

How venture capitalists evaluate entrepreneurs' track records of conflicts in investment decisions

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Received 2 August 2024
Revised 4 February 2025
12 March 2025
7 April 2025
Accepted 7 April 2025

Abstract

Purpose – The aim of this study is to understand how venture capitalists (VCs) evaluate an entrepreneur with a track record of conflict with previous investors when making an initial investment decision.

Design/methodology/approach – This study draws on a conjoint experiment design with 2,064 observations from 129 participants. The data was analyzed using Hierarchical Linear Modeling.

Findings – This study finds that VCs evaluate entrepreneurs' track records of conflicts conjointly to minimize adverse selection and agency risk. Specifically, different types of conflicts have different effects on VCs' perception of agency risk. Notably, VCs placed significant value on an entrepreneur's track record of task conflict (TC) when the entrepreneur's record of relationship conflict (RC) was low. Moreover, an entrepreneur's TC track record gains prominence when coupled with a successful past venture outcome and a high ethical reputation, as opposed to instances of failure or ethical lapses. Additionally, authors find that VCs' perception of agency risk associated with an entrepreneur with a track record of RC can be mitigated when the entrepreneur has a record of past venture success and ethical behavior.

Research limitations/implications – This study only focused on one specific aspect of the entrepreneur's track record in past ventures: the effect of their track record of conflict with previous investors. By no means do the authors imply that the entrepreneur's track record of conflict is the only important track record that VCs consider when evaluating entrepreneurs for potential partnerships.

Practical implications – Although conflicts between investors and investees are perceived to be a normal venture event, entrepreneurs should be aware that their track record of conflict with previous investors may be favorable or unfavorable to other investors. Potential investors will scrutinize the entrepreneurs' track record of conflict when making investment decisions. Entrepreneurs should be particularly careful about RC and strive to always maintain a high ethical reputation with investors. Also, entrepreneurs should note that past success in ventures can mitigate the investors' negative perception of the entrepreneurs' track record of conflict.

Originality/value – Before this study, little was known about whether an entrepreneur's track record of conflict positively or negatively influences VCs' investment decisions. The analysis revealed for the first time



Funding: This research was supported by a research grant from the National Natural Science Foundation of China, Grant/Award Number: 71910107003; 71871209.

Conflict of interest: The authors declare that we have no conflicts of interest relevant to this article's content.

Ethical approval: All procedures performed in studies involving human participants were in accordance with the ethical standards of the American Psychological Association (APA).

Informed consent: Informed consent was obtained from all individual participants included in the study.

how VCs perceive and evaluate an entrepreneur with such a track record. This study shows the conditions under which TC is perceived as functional and dysfunctional, as well as how the negative perception of RC can be mitigated.

Keywords Entrepreneurs, Conjoint experiment, Venture capitalists, Task conflict, Relationship conflict, Investment decisions

Paper type Research paper

Introduction

Understanding venture capitalists' (VCs) investment decisions remains vital for entrepreneurs (Cole *et al.*, 2016; Shuwaikh *et al.*, 2024; Svetek, 2023). VCs commonly encounter challenges when the entrepreneurs they invest in exhibit undesirable behaviors (Gorman and Sahlman, 1989; Scarlata and Alemany, 2010), and scholars have shown that the track record of the entrepreneurs (Souakri *et al.*, 2023) has become vital information for VCs to minimize potential adverse selection (Bellavitis *et al.*, 2019) and agency risk. Thus, in recent times, studies on how entrepreneurs' track records could influence VCs' funding decisions have become a major concern for entrepreneurs and scholars alike (Harrison and Mason, 2017; Roccapiore *et al.*, 2021; Souakri *et al.*, 2023). Studies have shown how entrepreneurs' track record of successes and failures impact investors' due diligence (Roccapiore *et al.*, 2021; Souakri *et al.*, 2023) and investment decisions (Zunino *et al.*, 2022).

However, research linking venture financing and entrepreneurs' track records, though vital, remains limited. Entrepreneurs have a broad range of track records, so to maximize the odds of raising sufficient venture capital, entrepreneurs need to understand how potential VCs might perceive and evaluate other aspects of their track records in the funding context. Building on this research stream to add to this nascent literature, we examine one specific track record of entrepreneurs: how an entrepreneur's track record of conflicts with previous investors (e.g. angel investors) influences VCs' investment decisions.

The impetus for focusing on the entrepreneur's track record of conflict rests on ample studies that found conflict to be a common phenomenon in investor-investee partnerships (e.g. Brettel *et al.*, 2013; Collewaert, 2009; Collewaert, 2012; Collewaert, 2016; Collewaert and Sapienza, 2016; Higashide and Birley, 2002; Tetteh *et al.*, 2024). Although scholars have recognized the importance of studying the impact of conflicts on investors' behavior (Collewaert, 2012; Tetteh *et al.*, 2024), it remains unknown how much the signal of an entrepreneur's track record of conflicts affects their future engagement with potential VCs. Conflicts elicit agency issues (Sapienza and Gupta, 1994) and may be functional (Tetteh *et al.*, 2024) or dysfunctional to partnership success (Collewaert and Sapienza, 2016; De Dreu, 2006; De Wit *et al.*, 2013; Higashide and Birley, 2002; Tetteh *et al.*, 2024), so we theorize it as an essential criterion in VCs' evaluation of an entrepreneur's track record when considering an investment decision.

Conflict, in general, refers to "perceived incompatibilities or discrepant views among the parties involved" (Jehn and Bendersky, 2003, p. 189) and has traditionally been divided into relationship and task conflicts (De Dreu and Weingart, 2003; Jehn, 1995). Thus, we focus on these two dimensions of conflict given their common nature in the investor-investee relationship (Collewaert, 2012; Collewaert and Sapienza, 2016; Tetteh *et al.*, 2024). For the purposes of this study, we define an entrepreneur's track record of task conflict (TC) as an entrepreneur's history of experiencing disagreements with investors on what should be done. Also, we refer to an entrepreneur's track record of relationship conflict (RC) as an entrepreneur's history of experiencing interpersonal incompatibilities or personality clashes with investors.

Studies have examined the effects of TC and RC on the span and success of the investor–investee relationship (Brettel *et al.*, 2013; Collewaert, 2012; Collewaert and Sapienza, 2016;

Higashide and Birley, 2002; Tetteh *et al.*, 2024). Some studies show that TC and RC have no direct significant effect on investors' behavior, such as intention to exit their ventures (Collewaert, 2012). However, others show that TC does negatively influence investor–investee innovativeness (Collewaert and Sapienza, 2016). Furthermore, scholars find that TC through RC can impede investor–investee ongoing relationships (Tetteh *et al.*, 2024).

Nonetheless, it is unclear how an entrepreneur's track record of conflict with previous investors influences VC behavior in funding considerations. Moreover, the contributions of prior studies on investors' perceptions of TC and RC are limited to the post-investment stage (e.g. Brettel *et al.*, 2013; Collewaert, 2012; Collewaert and Sapienza, 2016; Higashide and Birley, 2002; Tetteh *et al.*, 2024). At the post-investment stage, investors have already committed their resources to entrepreneurs' ventures, and the sunk cost (i.e. the amount of time, money and energy the investor has already invested in the venture) can influence their decision (DeTienne *et al.*, 2008; Lin *et al.*, 2022) on how to react to TC and RC. Therefore, to provide entrepreneurs with a more complete understanding of investors' perceptions of TC and RC, examining these conflicts at the initial investment stage is imperative to avoid the effect of sunk cost. Thus, we investigate the research question: How do VCs evaluate an entrepreneur with a track record of conflict at the initial stage of funding consideration?

To minimize the risk of adverse selection (Bellavitis *et al.*, 2019), scholars show that VCs often support their judgment about entrepreneurs' track records with contextual factors (Souakri *et al.*, 2023) such as the entrepreneur's past venture outcome (Zunino *et al.*, 2022). Entrepreneurs' past venture outcomes denote whether their previous ventures' outcomes succeeded or failed (Souakri *et al.*, 2023; Zunino *et al.*, 2022). Also, given that ethical reputation can predict the effect of conflict on venture outcomes (Collewaert and Fassin, 2013), VCs are likely to consider the entrepreneur's ethical reputation as a key contextual factor when deciding about the entrepreneur's track record of conflict. We argue that VCs use this information to minimize the risk of adverse selection. We use a conjoint experiment design to examine how the cues of an entrepreneur's past venture outcomes (success or failure) and record of ethical reputation influence VCs' evaluation of an entrepreneur's track record of conflict (see Figure 1).

