

TALLINN UNIVERSITY OF TECHNOLOGY  
School of Business and Governance

Alexandra Hasselbach

**BUSINESS DEVELOPMENT EXPERIENCE OF  
ENTREPRENEURS WITH VENTURE CAPITALISTS**

Bachelor's thesis

Programme International Business Administration, specialization finance and accounting

Supervisor: Aino Kiis, MM

Tallinn 2023

I hereby declare that I have compiled the thesis independently and all works, important standpoints and data by other authors have been properly referenced and the same paper has not been previously presented for grading.

Alexandra Hasselbach.....

(signature, date)

## TABLE OF CONTENTS

ABSTRACT.....	4
INTRODUCTION.....	5
1. THEORETICAL BACKGROUND.....	7
1.1 Venture Capitalists.....	7
1.2. How Venture Capital works.....	9
1.3. The Process of Getting Funded by a VC.....	9
1.4. Entrepreneurial experiences from venture capital funding.....	10
2. METHODOLOGY.....	13
3. RESULTS.....	16
3.1. Results analysis.....	16
3.1.1. Strategy of choosing venture capitalist.....	16
3.1.2. The right time to appeal to a venture capitalist.....	17
3.1.3. Matching.....	18
3.1.4. Trust relations between an entrepreneur and a venture capitalist.....	19
3.1.5. Successful and unsuccessful experience comparison.....	20
3.2. Discussion.....	24
CONCLUSION.....	28
LIST OF REFERENCES.....	31
APPENDICES.....	35
Appendix 1. Table 1.....	35
Appendix 2. Original interview questions.....	36
Appendix 3. Interview questions used in this study.....	38
Appendix 4. Table 2.....	39
Appendix 5. Interview transcripts link .....	40
Appendix 6. Non-exclusive licence.....	41

## **ABSTRACT**

This study was conducted for young entrepreneurs, who faced problems and difficulties in opening a start-up. Nowadays, such a concept as the start-up has a progressive growth, but young entrepreneurs struggle with many cases in trouble of capital and experience.

Fielden, Davidson, Makin (2000) discovered that significant uncertainty regarding product and this product's perspective in the market, as well as lack of human resources and capital can cause consequential difficulties for founders with startup ideas (Savaneviciene, Venckuviene, Girdauskiene, 2015, p. 1052).

Entrepreneurs have limited knowledge of the process of working with venture capital list which can lead to complication and deterioration of cooperation. Research is conducted to through qualitative research methods, including analysing the scientific literature and conducting interviews with 12 head employees who have experienced working with venture capital. Data for this study were collected using interview with owners of start-up, who have appealed to venture capital investors. The theoretical part for this research part was based on already existing studies in scientific literature. This study is in to identify key points that are necessary to avoid the complication of the funding process. The study was conducted to study the experience of young and the prisoners to identify key points that can affect the experience of such cooperation. After conducting and analysing the interview, the following results were revealed. To have the chance of a successful experience with a venture capitalist, entrepreneurs must pay attention to the following key points: (1) the time of appeal to a venture capitalist; (2) trust relations between an entrepreneur and a VC; (3) the ability to access how suitable a venture capitalist is for this startup (matching); (4) study of venture capital market, to obtain the strategy of choosing a venture capitalist.

Key words: Venture capitalists (VCs), entrepreneur, partnership relationships

## INTRODUCTION

Relying on the author's personal observations, today young entrepreneurs are very actively trying themselves in the opening of a startup. Based on Ireland (2021), Estonia is on the 16th place in the world by Most Startup Friendly Countries In The World, 2021. Also, several inventions such as “Monese”, “RebelRoam”, and “Bolt” (formerly known as Taxify) were founded in Estonia and are currently used in many countries, even outside the European Union. This makes the author understand that the startup movement is very developed in Estonia. However, the author's personal observations also showed that young entrepreneurs cannot advance their business due to a lack of experience and financial capital. It is developed that for avoiding financial break and to increase management skills development its is significant to be in a healthy and favorable working environment (Savaneviciene, Venckuviene, Girdauskiene, 2015, p. 1053)

Since the author is a business student and, in the future, to open her own business, a year ago the author studied information about the opening of a startup, as well as about the difficulties that novice entrepreneurs face. Research showed that young entrepreneurs lack not only experience and financial support but also useful connections and contacts. Also, when trying to solve a financial shortage on their own, young entrepreneurs face such a problem as the lack of the opportunity to take a loan to open a business. And these are only the first and most obvious difficulties that you can encounter when opening a startup. The solution to avoid first-stage problems is finding an investor for a start-up. There are several ways of finding the best venture capitalist for entrepreneur’s startup idea. Since most of young entrepreneurs have lack of experience or can be fresh graduated students, it is important to learn about other entrepreneurs experience from their point of view to see the possible ways of business development scenarios as well as difficulties they can face with not only in pre investment phase while only preparing and finding the right VC, but also learn what can cause difficulties and risk of failure in an

already active collaboration in post investment phase. To help solve this problem, the author conducts this study to identify the most popular criteria that affect cooperation with venture capitalists. Based not only on the rules of successful financing and development of a startup, but also bearing knowledge about the importance of cooperation skills based on the human factor.

This research is based on analyzing the experience of entrepreneurs working with venture capitalists for business development using interview as a research method. This study was conducted to study and investigate the cause of such a problem as negative and unproductive experience in young entrepreneurs in collaboration with venture capitalists. In this work, the author conducted an interview study to see cooperation with venture capitalists through the eyes of young entrepreneurs who already had an experience in business development with venture capitalists investment and supervision, highlighting the key points that play a role in building relationships between the two parties. The aim of this study was to find critical points and factors that play a role in choosing the right venture capitalist for a particular startup, affecting the cooperation of entrepreneurs and venture capitalists, and also, find out the reasons why the cooperation of venture capitalists and entrepreneurs can without successful for both parties and what to pay attention to, to avoid or reduce the risk of obtaining a given outcome. This research results can help young entrepreneurs study this process in more detail and conduct clearer and more detailed training before starting cooperation with venture capitalists based on the highlighted key points in cooperation with venture capitalists, as well as in the preparation and selection of the most suitable armed forces. Thus, increasing the chance and opportunities for business development, while maintaining a healthy and productive environment in the working process.

For achieving goals of this study author has focused on exploring the experience of entrepreneurs in cooperation with venture capitalists for startup development using. What was be investigated using the following research questions:

- How venture capitalists help young entrepreneurs in the development of a startup?
- What are the key points in entrepreneurs' cooperation with VCs that affect start up development?

Qualitative research method was chosen for this study. Using the interviews, the study participants who had an opportunity of being in the role of young entrepreneurs and had experience working with venture capitalists for business development were interviewed.

Analysis of interview transcriptions was through coding techniques to identify the most commonly named key factors influencing experience with venture capitalists.

This study is based on theoretical background which is used to compare to the results of interviews analysis in discussion part. After theoretical part methodology part is presented, explaining research methods used for this study as well. Before conclusion is results part providing main four key points which affect cooperation with VC and their analysing. In conclusion author talks about the outcome of this study.

# **1. THEORETICAL BACKGROUND**

## **1.1 Venture Capitalists**

Venture capital plays role of a funding mentor that supports start-up projects by private equity funds following strong decision making criteria (Dubocage, Reidis, Rivaud-Danset, 2012, p. 1). Venture capitalists (VCs) are interested in investing equity in startups with rapid growth potential that have a high chance of developing to a significant size and market position (Gompers and Lerner 2004; Glücksman, 2007). According to Gompers, Gornall, Kaplan, Strebulaev (2020) capital has been a crucial source of funding for high-growth startups over the past 30 years, Amazon, Apple, Facebook, Gilead Sciences, Google, Intel, Microsoft, Whole Foods, and a slew of other inventive companies early success of these companies owes a lot to their venture capitalists .

According Copley, Douthett, Zhang (2021) venture capital ownership makes high-tech service demand increase, what helps to provide an assurance on a more high degree level to the VC-backed initial public offering. Venture capitalist's return is extracted from working capital after procedure exit since paying interest on debt and dividends are not affordable for high-tech companies (Johan & Cumming, 2008, p. 2). "The Venture Capital (VC) firms can choose between three outcomes: the company exits from their portfolios by success - IPO or acquisition on favorable terms - exits by failure - closing down or distress sale - or remains in their portfolios. We model the probability that a company exits with success (failure) versus remains in the portfolios." (Dubocage, Reidis, Rivaud-Danset, 2012, p. 1).

