspects. On the one hand, it considers the previous record of successful ventures of the investor. On the other hand, it highlights also the aspect of ethical behavior, since Drover et al. (2014) discovered that "entrepreneurs are more willing to partner with ethical VCs" (p.734). Next to that, skill and independence emphasize the entrepreneur's opinion about the VC's expertise of the industry and confidence to invest in a start-up that embodies uncertainty and risk. The sixth characteristic, personal compatibility, verifies if the entrepreneurs expects to establish efficient working habits with the investor. Finally, ease of deal making is about the associated transaction costs for the founder including effort to convince the VC and time to reach a final decision.

2.4.4 Investor Roles

Further insight about the role of VC's have been delivered by De Clercq et al. (2006, p.101), who distinguish between the following roles on how investors can get involved and add value to start-ups. These are (1) Strategic role, (2) Financing role, (3) Networking role, (4) Interpersonal role, (5) Reputational role and (6) Discipline role. The first role covers the aspect of delivering advice to the entrepreneur by providing suggestions for the future direction of the venture and feedback on current ideas. This aspect of creating strategies can also be related to the second, financing role, since the VC establishes ways to raise further capital from sources like other VC's or banks. The following third role illustrates the network of the investor, which could contain of suppliers, customers or other experts to provide solutions for a given issue. Then, the interpersonal role refers to the VC embodying the function of a mentor, confident or even friend, who offers moral support under tough circumstances. Furthermore, the entrepreneur can benefit from the reputational role of a Venture Capitalist, since potential stakeholders will consider the start-up as much more promising if it is backed by prestigious investor. Finally, the discipline role deals with the evaluation of the management and the capability to displace leading managers if they are underperforming to ensure the continuing of the entrepreneurial firm.

3. METHODOLOGY AND DATA

In order to verify the former findings from the literature review and investigate the given research question "Which needs and expectations have early-stage high-tech start-ups of their investors in the Berlin eco-system?" the required data was retrieved through surveys. Various entrepreneurs, who founded their start-up in Berlin, Germany, answered these surveys. Roztocki (2001) and Nulty (2008) have previously discussed the merits of online surveys. These are particularly easier and faster collection of data according to the short time frame and geographical distance. This quantitative research can be described as explorative, since it focuses on gathering the required data across a group of start-ups within the whole population to explain the phenomena why start-ups opt for a given investor and what they expect to achieve with this engagement. According to Petty and Gruber, exploratory research "is recommended for investigating phenomena that are subtle and/or hardly understood" (2011, p.175). The research at hand will therefore be executed by following a deductive approach, which means that the questionnaires will be based on the existing literature. Due to the fact that this study aims at exploring the entrepreneur's perceptions of important selection criteria and roles of investors, the concept of surveys are preferred over interviews. A major advantage of interviews is the opportunity to directly observe the respondents behavior in a certain situation. Nevertheless, this does not apply to this research, since it targets to examine the entrepreneurs opinion about selecting an investor and not examining the entrepreneurs behavior during the selection process itself.

3.1 Sample Description

The empirical part of this research is based on surveys for a sample of 154 entrepreneurs, who founded the corresponding start-up in Berlin, Germany. The answers were collected over a period from May to June 2016. The sample start-ups were chosen randomly but had to satisfy the requirement of operating in high-tech industries and being in the early-stage phase or received financing in the past during this phase. Additionally, all these start-ups under consideration are still privately held or were private companies during their first contact to prospective investors. Based on these characteristics, it has to be clarified once more that the sample size of 154 entrepreneurs consisted of two different types of focus groups. The first group was entrepreneurs, who did not receive any financing but were interested in it at the time of answering the survey. The other group focusing on was entrepreneurs, who already received financing for their entrepreneurial firms.

Out of the sample (n=154), 35 entrepreneurs completed the survey, which lead to a response rate of 22,7%. In 2003 Cobanoglu and Cobanoglu found that the providing of incentives to the respondents leads to a significantly increase of the response rates. The corresponding control group without any incentives in their research reached a response rate of 23,9%. Since this research did not offer any incentives to the participants either, it can be argued that the resulting response rate is acceptable. Furthermore, 6 (17%) of the respondents were female and 29 (83%) male. This almost conforms to the findings of Ripsas and Hentschel (2015), who stated, "only 13% of the German startup founders are female" (p.3). Therefore, it can be concluded that the sample does not deliver reason to doubt the reliability of the data. However, this is based on the assumption that the female respondents were the actual entrepreneurs and not only administrative assistants for the entrepreneur to answer the survey.