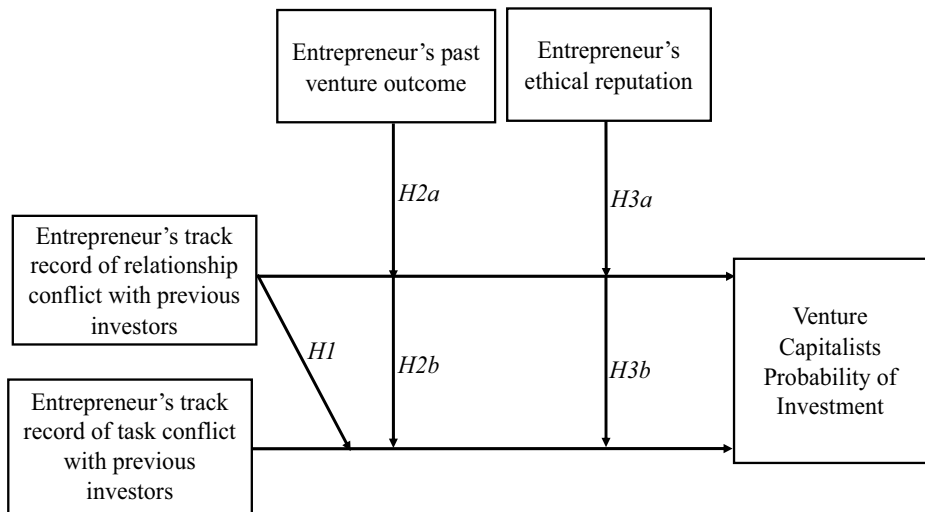


Figure 1. Conceptual model of entrepreneur's track record of conflicts in venture investment

Source(s): Authors' own work

Our study makes the following contributions. First, this study provides a theoretical lens to understand how VCs perceive potential agency risk when evaluating entrepreneurs with track records of conflict. We show how VCs use strategies to reduce adverse selection when evaluating an entrepreneur's track record of conflict. Thus, we draw entrepreneurs' attention to how VCs perceive the entrepreneurs' engagement in conflicts with investors. This helps entrepreneurs strategize their post-investment relationships with investors to avoid jeopardizing their future entrepreneurial opportunities with other potential investors.

Also, while TC and RC are primarily studied in the investors–investees' ongoing relationship (e.g. [Collewaert and Sapienza, 2016](#); [Tetteh et al., 2024](#)), we add a novel aspect by showing how TC and RC are evaluated at the initial investment stage. By focusing on initial investment, the study isolates the effects of TC and RC from those present in later stages, offering valuable insights into how conflict influences the decision-making process across different phases.

Moreover, while conflict in general is seen as an agency risk ([Barry, 1994](#); [Collewaert and Fassin, 2013](#)), our study adds novel insight to agency theory by demonstrating that not all conflicts carry the same agency risks. We show that different types of conflict have different effects on VCs' evaluation of agency risk. This nuanced understanding enhances the agency theory logic, suggesting that agency risk assessment should be specific for conflict types rather than generalized.

Theory and hypothesis development

This study draws on the agency theory perspective ([Jensen and Meckling, 1976](#)), where agency problems such as conflicts ([Barry, 1994](#)) are apparent in various dimensions of investor–investee partnerships ([Collewaert, 2012](#); [Collewaert and Fassin, 2013](#); [Collewaert and Sapienza, 2016](#); [Tetteh et al., 2024](#)). Agency problems, such as conflicts, may occur because of adverse selection ([Bellavitis et al., 2019](#)). However, little is known about the strategies VCs adopt to evaluate conflict signals at the initial investment stage to minimize adverse selection. Given that adverse selection contributes to agency risk ([Jensen and Meckling, 1976](#)), we focus on adverse selection as one dimension of agency theory to understand how VCs minimize agency risk when deciding to partner with entrepreneurs with a track record of conflict. We theorize how VCs may evaluate an entrepreneur's track record of TC and RC in conjunction with the entrepreneur's past venture outcomes and ethical reputations at the initial investment stage.

Entrepreneur's track record of task conflict and relationship conflict and venture capitalists' likelihood to partner

Conflicts among investors and investees may arise because of disagreements on business strategies, financial decisions, or interpersonal issues ([Collewaert, 2012](#)). While previous studies have generally proven that RC triggers negative outcomes (e.g. [Brettel et al., 2013](#); [De Dreu and Weingart, 2003](#); [De Wit et al., 2013](#)), the debate of whether TC can be functional (e.g. [Tetteh et al., 2024](#); [Todorova et al., 2014](#)) or dysfunctional (e.g. [De Dreu, 2006](#); [Tetteh et al., 2024](#); [Todorova et al., 2014](#); [Yang and Mossholder, 2004](#)) continues to unfold. In the context of the investor–investee dyad, scholars investigating the effect of TC on investors' investment decisions at the post-investment stage have shown evidence for positive and negative effects ([Tetteh et al., 2024](#)), making it difficult to draw a definite conclusion on how VCs may perceive it at the initial investment stage. However, regardless of whether TC is perceived as functional, one known fact is that it is tightly connected with RC ([De Dreu and Weingart, 2003](#); [Tetteh et al., 2024](#)), making them mutually inclusive ([Choi and Cho, 2011](#)). This shows that TC and RC are hard to disentangle; thus, we theorize

that VCs are likely to evaluate an entrepreneur's track record of TC and RC conjointly to minimize adverse selection.

TC often leads to exploring alternative perspectives (Jehn, 1995), promoting innovative solutions (Al-Ghazali and Afsar, 2021) and enhancing learning opportunities (Todorova *et al.*, 2014). Thus, the perception of VCs might be that TCs enhance the ventures' value (Brettel *et al.*, 2013) because they give evidence of opportunities to exchange knowledge and discuss various possible outcomes, thereby leading to better managerial decisions (Forbes and Milliken, 1999; Hambrick *et al.*, 1996), performance (Lee *et al.*, 2022; Wu *et al.*, 2020) and creativity (Lee *et al.*, 2019; Li *et al.*, 2018). Hence, an entrepreneur's track record of TC may suggest that they value creativity and innovation. Therefore, VCs seeking to invest in ventures with a competitive edge and innovative potential are likely to perceive an entrepreneur's TC track record as an indicator of the entrepreneur's ability to generate novel ideas for positive change rather than a hindrance to partnership.

Nonetheless, we posit that when an entrepreneur has a track record of RC, it may impede the value VCs will place on the entrepreneur's track record of TC (Tetteh *et al.*, 2024). For TC to be valuable, it requires a working environment where debates and discussions are open-minded and welcomed (Collewaert, 2012; Jehn and Bendersky, 2003). However, RC may hinder the benefit of TC because it elicits hostilities among partners (Amason, 1996; De Wit *et al.*, 2012; Pelled, 1996). RC causes personal animosities, making parties involved work less effectively and producing suboptimal outcomes (Higashide and Birley, 2002). Moreover, considering that investors' willingness to partner with entrepreneurs often requires a personal relationship (Collewaert, 2012; Politis, 2008), we argue that VCs' perception of an entrepreneur's track record of RC with previous investors warns them of a possible illusion of fit should they partner with the entrepreneur. Given that VCs seek to minimize agency problems (Harrison and Mason, 2017), such as the consequences of conflicts (Barry, 1994; Higashide and Birley, 2002), we theorize that VC evaluation of an entrepreneur's TC track record depends significantly on the entrepreneur's RC track record. Entrepreneurs who manage to keep RC low while experiencing TC may be seen as open to new ideas and receptive to constructive criticism (Warnick *et al.*, 2018). VCs may value entrepreneurs who can navigate TC without damaging their relationships with investors. Based on the above discussion, we argue that VCs aiming to avoid adverse selection will consider an entrepreneur's track record of TC and RC conjointly to minimize agency problems. Thus, we hypothesize the interaction effect of TC and RC:

- H1. Entrepreneur's track record of RC moderates the relationship between the entrepreneur's track record of TC and VC's probability of investment. At higher (lower) levels of TC history, lower (higher) RC results in an increase (decrease) in the probability of investment of VCs.