There are discovered five roles of VC: (1) a financial middleman that takes money from investors and invests it directly in portfolio firms; (2) an investor in private enterprises. This

means that the companies can't be traded on a public exchange right away after they've been invested in; (3) VCs monitor and assist the companies in its portfolio; (4) Maximizing the financial return on current investments through a sale or an initial public offering (IPO); (5) An investment in companies to help them expand internally (Metrick & Yasuda, 2007, p. 3).

## **1.2. How Venture Capital works**

The fundamental purpose is to invest in an organization's financial record and framework until it reaches a size and credibility that allows it to be sold to a partnership or something similar, allowing institutional public-value markets to come in and provide liquidity (Zider, 1998).

According to Gompers & Lerner (2004); Glücksman (2007) venture capitalists are looking for projects, and also prefer to invest capital that can quickly develop and gain a huge market position. VCs prefer to operate in an environment where their overall efficiency in selection gives them relative benefit over different types of financial backers, which entails the industry's impact on financial enterprises (Amit, Brander, Zott, 1998).

The essential design is to put resources into an association's monetary record and structure until it arrives at a size and believability that permits it to be offered to an organization or something almost identical, permitting institutional public-esteem markets to come in and give liquidity (Zider, 1998).

There are cases when entrepreneurs start-up idea is a high-tech innovation technology which needs investment in product's research and study, which earns him not so much of financial profit, but more knowledge in this specific science area, even though if this product does not have a high demand level on market, entrepreneurs can invest financial sources and their time into products development, while investors receive a low fund returns and those companies face particular difficulties with managing all the possible issues coming out (Gompers & Lerner, 2001, p. 165). An essential financial market intermediary, venture capital provides funding to businesses that might otherwise struggle to find financing and these businesses, which tend to be tiny and new, are troubled by a great deal of uncertainty and significant discrepancies between what entrepreneurs and investors know (Gompers & Lerner 2001).

### **1.3. The Process of Getting Funded by a VC**

The Process of Getting Funded by a VC in this research describes how venture capitalists and entrepreneurs cooperate for business developing. To explore the funding process author focuses on a venture capitalist's decision-making process. VC financing is all around saw as by the two scholastics and experts as the most sensible supporting mode for venturesome firms. (Croce, Marti, Murtinu, 2013, p. 9). Venture capitalist's investment decision can be influenced by six key points: the entrepreneur's personality, the entrepreneur's experience, characteristics of the product or service, characteristics of the market, financial consideration and the venture team. (Macmillan, Siegel, Narasimha, 1985, p. 121). Table 1 the criteria corresponding to each item are presented in Appendix 1. "Tyebjee and Bruno (1984) firstly proposed a five stages VC process model. These include: (1) deal origination - identifying potential firm; (2) deal screening - reviewing proposals particularly in technology, product and scope of market; (3) deal evaluation – assessment of a business plan (risk and return); (4) deal structuring – negotiating and mutually establishing VC agreement and (5) post-investment activities – providing value-added activities." (Monika & Sharma 2015, p. 466). Despite the fact the amount of steps can be different between existing studies, it is impossible to disagree with the fact that almost every decision-making process includes two phases - screening and evaluation/due diligence (Boocock, Grahame, Woods, 2019, p. 9). In addition to that Hall& Hofer (1993) defined entrepreneur/team traits, venture capital company requirements, proposal characteristics, business proposal features, business proposal type, and business proposal economic environment as the most important and significant scale on which venture capitalists base their funding decision making analyse and possibility of investment. Another six criteria such as the entrepreneur's personality, the entrepreneur's experience, characteristics of the product or service, characteristics of the market, financial consideration, and characteristics of venture management team were outlined as VC's invetemnet decision formula (Mishra, 2004, p. 1). Normal governance practices of the investors, as well as investors's prospective valeu added contribution of the investment syndicate is investigated by entrepreneurs (Clercq, Fried, Lehtonen, Sapienza, 2006, p. 98).

For entrepreneurs it is crucial to keep in mind VC's investment decision making criteria as a focal point to increase chances of successful cooperation experience with venture capitalists (Clercq, Fried, Lehtonen, Sapienza, 2006, P. 95). VCs screening models varies with various endeavours in view of the kind of industry, geographic area, stage and size of venture (Monika & Sharma 2015, p. 466), when the location of the VC, the stage of the investment, and the type of company are frequently factors in the selection criteria for an investment decision (Mishra, Bag, Misra, 2017, p. 53).

#### **1.4. Entrepreneurial experiences from venture capital funding**

“Entrepreneurial teams with higher levels of organizational capital are also likely to be able to use their background to improve their bargaining position with respect to VC valuations.” (David 2007). In relations between start-up and prospective owners, VSc play role of a financial intermediary, as well as being public investors in case of IPO, and in case of acquisition VCs play the acquiring firm role (Johan & Cumming, 2008, p. 4). According to Cohan and Unger (2006) to increase chances to expand and perform greater it is necessary for enterprises to have a knowledge of emerging technologies, disruptive rivals, changing customer wants, their own strengths and possibilities for improvement, as well as an entrepreneurial leadership culture (Wonglimpiyarat, 2012, p. 11). For entrepreneurs it is crucial to keep in mind VC's investment decision making criteria as a focal point to increase chances of successful cooperation experience with venture capitalists (Clercq, Fried, Lehtonen, Sapienza, 2006, P. 95).

Entrepreneurs, who have already had experience being supported will go to financial backers with whom they have immediate or roundabout connections, and those financial speculators will give them all the more beginning phase subsidizing in view of trust, references, or other accepted information accumulated from past developed affiliations (Zhang 2 Information quality and volume shared between entrepreneurs and VCs in their cooperation in business development journey is affected by their personalities, and has a good influence if they have similar and matching personality types (Cable & Shane, 1997, p. 159). According to Cable & Shane (1997) the collaborative cooperation of entrepreneurs and venture capitalists is essential for new business startup, but the little is understood about how these interactions function. Almost no

researchers have looked into the relationships between business owners and investors after a venture has been funded, with the conclusion that an ongoing collaborative relationship between business owners and venture capitalists was more crucial to the success of ventures than the actual provision of venture capital (Bruno & Tyebjee, 1985; Cable & Shane 1997, p. 143).

According to a study conducted by Glücksman (2020), there is an information asymmetry in entrepreneurs and vcs cooperation. When one accomplice in a relationship has more or preferred data over the other (Akerlof, 1970; Glücksman, 2020). The problem of information asymmetry is due to the fact that entrepreneurs do not have enough experience to deal with the process and financing standards vcs, and venture capitalists sometimes hide certain information from entrepreneurs. (Carpentier & Surety 2006; Landström 2017; Glücksman 2020). In 2020 Glücksman revealed four criteria that help to improve relationship between entrepreneurs and VC: (1) choosing the optimal time to raise the initial external capital, (2) ensuring that the VC fits the startup, (3) studying and understanding the venture capital process beforehand, (4) building an open and honest relationship with the VC. The venture should be led by an excellent entrepreneur and management team, one that shares the VC's growth and value maximization goals since venture capitalists want management that is honest, trustworthy, motivated, and passionate about the venture (Cable & Shane, 1997). Bygrave and Timmons (1992) made the case that facilitating the formation and maintenance of cooperative relationships depends on venture capitalists' personal connections with entrepreneurs (Cable & Shane, 1997, p. 158). According to Cable, Shane (1997) the context of partnerships between entrepreneurs and venture capitalists as well as parties' levels of authority appear to have significantly changed during the course of the partnership. Also, because each party must choose to collaborate or not based on their perceptions.

As a result, it is possible that an entrepreneur and a venture capitalist do not share the same level of influence and that both sides make decisions based on their personal opinions. There do, however, seem to be circumstances where each party has a lot of power in comparison to the other. It is extremely important for entrepreneur when choosing a right VC stage to have a personal or video meeting with VC for knowledge exchange, useful as for entrepreneur as for VC, since his kind of meeting may result a perfect check whether entrepreneur and VC can work together and have or possible to develop a good 'chemistry' between the parties, as well as provide an entrepreneur an experience in connecting with VC for future communication with venture capitalists if needed (Clercq, Fried, Lehtonen, Sapienza 2006, p. 98). According to

Roberts (1991) that sure and fast growth of successful cooperative relationships with VCs depends on networking with individuals, who have previous connections to venture capitalists, as well as on experience of having direct personal contacts with them (Cable & Shane 1997, p. 158). Faith in one another relational parties is stimulated by communication, which is constantly modified between VC and entrepreneur and this only helps to promote and support cooperation in terms of information flow (Ben-Yoav & Pruitt, 1984; Cable & Shane, 1997, p. 158).