3.2 Questionnaire Construction

For finalizing the surveys, it was inevitable to create a set of questions for the entrepreneurs to answer. The content of these questionnaires was predicated on the constructs, which were operationalized prior to this in the literature review. With reference to the sample size consisting of two focus groups, it has to be underlined that a separate survey for each of the focus groups has been created. Both surveys can be found in the appendix (8).

These two surveys were structured in a similar way. First of all, general questions about the start-up as well as the founder were covered. This refers to aspects like gender and age of the entrepreneur in addition to age and industry of the start-up. Over and above, the respondents had to state whether they have any experience in founding a company and if so, how many years passed since then. Afterwards, the focus group with financing received the only question, which differed content-wise and is not incorporated in the survey of the other focus group. This question is about whether the first investor was a venture capital firm or a corporate incubator. Assuming that some of the financed start-ups already had multiple investors, it was further clarified that all following questions refer to the first investor they engaged with. Subsequently, the questions remained the same for both groups again.

With regard to the mentioned characteristics of early-stage start-ups in the literature review, the following section was about checking if these apply to the entrepreneurial firms. Therefore, it was examined whether the respondents had (1) a formal business plan, (2) a beta version of the product/service and (3) considered their management team as incomplete.

Within the next step, the constructs for assessing the needs and expectations of the start-ups were operationalized into questions. An overview of these can be found below in Table 1.

Table 1. Constructs and operationalization based on the literature to assess the needs and expectations

Construct 1	**Needs in addition to the capital**
Description	Factors that an entrepreneur perceives as required for the start-up to ensure further growth in addition to the capital
Operationalization	▪ Access to investor's physical resources ▪ Access to investor's human resources and network ▪ Access to investor's intellectual resources ▪ Investor's engagement
Construct 2	**Selection Criteria**
Description	Criteria that an entrepreneur perceives as mandatory to select an investor in accordance with the needs and expectations
Operationalization	▪ Reputation ▪ Terms & Condition ▪ Valuation ▪ Value-added services ▪ Ease of deal making ▪ Personal compatibility ▪ Skill & Independence
Construct 3	**Roles of an Investor**
Description	Roles that an entrepreneurs perceives as important and expect an investor to take
Operationalization	▪ Interpersonal Role ▪ Financing Role ▪ Networking Role ▪ Strategic Role ▪ Reputational Role ▪ Disciplining Role

As previously outlined in the literature review, the needs of start-ups in relation with venture capital account for accessing the investor's (1) physical resources, (2) human resources and network, (3) intellectual resources or (4) the active support by the investor's engagement in the operative business procedures. This is the reason for asking which of these needs applied most to the entrepreneurial firm. Accordingly, specifying which selection criteria was considered as most important by the respondent delivers first insight about the corresponding expectation of the investor. Therefore, the entrepreneur had to choose which of (1) reputation, (2) terms & conditions, (3) valuation, (4) value-added services, (5) ease of deal making, (6) personal compatibility and (7) skill & independence were perceived to be decisive for the selection. In connection with the selection criteria, it was obligatory to investigate which role the respondents expect an investor to take. The possible options therefore were (1) Interpersonal Role, (2) Financing Role, (3) Networking Role, (4) Strategic Role, (5) Reputational Role or (6) Disciplining Role. In addition to that, it was finally interrogated whether the respondents expect conflicts with an investor to occur due to one of these roles.

3.3 Data Collection Procedure

To retrieve the empirical data of this research, the questionnaire was transformed into an online survey by using the webpage Typeform. The webpage automatically created a link, which could be shared via e-mail with the respondents to access the survey. Typeform was chosen because of its intuitive usage and adaptability for the user. Moreover, the layout is appealing and distinctive from other online surveys. Nevertheless, before sending the e-mails, the questionnaire was evaluated by an entrepreneur as well as an expert in the field of venture capital in Berlin to assure relevant content and exact understanding of the respondents.

In addition to the link for the online survey, the e-mails contained an opening paragraph informing the entrepreneur about the content of the survey as well as the goal of the study. Referring to that, it was clarified that the respondent's private information were handled confidentially and were only used for the purpose of this research. Finally, it was assured that all respondents would receive the results at the end of the study.