Moderating role of entrepreneur's past venture outcome

When VCs evaluate entrepreneurs' ventures for funding, they rely on various cues (Zunino *et al.*, 2022), including the entrepreneur's past venture outcomes, such as success or failure (Roccapriore *et al.*, 2021; Souakri *et al.*, 2023; Zunino *et al.*, 2022). VCs' evaluation of entrepreneurs' success and failure reveals a complex picture. Some studies show instances where VCs may view past failures favorably (Souakri *et al.*, 2023). For instance, Cope *et al.* (2004) argue that VCs' decision to invest in entrepreneurs is not negatively influenced by any significant degree of the entrepreneur's past failure but emphasizes the importance of understanding the circumstances of the failure. However, when considered independently, other scholars noted that VCs' perceptions and evaluations of entrepreneurs' past venture outcomes could favor those whose past venture outcomes reflect success rather than failure

(Mazzocchini and Lucarelli, 2023; Roccapriore *et al.*, 2021; Zunino *et al.*, 2017). Overall, while VCs may not necessarily view failure as a “black mark,” they consider it as a factor in their evaluation. Thus, we posit that the perceptions of an entrepreneur’s past venture outcome will be crucial in shaping VCs’ evaluations of an entrepreneur with a track record of conflict to avoid adverse selection.

In evaluating an entrepreneur’s track record of conflict, we theorize that the entrepreneur’s success and failure in past ventures will significantly influence how VCs perceive the entrepreneur’s track record of TC and RC. We argue that past venture success is even more important as it can mitigate the VCs’ perception of the adverse effect of conflict (particularly RC) on venture success. This is because entrepreneurs with a record of venture success are likely to be perceived as having proven competence (Hallen and Pahnke, 2016) and, thus, they are more likely to have future success than those who failed in previous ventures (Zunino *et al.*, 2017).

Nonetheless, we reason that VCs’ evaluation and interpretations might perceive potential agency risk when an entrepreneur has a record of venture failure and a track record of TC and RC. VCs are likely to interpret an entrepreneur’s past failures as a result of their conflict behaviors. In the case of an entrepreneur’s track record of venture failure, we argue that VCs will be skeptical of the entrepreneur’s TC track record and may perceive that the entrepreneur was not open to investors’ advice or feedback (Ciuchta *et al.*, 2018; Souakri *et al.*, 2023; Warnick *et al.*, 2018) and hence, that entrepreneur could not benefit from TC with previous investors. In addition, because the nature of RC among partners triggers negative outcomes on venture success (Higashide and Birley, 2002), we posit that VCs’ evaluation might interpret an entrepreneur’s record of venture failure linked with their RC track record. Hence, VCs’ perception of the entrepreneur’s record of venture failure will likely impede their positive evaluation of the entrepreneur’s TC track record and negatively intensify their initial perception of agency problems associated with the entrepreneur’s track record of RC. Based on the above reasoning and summarizing all past ventures as a past venture outcome reflecting either “success” or “failure”, we hypothesize the following:

- H2a. The entrepreneur’s past venture outcomes moderate the positive relationship between their track record of TC and VC’s willingness to partner, such that the relationship increases when past venture outcome reflects success rather than failure.
- H2b. The relationship between an entrepreneur’s track record of RC and VC’s willingness to partner is contingent on the entrepreneur’s past venture outcome, such that the relationship is positive when the entrepreneur’s past venture outcome reflects success rather than failure.

Moderating role of entrepreneurs’ ethical reputation

While there is little consensus on how to define ethical behavior (Tenbrunsel and Smith-Crowe, 2008), one notable conceptualization frames ethical behavior as morally “‘good” and ‘right’ as opposed to ‘bad’ or ‘wrong’ in a particular setting” (Sims, 1992, p. 506). In the entrepreneurship context, an entrepreneur’s ethical reputation may align with moral principles and ethical standards, such as honesty, transparency and fairness (Pollack and Bosse, 2014). Studies have argued that ethics is about perceptions (Barnett, 2001), and investors’ views and perceptions of ethical behavior might differ (Fassin and Drover, 2017). However, studies show that investors, in general, encounter challenges when entrepreneurs they invest in have ethical lapses (Scarlata and Alemany, 2010). Hence, to minimize agency risk, it is logical for VCs to examine an entrepreneur’s ethical reputation in past venture activities when making an investment decision.

This is particularly vital when the entrepreneur has a track record of conflict because entrepreneurs' unethical behavior can escalate conflicts with investors, leading to negative venture outcomes (Collewaert and Fassin, 2013).

Therefore, we argue that VCs are likely to partner with entrepreneurs with a track record of TC and RC if the entrepreneur is known to have adhered to ethical standards in past venture activities. We theorize that the relationship between an entrepreneur's track record of TC and RC and VCs' probability to partner will be contingent upon the entrepreneur's ethical reputation. When an entrepreneur has a track record of ethical behavior, VCs are more likely to view the entrepreneur's track record of TC more positively. This is because ethical entrepreneurs may be seen as individuals who consider TC constructive (Collewaert and Fassin, 2013), aiming for the best possible outcomes while maintaining integrity. As such, an entrepreneur's track record of TC may be perceived as a motivation to improve venture outcomes. In this case, the positive perception of the entrepreneur's track record of TC and VCs' probability to partner will be strengthened.

Similarly, we posit that in evaluating an entrepreneur who has a track record of RC, VCs' perception of the entrepreneur's record of ethical behaviors may act as a mitigating factor. VCs may interpret the entrepreneur's track record of RC as a result of specific circumstances or differences that can be resolved because the entrepreneur has demonstrated ethical behavior in other aspects of their business conduct. Thus, we argue that VC perception of the entrepreneur's track record of RC as a potential agency risk will decrease when the entrepreneur has a track record of ethical behavior. Based on the above discussions, we hypothesize the following:

- H3a.* The relationship between an entrepreneur's track record of TC and VC's willingness to partner will be moderated by the entrepreneur's ethical reputation, such that VC's willingness to partner increases when the entrepreneur's ethical reputation is high as opposed to low.
- H3b.* The entrepreneur's ethical reputation moderates the negative relationship between their track record of RC and VC's willingness to partner, such that the negative relationship is mitigated when the entrepreneur's ethical reputation is high as opposed to low.

Methods

Sample and data collection

Our sample was drawn from the Crunchbase platform. Crunchbase is a reliable platform highly recommended for entrepreneurship research (Ferrati and Muffatto, 2021; Svetek, 2023). Similar to previous studies (e.g. Svetek, 2023), we extended invitations to 421 VC partners, principals, or associates whose contact details (email or LinkedIn) were accessible via the platform. Subsequently, we contacted respondents three times with one-week intervals between communications. The initial email contained an invitation and a link to the online survey. After that, we sent weekly follow-up messages to the participants. Each follow-up email included a gratitude message, a reminder and the survey link, encouraging study participation. A total of 129 complete surveys were received for a response rate of ~30.6%. Since 129 participants completed 16 decisions each, the valid sample for final analysis consists of 2,064 (16 × 129) observations. Previous studies (e.g. Svetek, 2023; Warnick *et al.*, 2018) show that this number of observations is sufficient to obtain reliable decisions from VCs. Regarding gender and age, the respondents include 13 females and 116 males, aged 33–60. Participants' educational levels range from a bachelor's degree to higher. Also, the respondents have a mean of 14.66 years of investing experience and have invested at least once in the last 12 months.

Conjoint analysis

Conflict, especially RC, is typically associated with negative outcomes (Higashide and Birley, 2002). Also, failure is often associated with negative perceptions from VCs (Roccapriore *et al.*, 2021; Zunino *et al.*, 2022) and can trigger negative emotions (Yamakawa and Cardon, 2015). Similarly, unethical behavior severely impacts conflict (Collewaert and Fassin, 2013) and may trigger VCs' negative perceptions. Thus, to understand VCs' evaluation of an entrepreneur's track record of conflict, in addition to their past venture outcome (i.e. success and failure) and ethical reputation, a conjoint method is appropriate to understand how VCs may evaluate an entrepreneur's track record holistically to avoid biases.