However still, entrepreneurs with a track record of market timing success are more likely to outperform their competition in subsequent initiatives. (Gompers, Kovner, Lerner, Scharfstein, 2010). On the very first stages of project or start-up being not sure in some kind of knowledge brings to conflicting or false expectations and because of that communication have to be on a high-quality level, to minimize risk of failure (Cable & Shane, 1997, p. 157), additionally in this times it is significant to share substantial information, since based on relationships theories, development is very affected by communication level on first phases of professional relationship (Altman & Taylor 1973; Gabarro 1979; Cable & Shane 1997, p. 157). According to Cable & Shane (1997) Although it is anticipated that both venture capitalists and entrepreneurs will cooperate when there is regular, effective communication, venture capitalists' collaboration decisions should be more influenced by communication than those of entrepreneurs. Venture capitalists are at a disadvantage in the early stages of their discussions with business owners.

## **2. METHODOLOGY**

The goal of this study is to explore details of working and collaborating with venture capitalists, building on the experience of startup owners who have benefited from investor assistance by starting their business. Qualitative research can be characterized as a system of research that emphasizes words rather than numbers in the assortment and analysis of information, and which mainly emphasizes a deductive way to solve the connection between theory and research (Bryman, 2012, p. 380). The reason for this choice was that (Patton, 1990) through interviews with owners that you can learn about the experience of working with VCs from the company owner's point of view. An interview was chosen as the data collection approach. Qualitative interview helps to understand participant's point of view and understand their perspective, by having open and detailed answers which will be coded quickly building an overview of the study (Bryman, 2012, p. 470).

Semi-Structured interview is developed based on the prior literature review conducted by the author. Interview questions were based on an already existing study "Entrepreneurial experiences from venture capital funding: exploring two-sided information asymmetry" by Sarah Glücksman (2020), with author's updates to make the research more focused. The original list of interview questions is presented in Appendix 2. The interview was designed to stimulate conversation and allow participants to give their own experience of working with venture capital. Interview questions which were used in this study are presented in Appendix 3. Once each interview was performed and transcription was ready, the author used coding to analyze the obtained data. To analyze the interview, the author encoded transcripts of the interview and noted key points based on quotes from the conducted interview which are presented in table 3, table 4, table 5 and table 6, as well as mentioned it the text.

As mentioned before, the aim of this research was to study experience of young entrepreneurs in working with venture capitalists and finding out key points and criterias which affect the cooperation while developing a business. To reach this goal and have open and rich answers from interview participants semi-structured interview type was chosen. This this type of interview made possible for participants to have space for open answers and worry not so about the structure of the interview and answer on the exact question, but provide an open wide point of view. For example some of the participants had such a long answer going in details that they automatically answered on coming questions even before getting asked about them. Questions asked during the interview also were depending of participant's experience. The length of interviews was between 15 and 30 minutes since some of the interview participants prefer to make an open long answers to talk more focused and without going into details, while some participants preferred focused and structured answers.

The difficult part of interviewing entrepreneurs who have an experience with venture capitalist corporation was to find volunteers for that kind of work. Unfortunately only 12 People were interviewed. The interview participants were found through the Internet sources such as LinkedIn, Personal authors Connections and snowball sampling of participant's entrepreneurs. According to that there was no such criteria when choosing an interview participants besides the main point of having an experience with working with entry capitalists for startup idea development. The youngest participants were 37 years old and the oldest one was 63 years old. Table 2, which is presented in Appendix 4, provides the information of all the interview participants. As well as the difference of age. Also nationalities were different: 7 of the participants were Ukrainians, one was Estonian, one Chinese, one Brazilian, one from Canada, and one from United Kingdom. Author finds, this fact, not as a weakness point of the research, but as a bonus, we can see a more open image of entrepreneurs cooperation with venture capitalists, and it's not focused in one specific geographical area, properties of culture and mentality. Three entrepreneurs had started a new company and two had become investors. Rest of the participants are still working in company which was capital funded. Author also mentioned that only one interview participant was female. Table 2 shows that 41,6% of participants have left the venture funded start-up. Author also points out that 60% of participants who left their companies are nor working in alternative companies, and 40% are investors nowadays. Because of the difficulty of attracting interest from potential interviewees author could not divide interview participants into criteria, which caused the fact that interview participants could have a different experience of cooperation with venture capitalists. For

example, 8 participants had a successful experience while only four had unsuccessful experience. Another criteria was the startup type. Due to lack of the participants author could not focus this research on one specific business type for example only about technique innovation ideas or medicine and e.t.c. After several interviews were done after started to notice the similarity between the answers on the question. The similarity was between conducted interviews as well as that answers are proving the theoretical background. Using questions for interviews, the author learned information about such important points of work with venture capitalists as the importance of choosing the right VC, the importance of the best time/period for seeking help from the VCs, the importance of the relationship between the entrepreneur and the venture capitalist. To conduct this study, entrepreneurs were chosen who took advantage of the help of venture capitalists in building a business. Twelve interviews were conducted, however, eleven of twelve interviewees gave an agreement only if they remained anonymous. The interview was conducted via Zoom meetings. Interview transcripts are presented in additional document, which can be found attached with link in Appendix 5. All interview transcripts are presented anonymously and sclassified as I1, I2,...I12, accordingly to the order of proving the interview.

## **3. RESULTS**

### **3.1. Results analysis**

Most entrepreneurs identified several important stages of working with venture capitalists, which helped the author build analysis on four main points. The author highlighted such key stages as: the time of appeal to a venture capitalist, trust relations between an entrepreneur and a venture capitalist, the ability to assess how suitable a venture capitalist is for this startup, and the last, but not least important, study of the venture capital market, to obtain the strategy of choosing a venture capitalist.

#### **3.1.1. Strategy of choosing venture capitalist**

Working with venture capitalists is a work of great trust, which the author also talks about in the description of stage 3.4, but for an entrepreneur to be ready for cooperation, he must understand what the work of a venture capitalist consists of while choosing a venture capitalists. Entrepreneurs independently explored the venture market, learned the theoretical part, and two interviewees conducted similar interviews with entrepreneurs about their experience with venture capitalists in order to base their choice not only on personal studies, but also on the experience of other entrepreneurs.

Venture capitalists have a reputation that is based on their activities, as well as the results of their work with entrepreneurs. The reputation of venture capitalists is important not only for themselves, but also for company owners. Since the reputation of a venture capitalist will be associated with the company with which the venture capitalist collaborated. After all, as we

noted in an interview: "The company may have prospects, a strong strategy, but it does not have a big future with a bad reputation." More quotes proofing the importance of strategic VC choosing are presented in Table 3.

It is very important to study the structure of the fund's investments. If the fund has not invested in the last few months, this may mean that the fund may face a financial crisis. Also, young entrepreneurs must pay attention to the average amount of funding to find out what funding they can count on.

When choosing a venture capitalist, it is necessary to study the identification of the funding cycle and pace. Most funds have a funding cycle and pace in which they finance new enterprises. They can only finance a certain number of businesses per quarter. If their quota is over, it is useless to expect them to invest with you. Venture capitalists pay much more attention to companies and entrepreneurs who are recommended or approved by people they know and trust. That's why it's so important to have business angels or consultants who are well known or connected in the venture capital world. Then they can warmly introduce the entrepreneur, which can be of great importance for deciding in favor of the owner of the company.

Once partners are satisfied with their interactions with the project presentation, they may ask to review your financial records to make sure the company is healthy and viable. They may also ask to speak with team members and customers to assess your value. It is important to bear in mind that the table of conditions contains provisions for comprehensive protection for venture capital, which can significantly reduce the cost of any assessment for the entrepreneur. It is vital to engage an experienced lawyer to discuss the terms of the contract. This process may take several months. The negotiation ability of the entrepreneur is limited by certain factors, such as the need for money, the reputation of the company, the need for finance, experience, as well as market conditions.