4. EMPIRICAL FINDINGS

The following section will deliver an empirical description of the collected data.

First of all, the results with reference to the characteristics of the various entrepreneurs will be highlighted. Afterwards, the perceived needs and hopes to obtain in addition to the required capital will be emphasized. Furthermore, this section provides insight on which criteria for selecting an investor are considered to be most important. Moreover, it will be shown, which roles of an investor are most appreciated and expected to take corresponding to the needs of the respondents. In the end, it will be compared how likely the two focus groups expect conflicts to occur due to one of these roles.

4.1 Characteristics of the Entrepreneurs

The findings of the survey illustrate that there are quiet some distinctions between the entrepreneurs. In the beginning, the data for the respondents without financing point out, that 59% stated their current start-up to be their first entrepreneurial venture. Referring to this, 29% of the respondents look back to 1-2 years experience in entrepreneurship, 11% to 3-5 years and none of the respondents had more than 5 years experience in founding a company. However, the aspect of the start-up's age is predominantly equal distributed over the respondents. 88% of the entrepreneurs stated that they founded their start-ups only one to two years ago.

Compared to the group of entrepreneurs with financing, it becomes apparent that 63% declared their current start-up as their first entrepreneurial firm. In terms of age, there are differences to the group without financing. 9% of the start-ups were founded more than 5 years ago. Additionally 36% have an age between 3-5 years and 55% were founded before 1-2 years. Moreover, 73% had their first investor with a background from a venture capital firm and 27% with a corporate incubator.

4.2 Needs in Addition to the Capital

After obtaining a first impression about the characteristics of the respondents, the following data deliver insight about the perceived needs of both respondents groups.

As being presented in Figure 1 below, one can notice that there are certain differences between the perceived needs of the two focus groups. First, it has to be said that both groups consider the need for accessing the investor's human resources and network as most important in addition to receiving the required capital. However, the data underline that the entrepreneurs with financing consider this need (45%) by far as the most important, since the two second most mentioned needs (intellectual resources and active support) amount to less than 20%. The respondents without financing consider the need of accessing the human resources and network though as equally important as reaching access to the investor's intellectual resources. As previously mentioned, around 18% of the respondents with financing background deemed that active support would be their principal need. This is a big contrast with a view to the other group. Over there, only about 4% had the impression that they require active support by an investor.

Interestingly, it states for both groups that about 10% of the entrepreneurs do not feel any additional needs and are only interested in receiving the required capital.

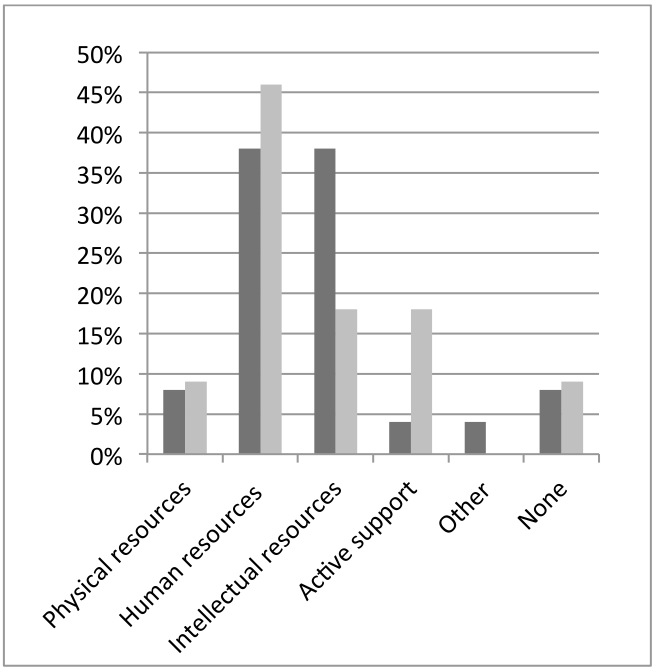

Figure 1. Comparison between the non-financed (dark) and financed (bright) mentioned needs in addition to the required capital (in percentage)

4.3 Selection Criteria

As already outlined in the prior methodology section, the respondents were asked to assess several criteria for the one being considered as the most important for the selection of an investor.