Consistent with many studies on VC investment decisions (e.g. Fu and Tietz, 2019; Murnieks *et al.*, 2011; Souakri *et al.*, 2023; Svetek, 2023), we use a conjoint method. Conjoint analysis has a long tradition and has been validated as a key instrument for studying individual actors' decision-making in entrepreneurship studies (Fu and Tietz, 2019; Svetek, 2023; Williams *et al.*, 2019). The conjoint analysis involves developing several hypothetical scenarios (Lohrke *et al.*, 2010), which can help researchers capture more accurately how VCs make investment decisions (Svetek, 2023). This type of analysis provides a series of theory-driven profiles and "can predict the real behavior of real individuals in real situations" (Louviere, 1988 p. 114). Additional benefits include its potential to tap into the substitutability of different decision factors (Monsen *et al.*, 2010) and the ability to avoid retrospective and outcome biases by making real-time decisions (Mathias and Williams, 2017). Also, conjoint design is orthogonal, meaning each decision factor is uncorrelated with the others (Haynie *et al.*, 2009).

Conjoint instrument designs

Owing to concern about ecological validity in conjoint studies (Lohrke *et al.*, 2010), we tried to ensure that the realism of this study and its ecological validity are maximized. Prior to data collection, we conducted interviews with five VCs to validate the labels and definition of our instruments. This ensured that face validity and clarity of variable descriptions were presented realistically. To check face validity, we asked the VCs questions in the interviews, including whether the attributes and levels in our profiles were relevant to their "real-world" evaluations of prospective entrepreneurs. To further ascertain the importance of the attributes used, we asked the interview participants to rate on a scale of 1–7 how likely they are to factor an entrepreneur's track record of conflict, past venture outcome and ethical reputation in their initial investment decisions. These interviews validated the appropriateness of the conjoint instruments. Based on the interviewees' suggestions, we improved the language and flow of the survey.

In designing the instrument, various validated conjoint studies were followed (e.g. Murnieks *et al.*, 2016; Souakri *et al.*, 2023; Svetek, 2023; Warnick *et al.*, 2018). It includes a description of the entrepreneurs' profiles to be evaluated and some relevant post-experiment questionnaires. The experiment instrument explains to the respondents that they will be presented with several hypothetical entrepreneur profiles and they should evaluate each. The hypothetical investment scenarios are based on four attributes, each specified as "low" or "high" relative to other investment opportunities. These attributes are the entrepreneur's track record of TC, the entrepreneur's track record of RC, the entrepreneur's past venture outcome and the entrepreneur's ethical reputation. Similar to other conjoint studies (e.g. Warnick *et al.*, 2018), we coded each conjoint decision attribute at -0.5 for the low condition and 0.5 for the high condition, resulting in a mean of zero for each attribute.

Following the approach of other conjoint studies (e.g. Svetek, 2023), we adapted a baseline investment scenario to put participants on common ground. This ensures that the investment opportunities presented do not differ in anything other than the profile of the lead

entrepreneur (see [Appendix 1](#)). We introduce each entrepreneur attribute with a table explaining the definitions of the low and high conditions, as specified in [Appendix 2](#). Respondents then consider one profile at a time. Also, to ensure participants do not forget the definitions of the attributes shown to them, the instrument's design includes an option where participants can hover their mouse over each attribute name to view its definition when needed (e.g. [Lin et al., 2022](#); [Warnick et al., 2018](#)). Sample attributes and level descriptions, as presented to the participants, are provided in [Appendix 3](#).

Our design required participants to rate 16 profiles each (i.e. 2⁴). In addition to the 16 profiles, we provided participants with one “warm-up” profile to familiarize themselves with the nature of the conjoint experiment, which was excluded from the final analysis (see, [Drover et al., 2014](#)). Also, we included three repeat profiles only used to test for participants' consistency (i.e. test–retest reliability). Again, the profiles presented were randomized to reduce the possibility of an order effect ([Hair et al., 2006](#)). Moreover, each profile was presented on a separate screen.

Measurements

The dependent variable is the “probability of investment.” In line with other conjoint studies (e.g. [Warnick et al., 2018](#)), after each profile, participants were asked to indicate the probability that they would invest on a scale of (1 = low probability to 7 = high probability).

Conjoint decision attributes. Each attribute profile was described in terms of the following four variables: track record of TC (two levels), track record of RC (two levels), past venture outcome (two levels) and ethical reputation (two levels). We manipulated these variables using the levels of each variable. TC, RC and ethical reputation were each articulated as low vs high. Past venture outcome was presented as failure vs success.

Post-experiment control variables. Prior research indicates that investors' experience is important when evaluating investment deals ([Haynie et al., 2009](#); [Murnieks et al., 2016](#); [Warnick et al., 2018](#)). Thus, our post-experiment questionnaire captured the VCs' years of investing experience in ventures and their entrepreneurial experience. Finally, we controlled for respondents' demographics, such as gender, age and education. Adding these variables to the empirical model provides a better understanding of the nuances of the VCs' decision-making.

Analysis and results

In analyzing our data, we used Hierarchical Linear Modeling (HLM), which scholars have proven useful in conjoint analysis (e.g. [Murnieks et al., 2016](#); [Souakri et al., 2023](#); [Warnick et al., 2018](#)). This method allows for explicit consideration of the decisions made by the VCs and decision-making differences among VCs. In HLM, parameter estimates are generated and the *t*-values of those parameters indicate the significance of the attribute or the interaction between attributes. The parameter estimates indicate the change in the dependent variable as a function of a one-unit change in the independent variable (e.g. changing from a low to a high condition). For instance, this change can be interpreted as the difference between evaluating an entrepreneur with low vs high RC. The findings from the decisions made by the VCs in the conjoined experiment are reported. [Table 1](#) presents the descriptive statistics and correlation matrix of the demographic variables. [Table 2](#) represents the results of the HLM analysis of VC decisions. The estimated marginal means for the attributes are reported in [Table 3](#).

Before analyzing data, we check if the questionnaire was completed reliably. VCs' decisions show a high degree of test-retest reliability, with a mean test-retest correlation of 0.93. Also, we examined differences in the VCs' responses to the original vs repeat conjoint

Table 1. Investor-level descriptive statistics and correlation matrix ($n = 129$ VCs)

Variables	mean	SD	1	2	3	4
1. Age	45.30	5.288	1			
2. Gender	0.21	0.42	-0.540**	1		
3. Education	1.88	0.682	0.489**	-0.321**	1	
4. Entrepreneur experience (# venture founded)	2.36	0.769	0.482**	-0.276*	0.504**	1
5. Investing experience (years)	14.66	5.206	0.767**	-0.529**	0.571**	0.685**

Note(s): VC = venture capitalists; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source(s): Authors' own work

Table 2. HLM of VCs' probability to invest ($n = 2,064$ decisions)

Names	Estimate	SE	95% Confidence Interval		<i>p</i> -value
			lower	Upper	
Intercept	3.577	0.183	3.217	3.936	< 0.001
<i>Control variables</i>					
Age	-0.029	0.060	-0.147	0.088	0.626
Gender	0.269	0.581	-0.867	1.408	0.644
Education	0.111	0.346	-0.567	0.789	0.749
Entrepreneurial experience	-0.197	0.369	-0.921	0.528	0.596
Investing experience	0.097	0.079	-0.058	0.251	0.224
<i>Main effects</i>					
Track record of task conflict	0.397	0.046	0.307	0.488	< 0.001
Track record of RC	-0.789	0.069	-0.925	-0.652	< 0.001
Past venture outcome	0.803	0.043	0.718	0.887	< 0.001
Ethical reputation	0.326	0.054	0.220	0.432	
<i>Interactions effects</i>					
TC × RC	-0.623	0.090	-0.856	-0.389	< 0.001
TC × past venture outcome	0.438	0.090	0.261	0.615	< 0.001
TC × ethical reputation	0.583	0.091	0.406	0.761	< 0.001
RC × past venture outcome	0.517	0.091	0.302	0.732	< 0.001
RC × ethical reputation	0.190	0.091	0.021	0.358	0.028

Note(s): DV = Probability of investment; Abbreviations: TC= task conflict; RC= relationship conflict; VC= venture capitalists; SE= standard error; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source(s): Authors' own work

profiles. The assumption is that if participants provided reliable responses and understood the definitions of the attributes and contexts, there would be no significant difference between responses (Hair *et al.*, 2006). Thus, the means for the “willingness to partner” question responses were compared across the three original profiles vs the three repeat profiles. The means were 3.18 vs 3.15, 3.21 vs 3.18 and 3.26 vs 3.27. These three differences failed to reach statistical significance ($T = 0.534, p = 0.594$; $T = 0.521, p = 0.603$; $T = 0.081, p = 0.935$, respectively), indicating consistency in decision-making and evidence that the VCs' responses were reliable.