Table 3. Coding results from conducted interviews (VC choosing)

How VCs work	VCs reputation	VCs experience working with other entrepreneurs
<p>I6: “Of course, before turning to venture capital, I studied all the literature available to me. I wanted to be educated in this area, understand how the VCs work”</p> <p>I2: “It was very interesting and useful to learn how VCs work”</p> <p>I8: “In order to get interested in my idea, I realized that I need to think like VCs”</p> <p>I3: “Cooperation with venture capitalists is not suitable for everyone. You have to study their method of cooperation and see if you're ready for it. ”</p> <p>I4: “... understand why you're speaking with this VCs and try to understand before the call, what is the profile of the VC? What questions can you ask from this VC?”</p>	<p>I9: “The reputation of the VC will be associated with the company”</p> <p>I8: "The company may have prospects, a strong strategy, but it does not have a big future with a bad reputation."</p> <p>I12: “Pay attention to a VC’s reputation!”</p>	<p>I8: "I am happy to participate in this interview, as I conducted a similar survey myself, but informal, with entrepreneurs who have already worked with venture capitalists. I wanted to know about working with them [with VCs] from entrepreneurs point of view"</p> <p>I6: "...learn the experience of entrepreneurs who have already worked with them [with VCs]..."</p> <p>I5: “Also people who had an experience and were glad to help me when I was doing this process and the advice was: that don’t rush, take the moment, check the details, explore, the more you know the better, talk to people, communicate ask, ask people to share the experience, the tips, their weak points, of course, weak points, they can cause so much difficulties and troubles that you thought never gonna play role, they can come out.”</p>

### 3.1.2. The right time to appeal to a venture capitalist

“It is very important to choose the right fund for your business”, pointed out one of the interview participants, “You need to know which funds are interested in your area of business before contacting them. Examine the fund by identifying your needs and asking questions such as: Do I need funding? What kind of funding do I need? At what stage does my firm develop and what level of venture capital investment is required? How much funding does the firm need?”. More quotes from conducted interviews are presented in Table 4.

This allows you to choose a more suitable venture capital for the enterprise, agree on preferred conditions, while maintaining most of the business and its control. But if there is already a proven business plan, you need to make sure that venture capital is really needed in the long run.

Table 4. Coding results from conducted interviews (Timing)

High competitive base forces to appeal to venture capitalists	Considering factors determining investment readiness
<p>I10: “I saw that I should urgently develop my idea, as I had a large base of competition”</p> <p>I11: “If I were back in the past, I would advise myself to study more about competitors”</p> <p>I5: “There are billions of other people who want the same as you and it will take your place to work harder or someone who does it better will make your dream come true. “</p> <p>I2: “At the initial stage, I recommend turning to venture capital only in the case of high developing competition. If not, I would not recommend turning to venture capital, I repeat, at an early stage.”</p> <p>I2: “Once again, I’d say preparation is key, as even though we thought that we had planned out everything, we still kept running into new surprises.”</p> <p>I10: “at this moment, it was the best timing to go on the market.”</p>	<p>I10: “I turned to venture funds only a year after I felt the need for it. Since to interest the investor I had to develop my company”</p> <p>I6: “The entrepreneur should be sure that he is ready for the help of an investor. Since the start of cooperation with the investor, the startup should, perhaps very slowly first, but should show progress”</p>

### **3.1.3. Matching**

The interviews helped the author collect four important criteria that will help the entrepreneur in choosing the right venture capitalist. The author also noted that such a criterion as the location of a venture capitalist was named. The author of this interview was surprised by this criterion, since online communication and cooperation is currently widely developed. However, 4 interviewed entrepreneurs noted that the chances of financing depend on the distance of the entrepreneur and venture capitalist. Table 5 presents quotes from conducted interviews.

After this response, the author of this study added an additional question, "How did covid-19 affect the chance of financing if people were forced to return to their countries and work online from home?" Unfortunately, none of the interviewed entrepreneurs was in search of a new venture capitalist during the covid-19 period. However, one of the entrepreneurs noticed, "Covid-19 caused the globalization of venture capital investment". Early-stage investors who exclusively worked in local markets and didn't have access to the global community could benefit from a greater level of immersion. Become an opportunity to contact interesting projects online and contact with the help of Zoom, with which entrepreneurs were able to demonstrate their project to receive funding.

Almost each of the participants in the interview noted such a criterion as the choice of a venture capitalist who specializes in the sector of the entrepreneur's company. Based on the information obtained during interviews with entrepreneurs, the author identified the most popular sectors. Such today are software, followed by biotechnology, energy and medical devices.

Table 5. Coding results from conducted interviews (Matching)

Venture Capitalist's location	Firm's Industry Sector	Amount of Financing Needed
<p>I9: "Another fact that will increase the chances of receiving funding is if you are with a venture capitalist in one city, well, or a maximum of two to three hours driving away"</p> <p>I8: "I would not recommend choosing a venture capitalist at a distance far from you, as you may be forced to contact every two days"</p> <p>I3: "The majority of VCs exclusively invest in their own locality."</p> <p>I5: "...one of the big challenges of having an investor abroad is that in the beginning, you cannot was a person face-to-face meetings, instead of understand the common goal and also there are some physical questions, for example, such as 30 in the warehouse or setting up the dish shop.."</p> <p>I1: "...even though we didn't meet in person, they still prefer to invest in somebody who is located quite near..."</p> <p>I1: "And if they prefer to invest somewhere, let's say in the US or in Asia or whatever, they are not going to invest in all other regions."</p>	<p>I3: "The Company may have a profitable and stable business with long-term prospects, but does not meet the criteria of venture capital firms, unless it is able to show impressive growth over a certain period of time. This selection is mainly aimed at high-tech companies in the early stages of development, with very irresistible prospects"</p> <p>I9: "Make absolutely sure a VC firm is actively chasing deals in your stage before including it to your priority list."</p> <p>I8: "VC firms are open about the types of investments they make, so do your homework ahead of time to see if your business is a good fit."</p> <p>I12: "I would advise looking for investment in the area of your field"</p> <p>I7: "I would say for sure, do not ignore the moment matching with venture capitalist."</p>	<p>I3: "When choosing the amount of financing, you need to be ready for uncontrolled spending, there is a risk of temptation to unbearable "luxury", which entails dependence on a venture capitalist and when funding stops, the business can be considered as "dead".</p> <p>I7: "Varying VCs put in different amounts of money."</p> <p>I6: "... your should first determine the amount you are looking for, and then find a VC who is prepared to pay the amount you require."</p> <p>I12: "...the part of the capital that was devoted to that was not as high as it needed to be. This turned out to be the reason for the slow process of delegation."</p> <p>I4: "... I did not think through the full circumstances or the full conditions that I'm taking the money on"</p> <p>I5: "...I would say it was also a personal match."</p>

### **3.1.4. Trust relations between an entrepreneur and a venture capitalist**

Entrepreneurial behaviors have a stronger influence on trust than influencing elements at the initial stage of trust, according to this study. The decision-making behaviors of capitalists are also influenced by entrepreneurial behavior. Quotes proofing this result are provided in Table 6.

"The major aspect in the relationship between venture capitalists' trust in entrepreneurs and their investment behavior is an entrepreneur behavior," said one interviewee, "Trust has a large impact on capitalists' decision-making behavior, but no great influence on post-investment behavior."

"When you sign an agreement, you lose a stake in your company. As a rule, you retain a controlling stake, but the share of a venture capitalist can be both 10% and 25%. If you succeed in the end, then you give up a large amount of money.", pointed out one of the interview participants.

A foundation in which all partners work well together is the foundation that must be joined. Cohesion is important because these people will sit on a company board and run business to a certain extent. If there is no harmony, this cannot affect the enterprise.

Table 6. Coding results from conducted interviews (Trust relationship importance)

Open and honest work	Providing regular and detailed updates.
<p>I6: “Being open and honest about the company's growth, product, and market helps to build trust.”                      I2: “Having a good relationship with venture capitalists is important. It makes working with them much more pleasurable and I feel like it helps with communication, which is important for achieving success.”</p> <p>I8: “Begin your investor interaction as early as possible.”</p> <p>I9: “In terms of the company's vision, all of your investors should be on the same page.”                      I7: “...we all prefer to be in an environment where everyone is smiling, talking politely.”</p> <p>I7: “...focus on the relationship.”                      I8: “Yes, of course, he is the part of your team, you want to have trustful as I said and good relationship with a personal match”                      I8: “Of course cooperation with someone you don't really trust or like communicating with or whatever, will only increase risk of the failure of this motivation for you and for your business.”</p> <p>I3: “Find a significant lead investor who is confident in you, your team, and your product.”</p>	<p>I9: “Investors want to know what's going on with your business — not just the good news, but also the obstacles and disappointments.”</p> <p>I6: “Keep investors informed about significant efforts and seek their advice frequently to treat them as an extension of your team. Always report sad news, no matter how difficult it is.”</p> <p>I12: “I was expecting a mutual relationship rather than supervision.”</p> <p>I5: “This is also the hardest part. I would say you burn out, you give up, you lose your motivation and the only thing that was saving me is that I loved the actual idea of my business. I like this industry but physically or mentally. Yeah I was on the bottom.”</p>

### 3.1.5. Successful and unsuccessful experience comparison

Due to the fact that interviewed participants had a successful as unsuccessful experience of working with venture capital list it is possible to compare and highlight differences in their answers that can explain the reason of different experience. Table 7, provides quotes from the interview comparing answers by criteria. According to answer analysis, it is possible to mention mistakes that were pointed out by interpreters who had a bad and unsuccessful experience.