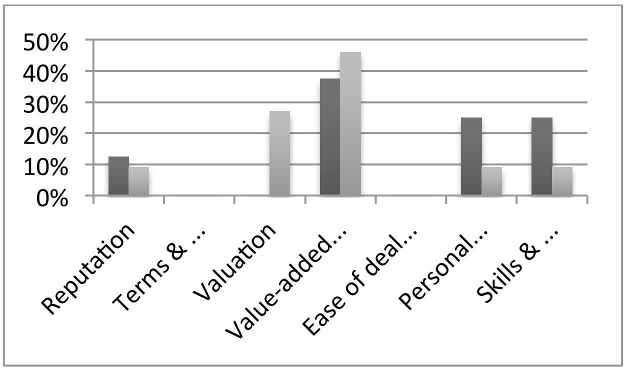

Figure 2. Comparison between the non-financed (dark) and financed (bright) to state the most important criteria for the selection of an investor (in percentage)

Figure 2 illustrates that "value-added services" are considered by both groups (38% without financing and 45% with financing) as the most important criteria for the selection of an investor. For the group of financed respondents, this criterion is succeeded by "valuation", which labeled 28% of the entrepreneurs as the most important. By comparing this to the other group, it gets obvious that none of the entrepreneurs without financing considers this criterion as the most important. They regard "personal compatibility" and "skills & independence" as the second most important criteria with 25% each.

Additionally, none of the respondents in both surveys perceived "terms & conditions" and "ease of deal making" as the most important factor for the investor's choice.

4.4 Roles of an investor

After gaining insight about the importance of various selection criteria, the following part examined the roles, which an investor should preferentially take.

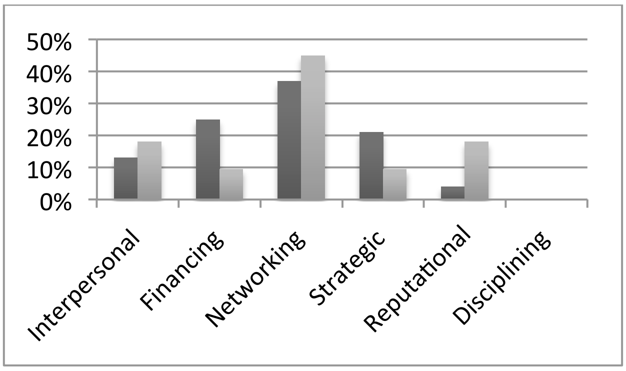

Figure 3. Comparison between the non-financed (dark) and financed (bright) to state the most importance roles for an investor to take (in percentage)

The outcomes of Figure 3 show that "networking" is considered to be the most important role for both focus groups with 37% (not financed) and 45% (financed). For the financed start-ups, this is by far the most important role, since the second most voted were the "interpersonal" and "reputational" roles with each 18%. The gap to the second most voted with reference to the other focus group is not that huge but still significantly with the "financing role" amounting to 25%. At last, none of all respondents viewed the "disciplining role" as the most important role at all.

4.5 Likeliness of conflicts due to roles

As a last step, the respondents were asked to assess the likeliness of conflicts to occur due to the mentioned role.

According to Figure 4, the majority of the entrepreneurs view the emergence of a conflict based on one of the prior mentioned roles as not likely (=2). This accounts for 50% of the not financed respondents and even 55% of the other group. 38% (not financed) and 36% had a neutral opinion (=3) about this question. Only 12% of the respondents without financing and 9% of the entrepreneurs with financing indicated the potential of a conflict due to one of the roles as likely (=4).

Finally, it becomes obvious that none of the entrepreneurs considered the occurrence of a conflict as very likely (=5) or not likely at all (=1).

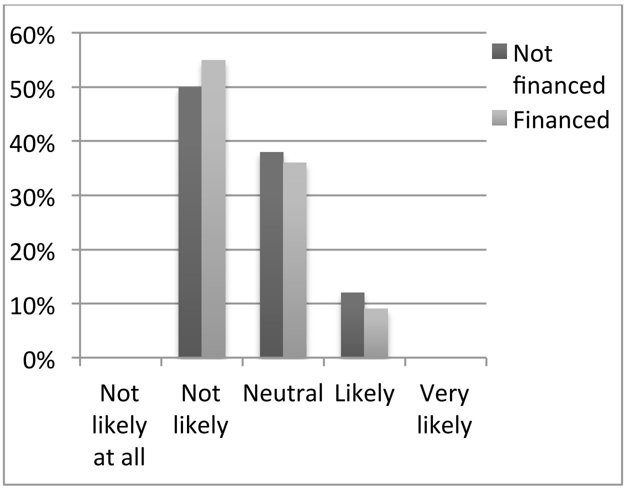

Figure 4. Comparison of the entrepreneur's perception of conflict's chance to occur due to the mentioned role