While the main effects for TC and RC were not directly hypothesized, we observe that an entrepreneur's track record of TC with previous investors positively influences VCs' decision to invest ($\beta = 0.397, SE = 0.046, p < 0.001$). In contrast, we note that an entrepreneur's track record

Table 3. Estimated marginal means by attribute and level

Evaluation variables	Level	Marginal mean	SE
Track record of task conflict	Low	3.66	0.054
	High	4.02	0.054
Track record of relationship conflict	Low	4.31	0.054
	High	3.37	0.054
Past venture outcome	Low	3.30	0.053
	High	4.37	0.053
Ethical reputation	Low	3.49	0.053
	High	4.18	0.053
TC × RC	Low-Low	3.98	0.067
	Low-High	3.34	0.067
	High-Low	4.65	0.067
	High-High	3.39	0.067
TC × PVO	Low-Low	3.22	0.067
	Low-High	4.02	0.067
	High-Low	3.37	0.067
	High-High	4.73	0.067
TC × ethical reputation	Low-Low	3.43	0.067
	Low-High	3.55	0.067
	High-Low	3.81	0.067
	High-High	4.54	0.067
RC × PVO	Low-Low	3.87	0.067
	Low-High	4.75	0.067
	High-Low	2.72	0.067
	High-High	4.00	0.067
RC × ethical reputation	Low-Low	4.04	0.067
	Low-High	4.58	0.067
	High-Low	2.94	0.067
	High-High	3.77	0.067

Note(s): TC = task conflict; RC = relationship conflict; PVO = past venture outcome; SE = standard error
Source(s): Authors' own work

of RC with previous investors negatively impacts VCs' decision to invest ($\beta = -0.789$, SE = 0.046, $p < 0.001$).

H1 predicts that VCs are less likely to partner with an entrepreneur with a track record of TC if the entrepreneur's track record of RC is high. We find a significant negative interaction between an entrepreneur's track record of TC and RC ($\beta = -0.623$, SE = 0.117, $p < 0.001$). Simple slope analysis (Figure 2) show that the positive effect of an entrepreneur's track record of TC on VCs' probability to invest decreases significantly under the condition of a high level (+1 SD) of entrepreneur track record of RC ($\beta = 0.0450$, $p = 0.588$) than under the condition of a low level (-1 SD) of that record ($\beta = 0.668$, $p < 0.001$). The estimated marginal means (Table 3) further support this hypothesis. These results show that VCs are less willing to invest when an entrepreneur's track record of TC and RC is high but more willing to invest when the entrepreneur's track record of TC is high and RC is low. These findings support *H1*.

H2a and *H2b* predict the moderating effects of the entrepreneur's past venture outcome. Regarding *H2a*, the coefficient of the interaction term between an entrepreneur's track record of TC and past venture outcome is statistically significant ($\beta = 0.438$, SE = 0.090, $p < 0.001$). Simple slope analysis (Figure 3) show that the effect of an entrepreneur's track record of TC on VCs' probability to invest increases under the condition of a high (i.e. success) level

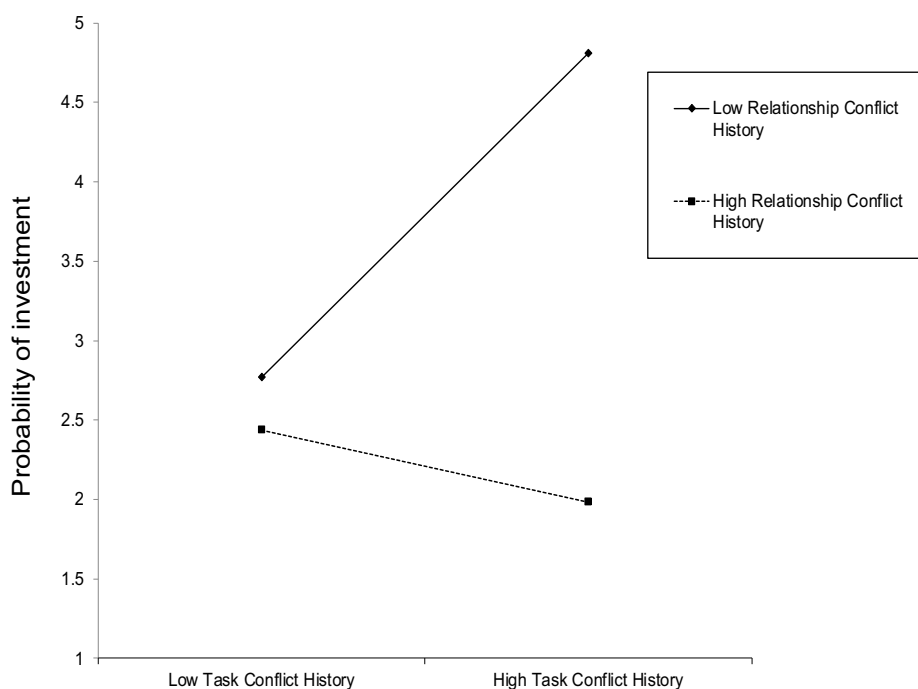


Figure 2. Interaction between track record of task conflict and relationship conflict
Source(s): Authors' own work

(+ 1 SD) of entrepreneur past venture outcome ($b = 0.616, p < 0.001$) than under the condition of low (i.e. failure) level (-1 SD) ($b = 0.178, p < 0.05$). Viewing the graph (i.e. Figure 3) in conjunction with the estimated marginal means (Table 3), these results indicate that the positive perception of an entrepreneur's track record of TC decreases when their past venture outcome reflects failure, but the effect is reinforced when their past venture outcome reflects success. Thus, VCs were less willing to invest when an entrepreneur's track record of TC is high, but past venture outcome reflects failure. Nevertheless, they are more willing to invest when the entrepreneur's track record of TC is high and their past venture outcome reflects success. These findings support *H2a*.

We now turn to consider the moderating effects. Regarding *H2b*, the coefficient of the interaction term between an entrepreneur's track record of RC and past venture outcome is statistically significant ($\beta = 0.517, SE = 0.091, p < 0.001$). The estimated marginal means (Table 3) and Figure 4 show that when past venture outcomes change from failure to success, the negative perception of an entrepreneur's track record of RC on VCs' probability to invest changes. Specifically, simple slope analysis indicate that the relationship is positive under the condition of a high (i.e. success) level (+ 1 SD) of the entrepreneur's past venture outcome ($b = 0.310, p < 0.001$) than under the condition of low (i.e. failure) level (-1 SD) of entrepreneur's past venture outcome ($b = -1.308, p < 0.001$). This result means that VCs tend to be unwilling to partner with an entrepreneur whose track record of RC is high and whose past venture outcome reflects failure. However, VCs are willing to overlook an entrepreneur's track record of RC to invest when the entrepreneur's past venture outcome reflects success. These findings support *H2b*.

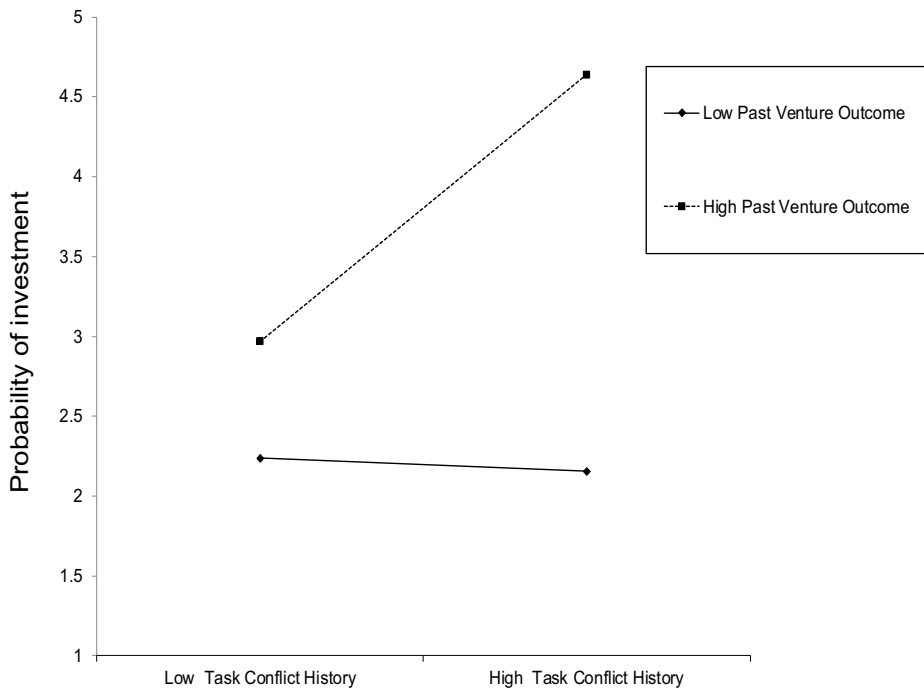


Figure 3. Interaction between track record of task conflict and past venture outcome
Note(s): For past venture outcome: low = failure, high = success
Source(s): Authors' own work