After analysing and comparing the answers it is hard to not see that preparation plays a big role in cooperation with venture capitalists. According to quotes from conducted interviews, it is clear to see entrepreneurs who did not take the preparation seriously enough faced difficulties already on the first stages of cooperation. Another important thing pointed out from analysing interview quotes is about team building. Intrapreneurs who had a successful experience, mentioned that they were lucky with their cofounders in their team, when intrapreneurs, who had unsuccessful experience hide inside conflicts, not every group member was ready to work as his or her co-founder and different budget level was also affecting start-up development process negatively. This leads us to the next highlighted difference which is staying motivated. According to analyst interview, it is clear that motivation affects the working process and the lack of motivation can cause risks of giving up. Business development is a hard process with many unexpected surprises and difficulties. To deal with that young entrepreneur has to be responsible, as was mentioned in one of the interviews "...founder needs to be a leader". Personality type affects the business development process, even if start-up idea is potentially successful and venture capitalists are ready to invest and supervise the company growth, can be not enough if entrepreneurs who are not mentally ready for challenges, difficulties and have lack of self discipline. The same mistake was pointed out by all interview participants who had a bad experience in working with venture capitalists. All funders got too excited and "caught euphoria" what made them be in a rush to keep going, and the only thing which was in mind was getting the investment to keep going. "I felt like, yeah, no, it doesn't matter. I just need the money to keep going. And this was the biggest mistake of this".

Table 7. Coding results from conducted interviews (Successful and unsuccessful experience)

Successful experience	Unsuccessful experience
<p>I11: "Trust the process and do not give up easily." It is also key to learn from your own and others' mistakes."</p> <p>I2: "We had gone through so much and had come too close to our goals to give up. Keeping that motivation going was hard at times, as setbacks did happen every now and then"</p> <p>I8: "It is all about the experience. Theory will not help without practice."</p>	<p>I4: "company who invested in us, but due to the fact that I was a bit raw back then and I was a bit euphoric about the progress that we were making I did not think through the Downside of taking the money without thinking it through so we ended up in a really bad situation"</p> <p>I12: Well, first of all, I won't be lying. I didn't care too much if it's venture capital or just some friend's capital or, I don't know, family office capital or angel's capital, whatever. Nothing,</p>

<p>I6: “Start building up your network, and analyze your potential employees just as the venture capitalists analyzed you.”</p> <p>I3: “you have to keep in mind how you manage your relationship depends on your readiness to distinguish between business and work.”</p> <p>I2: “Luckily enough one of our co-founders had through their contacts been acquainted with someone who was working in the venture capital space.”</p> <p>I2: “The biggest lesson learned from this phase is that preparation is key”</p> <p>I7: “Using venture capital is a responsibility that must be taken seriously, so any young entrepreneur looking to raise capital this way must be confident in their business idea, and confident in their ability to show expected results. Entrepreneurs looking to raise capital should also take their time calculating exactly how much funding they need and how long in terms of time that amount of capital would last them.”</p> <p>I2: “Once again, I’d say preparation is key, as even though we thought that we had planned out everything, we still kept running into new surprises”</p> <p>I3: “After a couple of rejections, which is only natural, I started playing around with the information that I was providing to these people through psychology, getting them interested, and vested in the things I was telling them, which eventually led me to a seat at some company tables, discussing terms of investment. you cannot rush the learning process”</p>	<p>nothing really. I, actually, never managed the group of employees before, so it was hard for me. This lack of experience was making me being always late for deadlines that were set by investor in order to keep track of the progress. So, I did not know how to make it possible and profitable for both parties.</p> <p>I4: “I did not think through the full circumstances or the full conditions that I'm taking the money on and I put a signature on a paper when there were too many what-ifs. So in the end of the day that was the crucial mistake I made from my side.”</p> <p>I9: “Well, first of all, I won't be lying. I didn't care too much if it's venture capital or just some friend's capital or, I don't know, family office capital or angel's capital, whatever.”</p> <p>I12: “Again, industry, where the investor was operating at, was very different and the investor, who was setting deadlines, did not fully understand what is the best way to develop our product. This is why the better the relationship with investor needs to be established as opposed to our case, where investor just checked on the established goals.”</p> <p>I4: “So due to the fact that we were quite a big founding team, and that was also a big mistake that we did, we were about five people in the founding team, which is not a normal thing to do. Not all of us had the opportunity to invest their own money.”</p> <p>I9: “Again, I'll be honest, I didn't understand too much what is good, what is bad, so how do they differ?”</p> <p>I4: “My learning was that you need to do homework.”</p> <p>I4: “I didn't get the best VC on board, ..”</p>
--	--

## **3.2. Discussion**

When compiling this study, the theoretical part was built on existing and previously performed scientific studies about the work of venture capitalists and young entrepreneurs, as well as their cooperation.

Based on results of the interview we answered on the second question of this research. Analyses showed us such key points as: (1) the time of appeal to a venture capitalist; (2) trust relations between an entrepreneur and a venture capitalist; (3) the ability to assess how suitable a venture capitalist is for this startup (matching); (4) study of the venture capital market, to obtain the strategy of choosing a venture capitalist (strategy of choosing a VC). Results of this study are match results from Glücksman research which was talked about in theoretical part. This study results are in line with this findings.

When choosing a right VC, young entrepreneurs must observe the VCs network following key stages and analyze their business to find the right and the best venture capitalist to work with. In addition to that plays role a product characteristic and their matching with VCs specialization.

Conducting research when choosing a VC, an entrepreneur must focus his circle of persons suitable for the criteria of his business. The capacity to assess whether a venture capitalist is a good fit for this startup is another important finding from this study which proves the information in already conducted researches. The entrepreneur must convince the venture capitalist that his team and business concept are relevant to the VC's current area of interest and that his equity participation and management abilities will facilitate the VC's work and increase returns. Both the VC and the entrepreneur can make good money when the entrepreneur knows the requirements of the funding source and sets expectations appropriately. For example, if this startup is an innovative equipment for working in the field of engineering, it can be left without success in the market if the development of this enterprise is carried out by a venture capitalist who is based on the sale and promotion of products in the field of medicine, where he is better oriented in the market, understands the possibilities of demand, competition, as well as the potential of this product.

Also, in the process of choosing a venture capitalist, young entrepreneurs need to know the importance of venture capitalist's reputation. The fact is that the business of an entrepreneur, the management and financing of which is engaged in a venture capitalist, will be automatically associated with the reputation of this venture capitalist. In the event when the VC has an unfavorable reputation, this will adversely affect the promotion of the startup in the market. Therefore, when choosing a venture capitalist, an entrepreneur must understand that reputation will directly affect the product itself and in order to avoid negative experience, it is necessary to study this item in the biography of a potential venture capitalist.

The next important factor in choosing a venture capitalist which was detected in this study is the same or close location. It has been revealed that an entrepreneur and venture capitalist can spend more time together than with their loved ones and families. And for a more convenient, productive and healthy collaboration, they prefer face-to-face meetings that video calls cannot replace.