5. DISCUSSION

This paper examined the start-ups additional needs, next to the required capital for being interested in venture capital as well as the corresponding expectations, which are associated with a prospective investor. First of all, the research highlighted that the vast majority of the respondents had a further need in addition to access the required capital. Less than 10% of both focus groups declared that they were only interested in venture capital for receiving the capital and do not require further benefits.

Additionally, it became apparent that the access to the investor's human resources and network was considered as the most important additional need to be satisfied with venture capital. 46% of the entrepreneurs stated this as the most important benefit to be needed, if they could choose their first investor for a second time. 38% of the entrepreneurs without financing experience mentioned this as the most important, although the need of accessing the intellectual resources of the investor was equally selected. Therefore, it can be concluded that entrepreneurs in the Berlin eco-system rather opt for venture capital due to the opportunity of obtaining access to the investor's human resources and network in addition to the main need of the required capital. A discrepancy exists between the two groups with reference to the intellectual resources. The percentage for the start-ups, which are not financed, is in this case (38%) twice as high as the start-ups with financing (18%). A reason for this could be that entrepreneurs without financing experience expect an investor with given patents, trademarks or copyrights to accelerate the growth of the own product/service. Contrariwise, the group with financing background might already have find out that these aspects do not have significant influence on the start-ups success and treat it therefore as less important. A final remark in terms of the additional needs has to be made with reference to the need of physical resources. 9% of the financed entrepreneurial firms named this as the most important need in addition to the capital. All of these 9% had a funding background with a corporate incubator. It can therefore be concluded that a small percentage still opts for an investor, who can provide access to its sophisticated physical resources as office spaces or production and research facilities.

The illustrated need of accessing the investor's human resources and network correlates with the findings about the perceived importance of several selection criteria. The majority of both focus groups, 38% of the not financed and 46% of the financed respondents consider the value-added services of an investor as the most important selection criteria. This seems logical, since value-added services refer to the investor providing access to his network, strategic advice and managerial support. This seems even more logical for the already financed group by recapping that one of their second most mentioned needs was the one of active support. To explain this phenomenon it can be assumed that these entrepreneurs were too optimistic by evaluating their capabilities and underwent some obstacles without any outside support. However, this is not valid for the entrepreneurs without financing so far, since only 4% of those regard active support as a need. This emphasizes that the majority of these entrepreneurs are confident of their capabilities and convinced to handle their business operations without an investor supporting them. A further substantial disagreement can be located within the perceived importance of the obtained valuation. For 27% of the financed entrepreneurs represents this the most important selection criteria. Surprisingly, none of the respondents without funding experience thought of this factor as the most important. This indicates that younger entrepreneurs, who are not familiar with the funding process, are not aware of the implications of the start-ups valuation. Entrepreneurial firms, which are already financed, might have experienced that an upfront-determined percentage of equity was perceived as low but developed into a notable value over time. Therefore, these entrepreneurs would conduct stricter negotiations about the valuation of the investor's equity than the not-financed ones. Based on the selection criteria it was then asked which roles the respondents expect an investor to take. The outcomes of that section show once again an alignment with the previous findings since the majority of both focus groups, 37% of the not financed and 45% of the financed consider the "networking role" as the one they would expect an investor to take. Additionally, it was also emphasized that at least 50% of the two groups value this role as one, which is not likely to cause any conflicts in the relationship.

All in all, the research illustrated that young entrepreneurs are mainly interested in reaching access to required contacts and extending their current network. If one keeps in mind that the polled entrepreneurs founded a high-tech start-up, which finds oneself in the early-stage of the development, these findings seem consequential. On the one hand, this is due to the fact that entrepreneurs, who just recently founded a start-up, are less likely to already possess an extensive network of business contacts. On the other hand, high-tech start-ups might develop a unique and innovative product or service, but the founders have presumably little experience with bringing an invention to the market. This assumption can be further backed by the fact that 45% of the entrepreneurs with founding experience considers this as a crucial need. It implies that these start-ups lacked access to important networks or contacts or even had tremendous success due to the investor's provided network and consider it therefore as inevitable. Venture Capital is an appropriate measure to satisfy this need, since investors usually can provide a huge network of contacts and human resources in addition to the required capital. For this purpose, they have to enter a relationship with an investor.