Furthermore, regarding moderating *H3a*, the coefficient of the interaction term between an entrepreneur's track record of TC and record of ethical reputation is statistically significant ($\beta = 0.583$, $SE = 0.091$, $p < 0.001$). Simple slope analysis (Figure 5) show that the effect of an entrepreneur's track record of TC on VCs' probability to invest increases under the condition of a high level (+ 1 SD) of the entrepreneur's ethical reputation ($b = 0.689$, $p < 0.001$) than under the condition of a low level (-1 SD) of the entrepreneur's ethical reputation ($b = 0.106$, $p = 0.083$). Again, viewing the graph (i.e. Figure 5) in conjunction with the estimated marginal means (Table 3), the findings depict that the positive effect of an entrepreneur's track record of TC on VCs' decision to invest decreases significantly when the entrepreneur's ethical reputation is low. However, the position effect is reinforced when the entrepreneur's ethical reputation is high. Thus, VCs tend to be unwilling to invest when an entrepreneur's track record of TC is high and ethical reputation is low but are more willing to invest when the entrepreneur's track record of TC and ethical reputation are both high. These findings provide support for *H3a*.

Finally, regarding the moderating *H3b*, the coefficient of the interaction term between an entrepreneur's track record of RC and ethical reputation is statistically significant ($\beta = 0.190$, $SE = 0.086$, $p < 0.05$). Figure 6 shows that as an entrepreneur's ethical reputation increases from low to high, the negative perception of the entrepreneur's track record of RC and VCs' probability to invest changes. Specifically, the simple slope analysis indicate that the negative effect of an entrepreneur's track record of RC on VCs' willingness to invest decreases under the condition of high level (+ 1 SD) of the entrepreneur's ethical reputation

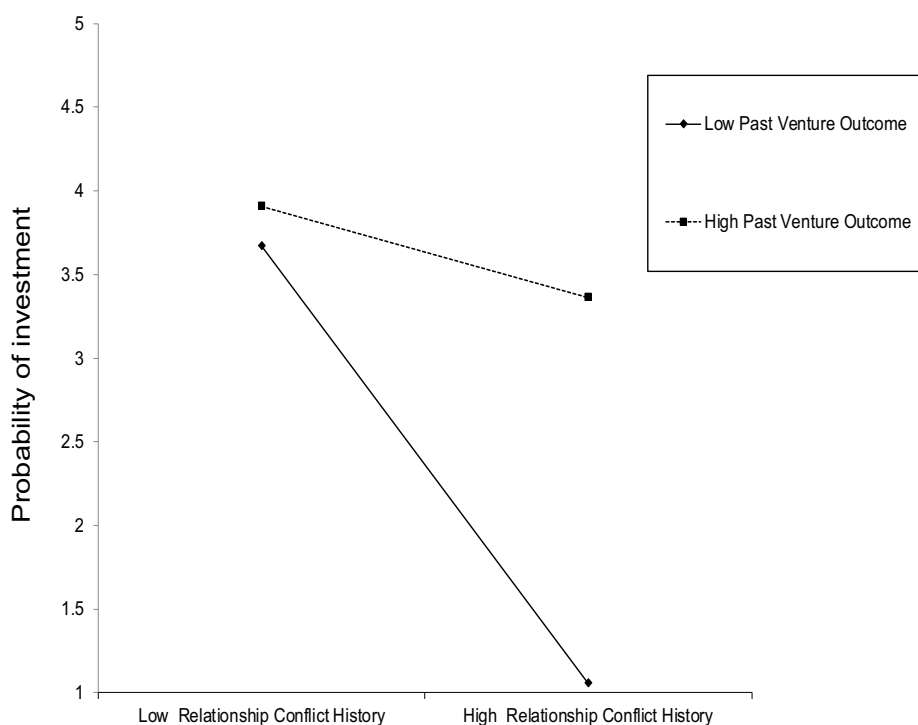


Figure 4. Interaction between track record of relationship conflict and past venture outcome

Note(s): For past venture outcome: low = failure, high = success

Source(s): Authors' own work

($b = 0.245$, $p < 0.05$) than under the condition of low level (-1 SD) of the entrepreneur's ethical reputation ($b = -0.953$, $p < 0.001$). Furthermore, the estimated marginal means (Table 3) in conjunction with Figure 6 indicate that the negative effect of an entrepreneur's track record of RC on VCs' decision to invest is reinforced when the entrepreneur's ethical reputation is low. However, the negative effect is mitigated when the entrepreneur's ethical reputation is high. Thus, the results imply that VCs are unwilling to partner with an entrepreneur whose track record of RC is high and whose ethical reputation is low. However, they are willing to overlook the entrepreneur's track record of RC to partner when the entrepreneur's ethical reputation is high. These findings provide support for *H3b*.

Discussion

The aim to minimize agency risk is one of the priorities for VCs when deciding to partner with entrepreneurs (Drover *et al.*, 2017; Harrison and Mason, 2017). Studies show that VCs rely on entrepreneurs' track records (Roccapriore *et al.*, 2021; Zunino *et al.*, 2022) when they have no previous history or experience working with prospective entrepreneurs (Gompers *et al.*, 2020). This strategy helps VCs to avoid adverse selection to minimize agency problems. Given that conflict forms part of agency issues (Barry, 1994), this study extends prior research by showing the strategies VCs adopt in evaluating conflict signals to minimize

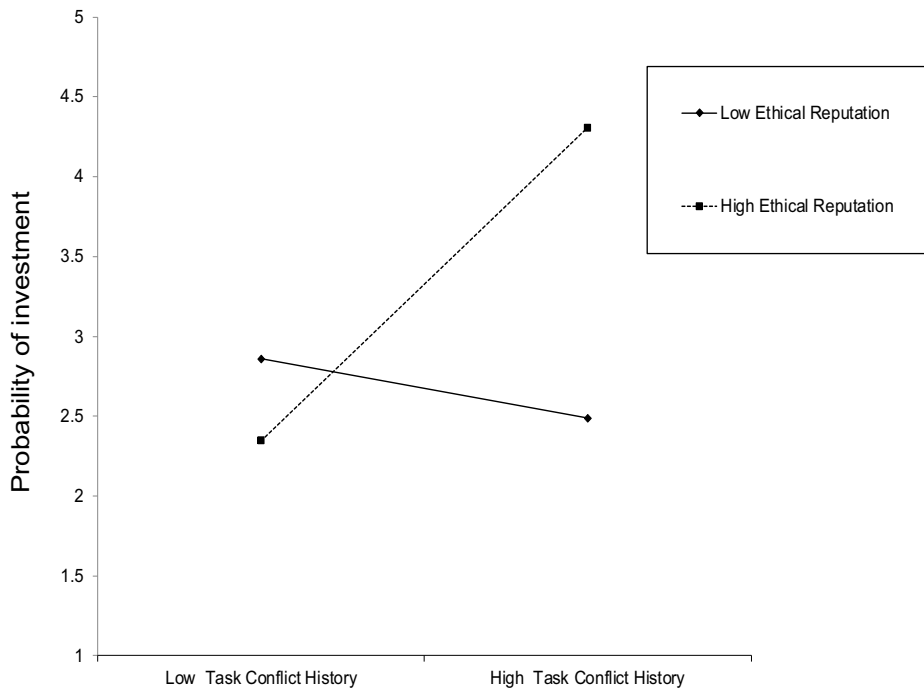


Figure 5. Interaction between track record of task conflict and ethical reputation
Source(s): Authors' own work

potential agency risk. We unravel the complex interplay of factors influencing how VCs perceive and evaluate an entrepreneur's track record of conflicts. While prior studies show that conflicts between investors and investees are inevitable (e.g. [Yitshaki, 2008](#)) and investors might perceive it as normal (e.g. [Politis, 2008](#)), we provide a comprehensive understanding of when VCs perceive entrepreneurs' engagement in conflicts as functional or dysfunctional and how this affects VCs' perception of agency risk.