Comparing our findings and research results we can see that experience key points and venture investment criteria are similar. Experience of working with VCs depend on entrepreneurs' personality, which affects the trust relationship and avoiding information asymmetry. The relationship between a venture capitalist and a young entrepreneur plays a huge role. This fact was not only found when conducting interviews with entrepreneurs who had experience working with a venture capitalist, but was also known to us when familiarizing ourselves with previous scientific articles and drawing up a theoretical part. This helps us to conclude that a healthy environment and strong trust directly affect business development. Since a venture capitalist has more experience and knowledge in this area, he can use this privilege for his benefit, depriving a young and inexperienced entrepreneur of the opportunity to fully develop his start-up and gain maximum experience. Also, an entrepreneur can live as a specialist in the field of the product itself or ideas, for example, medicine or technology, but not have enough information about basic economics to competently expand the company and successfully sell his product. In this case, the venture capitalist who is a source of capital and influence the process can take advantage of these circumstances to obtain benefits solely in his favor. To avoid these circumstances, it is necessary to build strong and trusting relationships. Also, the compatibility of personalities is very important. Based on the words of the interviewed interview participants, we know that entrepreneurs and venture capitalists can spend time together for hours and even days, communicating with each other more than with their loved ones and families. In this case,

communication between the two parties should proceed as easily as possible and with understanding of each other. VCs have to not only support a start-up financially, but also provide great management skills which match business life cycle and gives an opportunity for entrepreneur to make his business successful. While entrepreneur has to understand, that their ideas and theory knowledge can be not enough and VCs experience can greatly improve business development. Conflicts and persistent disagreements, as well as the usual incompatibility in characters, will only complicate and slow down the process of business development, and will also leave only negative experiences that seem to affect the future motivation of cooperation.

The findings of the study are useful for entrepreneurs to present the relevant information and at the right time and use the VC to maximize their success rate. The next key point highlighted by the research interviews was timing. When studying existing studies on the same or an approximate topic and when compiling the theoretical part, the author did not note timing as an important criterion affecting the experience of working with venture capitalists. However, this preparation moment was noted by several participants in the interviews . Before turning to the venture capitalist himself, the entrepreneur must also study the product market, the consumer's readiness for this product, assess demand and familiarize himself with competition, thereby choosing the best time to advance the product in the product market. This applies to the work that needs to be done in the preparation and study of the business development process, in other words, in the pre-investment phase. Also, the entrepreneur must make sure of the quality of his product and assess his potential in the market, after which with a business plan to contact the chosen venture capitalist.

Based on the results of this study, it is possible to conduct a study comparing the experience of entrepreneurs with different venture funds among themselves. Revealed key points could be comparison criteria for future study to identify more detailed analysis of cooperation with venture capitalists. Also, some of venture funded start-up founders had become an investor. In this case future study can be aimed to explore the best ways to prepare for working with VCs for young entrepreneurs from investors point of view. Future study can be also focused on comparing investor's opinion and ex-entrepreneurs who had become investors. While writing a theory part showed that there is only few pervious research in this way, which causes difficulties while building a startup for young entrepreneurs.

This study showed key points for choosing and working with VCs which were not mentioned in a theory part not deeply, since author could not find enough information to prove their reliability. Based on this it is possible to say that this topic can be analysed and studied more deep so young entrepreneurs can prepare for business development even better. Author believes that this topic should be explored deeply in future studies, since personal experience can give more profit for a young entrepreneurs than only theory knowledge or information from venture capitalists point of view. There is a problem nowadays that person with business ideas, especially in innovation criteria, face problem with selling the idea properly. This is why studying entrepreneur's experience from their point of view can be more relatable, interesting and important for the future business-mans to avoid mistakes, loss of the motivation as well as help to avoid being a victim of information asymmetry, improve their preparation and cooperation skills.

This research result also proved the theoretical part about the importance of relationship between venture capitalists and young entrepreneurs. As well as a big amount of information and the focus on this point as on one of the most important one is clearly seen. Author would like to point out that the amount of already existing scientific researches which are focused on an importance of relationship between venture capitalists and young or inexperienced entrepreneurs is much higher than the amount of scientific researches based on other key points that were found by this research. What makes clear that even with perfect match, great innovative startup idea and perfect market time can be not enough if venture capitalist and an entrepreneur can not find a great communication way or simply can not build a mindset connection for a successful development of entrepreneur's startup idea into successful business company.

This research can be used for entrepreneurs who have the lack of knowledge of cooperation with venture capitalists from already experienced entrepreneurs point of view. Interview participant (I8) said during the interview: "So yeah, when I heard your topic I was kind of happy that this started to be investigated, because this is important and can help entrepreneurs who cannot build contact and connections for a different reason.". This will help to increase the chance of having a successful experience in reaching the goal process by improving the preparation part. The improvement can be based on analysing entrepreneurs weak points, which were pointed out during the interview as well as give time to fix them and avoid them, causing problems and difficulties, while starting a cooperation with venture capitalists. For venture capitalists this research can be useful to understand what intrapreneurs expect from cooperation, as well as how they see it, and what is important for keeping cooperation healthy, what helps them to stay motivated and the importance of trustful relationship for successful outcome. For the future

research, the study can be used as a base of knowledge and potential researchers can be more focused into one specific start-up type or comparing answers of intrapreneurs, who had experience working with a venture, capitalist ones to those who have a multiple experience and see the difference.

## CONCLUSION

Venture capitalists help young entrepreneurs with business development both ways financially and with knowledge sharing. As was proven in this research VCs are not only financial support, but also a mentor who must be trusted by an entrepreneur and show decent results and progress.

The aim of this study was to develop the topic of young entrepreneur's experience in cooperation with venture capitalists by finding critical points and factors that play a role in choosing the right venture capitalist for a particular startup, affecting the cooperation of entrepreneurs and venture capitalists, and also, find out the reasons why the cooperation of venture capitalists and entrepreneurs can without successful for both parties and what to pay attention to, to avoid or reduce the risk of obtaining a given outcome. To follow the aim two research questions were conducted: "How venture capitalists help young entrepreneurs in the development of a startup?" and "What are the key points in entrepreneurs' cooperation with VCs that can affect start up development?".

To answer on a first research question results showe that venture capitalists help not only financially to develop a start-up faster, but also by their supervision, management skills and bigger experience in business development. Since young entrepreneurs most commonly face difficulties with budget and it is not accessible to pay loans and other necessary costs to start and advance their business, they are in risk to lose their place in market they seek financial help from venture capitalists. However, as was revealed in the creation of this study and confirmed by the results obtained, the aid itself is not only in funding. An entrepreneur should be prepared for the fact that he will have to share the role of managing the development of the process and listen to the advice of a more experienced person, thereby starting up to become dependent not only on financial investments, but also on the ability of a venture capitalist to promote a product in the market. This research also showed that venture capitalist's help is also experience and knowledge sharing, helping to set goals in the right chronology for start-up development and

improvement. Cooperation with VCs affects business development positively since entrepreneur fell responsibility for VC's reputation. These results of the study confirm the theoretical part based on previous studies conducted by other authors. It was also revealed that cooperation with venture capitalists is useful not only for developing business in the right direction, accumulating experience and building important connections and reputation, which allows improving the quality of business development and increases the chances of success, but also can help to understand to a young entrepreneur whether cooperation with a venture capitalist is suitable for him in general. The experience of the interviewed young entrepreneurs who were not satisfied with the cooperation and would not repeat this experience in the future tells us about this. The author examines what could cause negative experience in the cooperation of venture capitalists and young entrepreneurs in the answer to the next question about the key points of successful cooperation of VC and young entrepreneur.

Interview analyses showed four key points which affect experience in working with VCs which are the steps that entrepreneur have to focus on before turning to VC's help and investment for successful business development experience and the outcome of the cooperation with venture capitalist. This makes us understand that the main step in turning to VC is quality preparation for co-working as well as building a trustful relationship and healthy working environment, since it will affect the experience directly.

To receive a profitable experience working with venture capitalists it is important to focus on choosing the right VC for entrepreneurs and their start-up. This means that to receive a good and profitable experience working with VCs, both sides, entrepreneur and VC must follow the specific criteria when making an investment and cooperation choice decision.

In addition to that, this research showed how to alleviate difficult points, how to avoid unsuccessful experiences, and the rule of preparation before contacting a venture fund, which plays an important role. Based on the results of the study, it becomes clear that the entrepreneur must take a particularly serious and responsible approach to preparing for cooperation with venture capitalists. The entrepreneur should pay special attention to the process of choosing the right and most suitable venture capitalist, relying on criteria such as the reputation of the venture capitalist and his location. Also, the entrepreneur is obliged to analyze and evaluate his product, market, as well as study competition, choosing the right and most suitable time to start promoting the product. It was also revealed that the entrepreneur should narrow the search to venture capitalists who work with products in the same area as the product of this startup. For example, areas such as medicine, engineering, IT products or technology. This will help in the

development of the business, since the venture capitalist has more knowledge and field in the field in which he already had experience. In addition to this, it will help to avoid information asymmetry on the part of entrepreneurs, if, for example, the product for promotion to the market is an innovative medical product or equipment, but the venture capitalist does not have sufficient knowledge in the field of medicine.