Assuming that most entrepreneurs check a prospective investor on their corresponding webpage, the investing firms should there virtualize the value-adding services that it can offer. Certainly, this should refer to the investor's large network of contacts. By advertising this opportunity for start-ups to bridge the gap with potential stakeholders, they match the entrepreneur's needs and attract those prospective investees. Nevertheless, it is also advisable to illustrate the various portfolio managers, who take care of the individual entrepreneurial firms. Emphasis on their distinctive skills and experience of certain industries delivers a clear impression about what the start-up can expect. Preferably, they also launch a review system for each of the portfolio managers. In this way, previous investees can rate the cooperation and provide a first impression about the positive impact that the investor can have with its value-adding services. Initially, this research was intended to raise the investor's awareness about a start-up needs and expectations. After the data analysis, the findings can even assist entrepreneurial firms, which are looking for a venture capital investor. This is especially based on the findings about the perceived importance of valuations. Since none of the entrepreneurs without a financed start-up viewed this issue as important, the other group of financed entrepreneurial firms highlighted that there has to be a compelling reason for choosing this as the second most important selection criteria. Therefore, it is recommended that young entrepreneurs should not act inconsiderate during valuation negotiations to allow investor's taking a higher equity stake than being reasonable.

6. LIMITATIONS AND FUTURE RESEARCH

As within the scope of any research, this study also possesses certain limitations. First of all, it has to be mentioned that the considered start-ups were only located in Berlin, Germany. This allows the construction of generalizable recommendations for the interaction of investors and start-ups being located in Berlin. Though, these recommendations may not be applicable to similar relationships in different locations. Therefore, future research can analyze if the findings also apply to other regions. Furthermore, this research focused only on the entrepreneurs for the purpose of enhancing the matching process and relationship of start-ups and investors. Since investors have also crucial influence on the matching process and resulting cooperation, future research might link these findings to an investor's perspective for getting a complete overview of the matching process and relationship between the two actors. Moreover, the chosen constructs refer to operationalized items, which are a compilation of what previous researcher considered as the most important. By all means, the incorporated additional needs as well as the selection criteria and roles do not reflect an exclusive and thorough repertory of all possible options. Finally, a major limitation refers to this research's assumption that the entrepreneurs are fully aware what the start-ups actually need and should therefore be expected from an investor. This becomes obvious with regard to Cassar (2010), who explains that the individual's perception may be lead to biased expectations due to bounded rationality and potential influences. Based on this assumption it can be said that the value of the given responses in the surveys diminishes with regard to the illustration of the actual needs of start-ups. This delivers room for future research to monitor these findings with a larger sample size, since it has to be admitted that the current sample size is rather small and contains only little explanatory power for the whole population of early-stage high-tech start-ups in Berlin.

7. ACKNOWLEDGEMENTS

First of all, I would like to thank Drs. Patrick Bliek for his advice and precious feedback to improve throughout the whole process of this thesis. Additionally, I want to thank Drs. Raymond Loohuis for reviewing the thesis as well. Special thanks are due to Anna Ott and David Barret for providing valuable insight and contacts into the Berlin Venture Capital scene. Finally, I would like to thank my family for their continuous support during the whole bachelor program.

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9. APPENDIX

<u>Questionnaire for start-ups without financing</u>

Q1-What is your gender?

- o Male
- o Female

Q2-How old are you?

- o <18
- o 18-24
- o 25-29
- o 30-34
- o 35-39
- o 40-44
- o 45>

Q3-When was your company founded?

- o 1-2 years ago
- o 3-5 years ago
- o More than 5 years ago

Q4-Which industry is your company operating in?

Q5-Did you have any previous experience in founding a company before starting your current business?

- o Yes
- o No

Q6-If so, how many years is this foundation of the previous company ago?