On the effect of conflict on investors' behavior, prior studies examined investor-entrepreneur conflict using a unidimensional approach (e.g. [Collewaert, 2012](#)). However, our findings show that VCs evaluate entrepreneurs' track records of TC and RC conjointly by considering the entrepreneur's past venture outcome and track record of ethical reputation. Thus, this study adds valuable insights into how investors evaluate conflict ([Collewaert, 2012](#); [Collewaert and Sapienza, 2016](#)) by taking into account boundary conditions such as the entrepreneurs' past venture records and ethical reputation. In doing so, our study contributes significantly to the existing literature on investors' investment decision-making ([Warnick et al., 2018](#)), particularly concerning how conflict perceptions influence investors' investment decisions ([Tetteh et al., 2024](#)).

At the initial funding consideration, our findings show that VCs value an entrepreneur's track record of TC when the entrepreneur's record of RC with previous investors is low. This suggests that similar to the highlighted importance of TC in the workplace (e.g. [Todorova et al., 2014](#); [Todorova et al., 2020](#)), VCs also recognize the benefits of TC and may view it as a valuable characteristic of entrepreneurs. However, VCs may perceive an entrepreneur's track record of TC as a potential agency risk when the entrepreneur has a history of RC.

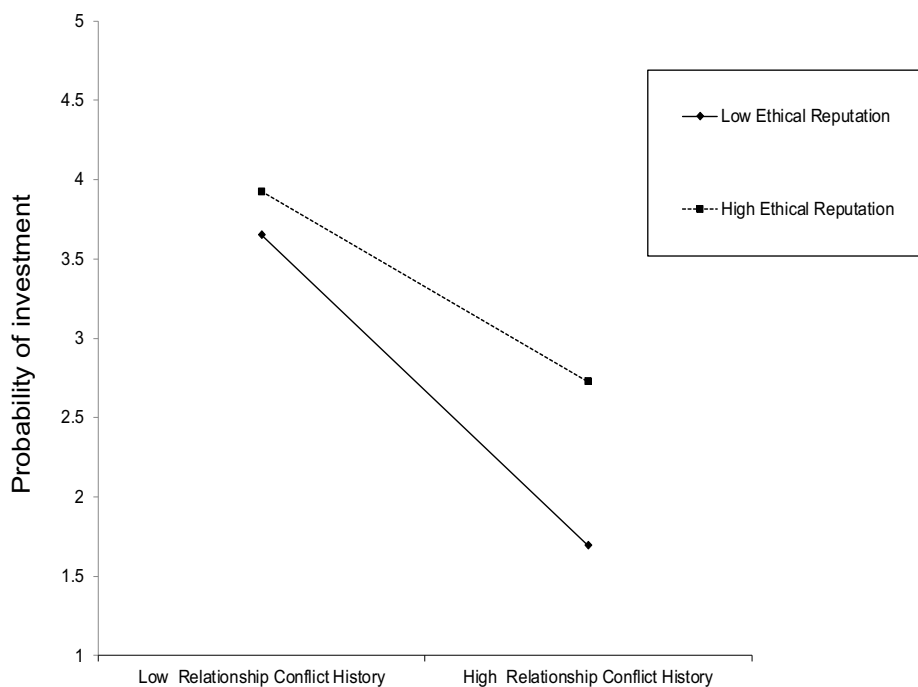


Figure 6. Interaction between track record of relationship conflict and ethical reputation
Source(s): Authors' own work

Thus, although prior studies show that investors evaluate TC positively (e.g. [Collewaert, 2012](#); [Tetteh et al., 2024](#)), our findings show the condition under which investors may perceive TC as a potential risk. This observation contributes to previous research that emphasizes the importance of understanding investors' perceptions of conflict in relation to investment decisions ([Tetteh et al., 2024](#)).

Also, in the angel investment context, prior studies show that post-investment RC between investors and entrepreneurs has a null effect on angels' behavior ([Collewaert, 2012](#)). On the contrary, our results show that in the VC investment context, VCs are concerned and skeptical about an entrepreneur with a track record of RC when considering investing. This observation extends previous research on investors' perception of RC (e.g. [Collewaert, 2012](#)), indicating that different stages of investors' decisions have different influences on investors' evaluation of RC. Previous studies have highlighted the detrimental outcomes of RC, citing its negative impact on ventures' performance ([Higashide and Birley, 2002](#)). Thus, our findings demonstrating that VCs perceive RC as a potential agency risk resonate with the negative consequences RC could have in investor-investee partnerships.

Moreover, studies show that conflict is one of the major agency problems ([Barry, 1994](#)), and it can deter investors' continuous engagement with entrepreneurs ([Tetteh et al., 2024](#)). We add insights to prior studies on conflict as agency risk by showing when VCs may perceive conflict as less agency risk. For instance, we show that VCs perceive less agency risk when an entrepreneur's past venture record that reflects success and ethical behavior both accompany their track record of TC. This means that in instances where TC influences

venture success while maintaining ethical standards, VCs perceive that TC will be managed effectively, leading to successful venture outcomes such as contributing to innovation (Al-Ghazali and Afsar, 2021; Deng *et al.*, 2021) and superior performance (Lee *et al.*, 2022; Wu *et al.*, 2020). However, when an entrepreneur has a history of venture failure and ethical lapses, VCs may perceive the entrepreneur's track record of TC as a potential agency problem when deciding to invest.

Furthermore, studies show that RC elicits negative outcomes in the investor-investee partnership (e.g. Higashide and Birley, 2002), but little is known about how this perception can be mitigated. We contribute to prior studies by demonstrating how the negative perception of RC can be mitigated. Our findings show that when an entrepreneur has a track record of ethical behavior and past venture success, the entrepreneur's track record of RC becomes less of a concern to VCs. This indicates that VCs are more inclined to discount the perceived agency risk associated with an entrepreneur's track record of RC if the entrepreneur has a proven history of success and ethical conduct. However, without proven success and a record of ethical behavior, our study shows that entrepreneurs will struggle to mitigate VCs' negative perception of RC.

Again, studies show that VCs do not always consider entrepreneurs' failure as detrimental (e.g. Cope *et al.*, 2004; Souakri *et al.*, 2023). Our findings extend prior studies by showing that when an entrepreneur's past venture outcome reflects failure, neither the entrepreneur's TC track record nor RC track record is appealing to VCs. These findings are interesting, indicating that VCs value entrepreneurs' past performance above all else, which links to the literature on perceived competence vs cooperativeness in investor decision-making (e.g. Svetek, 2023) and the literature on investor views on entrepreneurial failure (e.g. Zunino *et al.*, 2022). Also, this observation resonates with the Meuleman *et al.* (2010, p. 1003) finding that reputation plays an important role in resolving agency problems.

In addition, we observe an interesting dynamic that VCs use to minimize adverse selection and potential agency risk that might be associated with an entrepreneur who has a track record of TC and RC. Our analysis shows that when considering an entrepreneur's history of TC in conjunction with past venture outcomes and ethical reputation, VCs place more value on the entrepreneur's ethical reputation than the past venture outcome. On the contrary, when considering an entrepreneur's history of RC in conjunction with past venture outcomes and ethical reputation, VCs place more value on the entrepreneur's past venture outcomes than on ethical reputation.

The findings highlight the core distinction between TC and RC. They suggest that TC is often seen as a sign of strategic engagement, so ethical reputation is the key factor that reassures VCs about the entrepreneur's intentions. VCs prioritize ethical reputation because it signals whether the entrepreneur engages in conflict for the right reasons (e.g. integrity, transparency and fair decision-making). If the entrepreneur is ethical, the conflict may be seen as a sign of a principled leader rather than a disruptive presence. Thus, the past venture outcome becomes less significant because a failed venture may have been because of external factors rather than poor leadership or decision-making. Conversely, RC raises concerns about interpersonal dysfunction. Thus, VCs place great emphasis on past venture outcomes as an indicator of whether the entrepreneur can still deliver results despite conflicts. If the entrepreneur has delivered successful results in the past, VCs may be willing to overlook interpersonal challenges. In that case, ethical reputation is deprioritized because even if an entrepreneur is ethical, persistent relationship conflicts may suggest they are difficult to work with, creating risks for future investment partnerships.