Last, but not least, this research identified a point on the importance of building a healthy and trusting relationship between an entrepreneur and a venture capitalist. Based on the answers of the participants in the interviews, it becomes clear that the success of business development depends on the relationship between of two parties (the entrepreneur and the venture capitalist). This criteria has a direct impact both on the potential success of the startup and on the future perception of cooperation with the venture capitalist. Trusting relations between the two parties will help to avoid conflicts in cooperation, help facilitate the process of business development, and also enable the entrepreneur to get more detailed knowledge, as well as avoiding information asymmetry.

The entrepreneur should be ready for the fact that since the beginning of cooperation, the work of the company and the entrepreneur should show progress and be under the clear supervision of the venture capitalist. Avoiding well done preparation and analyzing start-up by all the key points can cause information asymmetry and bad reputation for both sides, as well as lost of motivation for the future experience of cooperation for both parties.

Results point to issues that need further investigation. The author also considers that it is important to pay a lot of attention to the fact that even though the interviews conducted were with the founders or co-founders of companies from different industries, as well as the fact that there were different degrees of experience, the answers to the interviews were similar and almost the same. Which makes this study useful for entrepreneurs with different types, ideas, skills and backgrounds. As well as for venture capitalists this study can be useful for seeing entrepreneur's point of view and to analyse critical points for improving their performance in businesses development cooperation. Both venture capitalists and entrepreneurs can also use this research to make sure of the importance of focusing not only on management, economic and innovation skills, but also work on basic personality skills or issues, to make cooperation easier and not let personality differences or any kind of person behavior affect business development in an unsuccessful attempt.

## LIST OF REFERENCES

- Akerlof, G. (1970). The Market for “Lemons: Quality Uncertainty and the Market Mechanism. *Quarterly Journal of Economics*, 84, 488–500.
- Altman, I., Taylor, D. A. (1973). *Social penetration: The development of interpersonal relationships*. Holt, Rinehalt & Winston
- Amit, R., Brander, J., and Zott, C. (1998). Why do venture capital firms exist? Theory and Canadian evidence. *Journal of Business Venturing*, 13, 441-467.  
[https://doi.org/10.1016/S0883-9026\(97\)00061-X](https://doi.org/10.1016/S0883-9026(97)00061-X)
- Ben-Yoay, O., Pruitt, G. D. (1984). Resistance to yielding and the expectation of cooperation future interaction in negotiation. *Journal of Experimental Social Psychology*, 20 (4), pp. 323-335.  
[https://doi.org/10.1016/0022-1031\(84\)90029-5](https://doi.org/10.1016/0022-1031(84)90029-5)
- Boocock, G., Woods, M. (2019). *The Evaluation Criteria Used by Venture Capitalists: Evidence from a UK Venture Fund*. Loughborough's Research Repository.
- Bryman, A.,(2012). *Social Research Methods*. (4th ed). Oxford University Press Inc., New York, United States.
- Cable, D. M., Shane, S. (1997). A Prisoner's Dilemma Approach to Entrepreneur-Venture Capitalist Relationships. *The Academy of Management Review*, 35, 142-176.  
<https://doi.org/10.2307/259227>
- Carpentier, C., Suret, J., M. (2006). Some Evidence of the External Financing Costs of New Technology-based Firms in Canada. *Venture Capital: An International Journal of Entrepreneurial Finance*, 8, 227–252. <https://doi.org/10.1080/13691060600748421>
- Clercq, D., Fried, H. V., Lehtonen, O., Sapienza H. J. (2006). *An Entrepreneur's Guide to the Venture Capital Galaxy*. Academy of Management
- Copley, P., Douthett, E., Zhang, S. (2021). Venture capitalists and assurance services on initial public offerings. *Journal of Business Research*, Elsevier, 131, 278-286.  
<https://doi.org/10.1016/j.jbusres.2021.04.011>

- Croce, A., Marti, J., Mutinu, S. (2013). The impact of venture capital on the productivity growth of European entrepreneurial firms: 'Screening' or 'value added' effect? *Journal of Business Venturing*, 28, (4), 489-510. <https://doi.org/10.1016/j.jbusvent.2012.06.001>
- David, H., H. (2007). Experienced entrepreneurial founders, organizational capital, and venture capital funding. The Wharton School, 2000 Steinberg Hall-Dietrich Hall, University of Pennsylvania, Philadelphia, PA 19104, United States, 36, 722–741. <https://doi.org/10.1016/j.respol.2007.02.022>
- Dubocage, E., Reidis, J., H., Rivaud-Danset, D. (2012). Success or Failure of French New Technology-Based and Venture-Backed Firms: An Empirical Approach. Easier to Raise Follow-on Venture Capital Financing? An Analysis of the Relevance of Business Angels' Investment Practices. *Entrepreneurial Finance Special Issue*. <https://dx.doi.org/10.2139/ssrn.2148424> 1-26
- Fielden, S. L., Davidson, M., J., Makin, P., J., (2000). Barriers Encountered During Micro and Small Business Start-up in North-West England. *Journal of Small Business and Enterprise Development*, 7 (4), pp. 295-304 <https://doi.org/10.1108/EUM0000000006852>
- Gabarro, J. (1979). Socialization at the top – How CEOs and subordinates evolve interpersonal contracts. *Organizational Dynamics*, 7 (3), pp. 3-23. [https://doi.org/10.1016/0090-2616\(79\)90024-X](https://doi.org/10.1016/0090-2616(79)90024-X)
- Glücksman, S. (2020). Entrepreneurial experiences from venture capital funding: exploring two sided information asymmetry. Department of Technology Management and Economics, Division of Entrepreneurship & Strategy, Chalmers University of Technology, Gothenburg, Sweden, 331-354.
- Gompers, P., A., Gornall, W., Kaplan, S., Strebulaev I., A. (2020). How do venture capitalists make decisions? *Journal of Financial Economics*, 135, (1), 169-190. <https://doi.org/10.1016/j.jfineco.2019.06.011>
- Gompers, P., Kovner, A., Lerner, J., Scharfstein, D. (2010). Performance persistence in entrepreneurship. *Journal of Financial Economics*, 18-32. <https://doi.org/10.1016/j.jfineco.2009.11.001>
- Gompers, P., Lerner, J. (2001). The Venture Capital Revolution. *The Journal of Economic Perspectives*, 24, 145-168.
- Gompers, P. A., Lerner, J. (2004). *The Venture Capital Cycle*. Cambridge, MA: MIT press.
- Hall, J., Hofer, C. W. (1993). Venture capitalists' decision criteria in new venture evaluation. *Journal of Business Venturing*, 25-42. [https://doi.org/10.1016/0883-9026\(93\)90009-T](https://doi.org/10.1016/0883-9026(93)90009-T)

- Ireland, S. (2021). Most Startup Friendly Countries in The World. CEOWORLD Magazine. States Gate.
- Johan, S., Cumming, D. (2008). Information Asymmetries, Agency Costs and Venture Capital Exit Outcomes Forthcoming in Venture Capital. An International Journal of Entrepreneurial Finance. DOI:10.1080/13691060802151788
- Landström, H. (2017.) Advanced Introduction to Entrepreneurial Finance. Cheltenham: Edward Elgar Publishing.
- Macmillan, I., C., Siegel, R., Narasimha, P., N., S. (1985). Criteria used by venture capitalists to evaluate new venture proposals. Journal of Business Venturing, 1, 119-128. [https://doi.org/10.1016/0883-9026\(85\)90011-4](https://doi.org/10.1016/0883-9026(85)90011-4)
- Metrick, A., Yasuda, A. (2007). Venture capital and the finance of innovation. (2nd ed)
- Mishra, A. (2004). Indian venture capitalists investment evaluation criteria. Indian Institute of Management, 71-93.
- Mishra, S., Bag, D., Misra, S. (2017). Venture Capital Investment Choice: Multicriteria Decision Matrix. The Journal of Private Equity, 17, 52-68. DOI:10.3905/jpe.2017.20.2.052
- Monika, A.K. Sharma, A.K. (2015). Venture Capitalists' Investment decision criteria for new ventures: A Review. Procedia - Social and Behavioral Sciences, 189, 465 – 470. <https://doi.org/10.1016/j.sbspro.2015.03.195>
- Patton, M. (1990). Qualitative evaluation and research methods. Beverly Hills, CA: Sage, 169-186.
- Roberts, E. (1991). High stakes for high-tech entrepreneurs. Understanding venture capital decision making. Sloan Management Review, 9, pp. 19-20
- Savaneviciene, A., Venckuviene, V., Girdauskiene L. (2015). Venture Capital a Catalyst for Start-Ups to Overcome the "Valley of Death": Lithuanian Case. Procedia Economics and Finance, 26, 1052 – 1059. [https://doi.org/10.1016/S2212-5671\(15\)00929-6](https://doi.org/10.1016/S2212-5671(15)00929-6)
- Timmons, J., Bygrave W., D. (1992). Venture Capital at the Crossroads. University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship
- Tyebjee, T. T., & Bruno, A. V. (1984). A model of venture capitalist investment activity. Management science, 30 (9), 1051-1066.  
United States: John Wiley & Sons, Inc.