- o None
- o 1-2 years ago
- o 3-5 years ago
- o More than 5 years ago

Q7-Please answer the following questions:

a) Do you have a formal business plan?
- o Yes
- o No

b) Do you have a beta version of your product/service
- o Yes
- o No

c) Do you consider your management team as incomplete?
- o Yes
- o No

Q8-In addition to receiving the required capital… Which further needs do you wish to satisfy through selecting venture capital?

- o Access to investor's physical resources
- o Access to investor's human resources and network
- o Access to investor's intellectual resources
- o Investor's engagement in the operative business procedures
- o Other
- o None

Q9-Please state which of the following criteria you consider as the most important for the selection of a potential investor

- o Reputation - Past record of successful investments + ethical behavior
- o Terms & Conditions - General framework by setting operational or financial constrains + clarification about the form of exit of the investor
- o Valuation - Value of equity that the investor receives for the financing
- o Value-added services - Providing access to network, strategic advice + managerial support
- o Ease of deal making – Cost & effort to convince the investor + time to reach a final decision
- o Personal compatibility – Expectation to establish positive working habits with the investor
- o Skill & Independence – Investor's expertise and knowledge of the industry
- o Other

Q10-Please state which of the following roles as the most important for a potential investor?

- o Interpersonal Role – Investor serving as a mentor and confident
- o Financing Role – Developing capital strategies for the venture + arranging further financing
- o Networking Role – Providing his/her large network of contacts
- o Strategic Role – Providing advice on a variety of key decisions
- o Reputational Role – Enhancing the venture's reputation & perception of different stakeholders
- o Disciplining Role – Evaluation of the management team and capability to displace leading managers
- o Other

Q11-How likely do you see conflicts occurring due to this mentioned role on a scale from 1-5?

- o 1= Not likely at all
- o 3= Neutral
- o 5= Very likely

<u>Questionnaire for start-ups with financing</u>

Q1-What is your gender?

- o Male
- o Female

Q2-How old are you?

- o <18
- o 18-24
- o 25-29
- o 30-34
- o 35-39
- o 40-44
- o 45>

Q3-When was your company founded?

- o 1-2 years ago
- o 3-5 years ago
- o More than 5 years ago

Q4-Which industry is your company operating in?

Q5-Did you have any previous experience in founding a company before starting your current business?

- o Yes
- o No

Q6-If so, how many years is this foundation of the previous company ago?

- o None
- o 1-2 years ago
- o 3-5 years ago
- o More than 5 years ago

Q7-Which background of venture capital did your first investor have?

- o Venture Capital Firm
- o Corporate Incubator
- o Other

Q8-In case you have multiple investors, please refer the following questions to the one you entered your first relationship with:

a) Did you have a formal business plan at that time?

- Yes
- No

b) Did you have a beta version of your product/service

- Yes
- No

c) Did you consider your management team as incomplete?

- Yes
- No

Q9-Please answer the following questions by imagining that you could select your first investor again with the knowledge and experience that you have today

a) In addition to receiving the required capital… Which further needs would you wish to satisfy through selecting venture capital?

- Access to investor's physical resources
- Access to investor's human resources and network
- Access to investor's intellectual resources
- Investor's engagement in the operative business procedures
- Other
- None

b) Please state which of the following criteria you would consider as the most important for the selection of a potential investor

- Reputation - Past record of successful investments + ethical behavior
- Terms & Conditions - General framework by setting operational or financial constrains + clarification about the form of exit of the investor
- Valuation - Value of equity that the investor receives for the financing
- Value-added services - Providing access to network, strategic advice + managerial support
- Ease of deal making – Cost & effort to convince the investor + time to reach a final decision
- Personal compatibility – Expectation to establish positive working habits with the investor
- Skill & Independence – Investor's expertise and knowledge of the industry
- Other

c) Please state which of the following roles you would consider as the most important for an investor

- Interpersonal Role – Investor serving as a mentor and confident
- Financing Role – Developing capital strategies for the venture + arranging further financing
- Networking Role – Providing his/her large network of contacts
- Strategic Role – Providing advice on a variety of key decisions
- Reputational Role – Enhancing the venture's reputation & perception of different stakeholders
- Disciplining Role – Evaluation of the management team and capability to displace leading managers
- Other

Q10-How likely do you see conflicts occurring due to this mentioned role on a scale from 1-5?

- 1= Not likely at all
- 3= Neutral
- 5= Very likely