Wonglimpiyarat, J. (2012). Equity Financing and Capital Market Funding Policies to Support Entrepreneurial Development in Asia: Comparative Cases of Thailand, Malaysia, Singapore, and Taiwan. *The Journal of Private Equity*, 15, 10-24.

Zhang, J. (2007). A Study of Academic Entrepreneurs Using Venture Capital Data. Clark University. IZA Institute of Labor Economics, 29-92.

Zider, B. (1998). How Venture Capital Works. *Harvard Business Review*.

## APPENDICES

**Appendix 1. Table 1**

<p>I. The entrepreneur's personality</p>	<p>1. Capable of sustained intense effort          2. Able to evaluate and react to risk well          3. Articulate in discussing venture          4. Attends to detail          5. Has a personality compatible with mine</p>
<p>II. The entrepreneur's experience</p>	<p>6. Thoroughly familiar with the market targeted by venture          7. Demonstrated leadership ability in past          8. Has a track record relevant to venture          9. The entrepreneur was referred to me by a trustworthy source          10. I am already familiar with the entrepreneur's reputation</p>
<p>III. Characteristics of the product or service</p>	<p>11. The product is proprietary or can otherwise be protected          12. The product enjoys demonstrated market acceptance.          13. The product has been developed to the point of a functioning prototype          14. The product may be described as "high tech"</p>
<p>IV. Characteristics of the market</p>	<p>15. The target market enjoys a significant growth rate.          16. The venture will stimulate an existing market.          17. The venture is an industry with which I am familiar.          18. There is little threat of competition during the first three years.          19. The venture will create a new market.</p>

V. Financial considerations	<p>20. I require a return equal to at least 10 times my investment within 5- 10 years.</p> <p>21. I require an investment that can be easily made liquid (e.g., taken public or acquired).</p> <p>22. I require a return equal to at least 10 times my investment within at least 5 years</p> <p>23. I will not be expected to make subsequent investments. 24. I will not participate in latter rounds of investment (requires my participation in the initial round of investment).</p>
VI. The venture team	<p>25. The venture is initiated by one person with the relevant experience to his idea.</p> <p>26. The venture is initiated by more than one individual, each having similar relevant experience.</p> <p>27. The venture is initiated by more than one individual, the individuals constituting a functionally balanced management team.</p> <p>28. None of the above is essential for the venture to go forward.</p>

Source: Macmillan, Siegel, Narasimha, et al. (1985)

## Appendix 2. Original interview questions

1. Briefly provide a history of yourself and your startup
  2. Can you walk me through the various financing stages of your company? Pre-Investment phase
  3. Why did you decide to raise external capital? Why venture capital?
  4. Why did you choose this VC?
  5. How and when did you make the first contact?
  6. Did you raise external capital from other investors? From whom?
  7. What was most difficult during the pre-investment phase?
  8. What did you learn from this phase?
  9. What did you know about this phase before?
  10. If you were to give any advice on this phase to new entrepreneurs who are thinking about raising external capital, what would that be?
- Post-Investment phase
11. Beside capital, what did the VCs contribute with after the initial investment?
  12. What was most difficult during the post-investment phase?
  13. What did you know about this phase before?
  14. If you were to give any advice on this phase to new entrepreneurs who are thinking about raising external capital, what would that be?

### Exit phase (if applicable)

15. Why did you do this type of exit?
16. When was the exit strategy decided?
17. What was most difficult during the exit phase?
18. What did you learn from this phase?
19. What did you know about this phase before?
20. If you were to give any advice on this phase to new entrepreneurs who are thinking about raising external capital, what would that be?

### Insights

21. Was this your first startup?

### If yes

22. Have you raised venture capital before? Why again?
23. Have you raised capital from the same VC as the first time?
24. Financing wise, what did you do different in your subsequent startup/s compared to your first startup?

### If no

25. If you started a new company would you raise venture capital again?
26. If yes, would you raise with the same VC? If yes, why? If no, why not?
27. What would you do differently if you would raise venture capital for a new startup?
28. What are the most important insights from your VC journey/s?
29. What were the biggest surprises during your VC journey/s?

30. Which general advice would you give someone who is planning to raise external capital for the first time?

Glücksman, S.,(2020). Entrepreneurial experiences from venture capital funding: exploring two-sided information asymmetry. Department of Technology Management and Economics, Division of Entrepreneurship & Strategy, Chalmers University of Technology, Gothenburg, Sweden., 22(4).

### **Appendix 3. Interview questions used in this study**

1. Why did you decide to raise external capital? Why venture capital?
2. Since the work is about experience in deep ways, with details, I would like to ask you how and when was your first contact with the venture capital?
3. How and when did you make the first contact and what was your preparation for the first meeting?
4. What was most difficult during the pre-investment phase?
5. What did you learn from this phase?
6. If you were to give any advice on this phase to new entrepreneurs who are thinking about raising external capital, what would that be?
7. Beside capital, what did the VCs contribute with after the initial investment?
8. What was most difficult during the post-investment phase?
9. If you were to give any advice on this phase to new entrepreneurs who are thinking about raising external capital, what would that be?
10. I would also ask you what are the most important insights from your VC journey? Maybe the biggest surprises that you didn't expect by preparing?
11. Relationships with venture capitalists. Not so professional but personal. Does it affect your work? Would you recommend having a good relationship with venture capitalists itself? Or it doesn't really affect the work?
12. How did COVID affect the working? Was it harder? Or maybe it was easier using Zoom?

(Based on an already existed research: Glücksman, S.,(2020). Entrepreneurial experiences from venture capital funding: exploring two-sided information asymmetry. Department of Technology Management and Economics, Division of Entrepreneurship & Strategy, Chalmers University of Technology, Gothenburg, Sweden., 22(4).)

**Appendix 4. Table 2**

Position (Today)	Age	Gender	Company exit
CEO	63	Male	No
CEO	51	Male	No
Founder	38	Male	No
CBDO	41	Female	No
CEO (Alternative company)	45	Male	Yes
Founder (Alternative company)	37	Male	Yes
CBDO	59	Male	No
CEO (Alternative company)	39	Male	Yes
CEO	55	Male	No
CEO	37	Male	No
Investor	50	Male	Yes
Investor	48	Male	Yes

## **Appendix 5. Interview transcripts link**

<https://docs.google.com/document/d/12P7oC5-2NtYYgppEJN9N1J-bnTO6ss9c6WJFR53xUk4/edit>

## **Appendix 6. Non-exclusive licence**

### **A non-exclusive licence for reproduction and publication of a graduation thesis**

I Alexandra Hasselbach

1. Grant Tallinn University of Technology free licence (non-exclusive licence) for my thesis  
BUSINESS DEVELOPMENT EXPERIENCE OF ENTREPRENEURS WITH  
VENTURE CAPITALISTS,  
supervised by Aino Kiis,
  - 1.1. to be reproduced for the purposes of preservation and electronic publication of the graduation thesis, incl. to be entered in the digital collection of the library of Tallinn University of Technology until expiry of the term of copyright;
  - 1.2. to be published via the web of Tallinn University of Technology, incl. to be entered in the digital collection of the library of Tallinn University of Technology until expiry of the term of copyright;
  - 1.3. am aware that the author also retains the rights specified in clause 1 of the non-exclusive licence;
  - 1.4. I confirm that granting the non-exclusive licence does not infringe other persons' intellectual property rights, the rights arising from the Personal Data Protection Act or rights arising from other legislation.

11.05.2023