Finally, these findings are also interesting, given that scholars suggest VCs may place more value on economic potential (e.g. venture success) than any other factor in investment decisions (e.g. Hsu *et al.*, 2014). Our divergent findings may also imply that VCs may not prioritize economic potential all the time. Different considerations, such as evaluating an

entrepreneur's track record of conflict, may influence VCs' investment strategies differently. These observations further contribute to the literature on how VCs' investment strategies vary (Conti *et al.*, 2019). It also shows that VCs' assessment of agency risk differs based on different combinations of factors.

Theoretical implications

This study shows that ethical reputation provides a trust signal in conflict cases. It suggests that if entrepreneurs have a strong ethical reputation, VCs may interpret their history of conflict as constructive rather than destructive, mitigating concerns about opportunism. Thus, we contribute to agency theory's argument by showing that credible signals (such as ethical reputation) can reduce information asymmetry and help principals (VCs) assess agent (entrepreneur) reliability.

Moreover, we indicate that VCs perceive RC as a more serious risk factor, potentially signaling agency costs such as misalignment of interests, difficulty in collaboration, or potential governance issues. VCs' prioritization of past venture success suggests that they view financial performance as a compensatory factor that offsets concerns about relational difficulties. Thus, our study contributes to the agency theory perspective by showing that strong performance indicators can act as a mitigating factor against perceived agency risks, as VCs may assume that financial success can justify and perhaps even necessitate past conflicts.

Finally, our findings refine agency theory by differentiating TC and RC as distinct sources of agency costs: TC is viewed as an information asymmetry issue – VCs resolve it by relying on ethical reputation to assess the entrepreneur's decision-making integrity. However, RC is viewed as an agency cost issue – VCs mitigate it by prioritizing past financial success as a compensatory signal of the entrepreneur's ability to deliver returns despite difficult relationships.

Practical implications

Entrepreneurs should not be afraid of TC. Rather, they should try to learn from it. Entrepreneurs should prioritize engaging in constructive TC, where differences in ideas and opinions are addressed productively and ethically. This can demonstrate the entrepreneur's competence, problem-solving skills and commitment to achieving business goals. Also, entrepreneurs with a history of conflicts should learn from their experiences and adapt their behaviors. They should seek to reassure VCs by emphasizing the lessons learned, changes made and their commitment to aligning interests to ensure the venture's success.

Moreover, entrepreneurs should be mindful of TC and RC, understanding that VCs evaluate them conjointly. Developing effective conflict management strategies, particularly minimizing RC while maintaining a proactive approach to TC, enhances the entrepreneur's appeal to VCs during funding considerations.

Also, our study suggests that a high ethical reputation positively influences VC evaluations of entrepreneurs. Entrepreneurs must build a high ethical reputation to counterbalance investors' negative perceptions of conflict, particularly RC. Policymakers should help entrepreneurs prioritize maintaining and showcasing ethical business practices to enhance their standing in the eyes of VCs. Policy programs could include transparent communication, ethical decision-making and a commitment to integrity.

Furthermore, VCs should prioritize assessing the outcomes of entrepreneurs' previous ventures and acknowledging instances where TC may have contributed positively to overall success. Also, entrepreneurs' track record of conflicts can influence the design of contractual arrangements between entrepreneurs and VCs. VCs may include specific contract clauses or policy mechanisms to mitigate the impact of potential agency risk based on their knowledge of entrepreneurs' track records in past ventures.

Finally, VCs should consider the context in which conflict occurs. VCs should evaluate entrepreneurs holistically, considering their overall track records, including past venture successes and failures, as well as their ethical conduct, among others. This comprehensive assessment can provide a more accurate understanding of an entrepreneur's potential for future success and compatibility with VCs. In addition, VCs should also learn from their own experience. They should evaluate their portfolio and examine whether an entrepreneur with a track record of conflicts performed better or worse for them than those without a conflict history.

Limitations and future research

Similar to most studies, this study has limitations that suggest future studies. The study primarily focuses on how VCs evaluate entrepreneurs based on their track records of TC and RC. While the study sheds light on the importance of conflicts in VC investment decisions, it might only capture some of the agency relationship dynamics. Agency theory suggests that conflicts are just one aspect of the principal-agent relationship. Although we examine the entrepreneur's past venture outcomes and ethical reputations, agency theory acknowledges that agency relationships are dynamic and multifaceted; success or ethical reputation alone cannot fully capture the intricacies of the principal-agent dynamic. Future studies could consider other factors that may influence VCs' perception of alignment or misalignment of interests when considering funding opportunities.

Moreover, given that different norms exist in different countries, the effect of ethical reputation might change in other settings. Future studies could replicate this study in various cultures to determine how VCs in those settings might perceive an entrepreneur's track record of ethical reputation when evaluating an entrepreneur's track record of conflict for potential partnership.

Furthermore, for the purposes of this study, we did not ascertain the causes of the entrepreneur's track record of conflicts. Regarding RC, some previous investors may be known to be problematic, so RC may be expected because the investors are difficult. In that case, VCs might consider the entrepreneur's track record of RC differently than with more friendly or easy-going investors, where the RC may stem from the entrepreneurs. Future studies could explore the causes of the entrepreneurs' history of conflicts. That is, the goal would be to determine whether the conflicts resulted from the entrepreneurs themselves or were caused by their investors, and then study how VCs' knowledge of such information influences their willingness to partner with the entrepreneurs.

Finally, this study did not consider entrepreneurs' success and failure levels. Extant work shows that VCs also consider levels of success and levels of failure when making investment decisions (Souakri *et al.*, 2023). For instance, an entrepreneur may have a mixture of outcomes, such as one prior failure and nothing else, one prior success and nothing else, a mixed record of failures and successes, all success but with one notable failure and all failures with one notable success. Future studies could examine these levels of entrepreneurs' past venture outcomes and how they may (un) favorably influence VCs' evaluation of an entrepreneur with a track record of conflicts.

Conclusion

In conclusion, this study sheds light on the intricate dynamics of VCs' investment decisions, particularly when evaluating an entrepreneur with a track record of conflict with previous investors. The findings highlight the nuanced approach that VCs may adopt to evaluate an entrepreneur's track record of conflict to minimize agency risk. The study further underscores the impact of contextual factors, such as past venture outcomes and ethical reputation, in shaping VCs' decisions to partner with an entrepreneur with a track record of conflicts.

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Appendix 1. The baseline scenario held constant across all profiles

“The ventures that are applying for funding are technology startups in the industry in which you normally invest. The ventures are based on a technical invention, have a compelling value proposition, clearly identified potential users, and a working prototype. The investment opportunities differ only in the following attributes of the lead entrepreneur. Imagine you have the financial resources to invest; evaluate each of the profiles below and determine how likely you are to invest in each venture. Consider each entrepreneur’s attributes as an individual situation independent of all the others”.

Appendix 2**Table A1.** Attributes and level descriptions for the conjoint experiment

Attributes	Levels	Operationalization	Supporting literature
Entrepreneur’s track record of task conflict	Low	This entrepreneur had infrequent disagreements and differences in ideas and opinions with investors about what should be done	Collewaert (2012),
	High	This entrepreneur had frequent disagreements and differences in ideas and opinions with investors about what should be done	
Entrepreneur’s track record of relationship conflict	Low	This entrepreneur had infrequent interpersonal incompatibilities or personality clashes with investors	Zunino <i>et al.</i> (2022)
	High	This entrepreneur had frequent interpersonal incompatibilities or personality clashes with investors	
Entrepreneur’s past venture outcome	Failure	This entrepreneur is known to have failed in past venture endeavor	Drover <i>et al.</i> (2014)
	Success	This entrepreneur is known to have been successful in past venture endeavor	
Entrepreneur’s ethical reputation	Low	This entrepreneur’s ethical standard is minimal	
	High	This entrepreneur’s ethical standard is high	

Source(s): Authors’ own work

Appendix 3. Sample profiles presented to participants

Profile 1

(For reference, please hover your mouse over each attribute name to review its definition)

Entrepreneur's track record of task conflict: *High*

Entrepreneur's track record of relationship conflict: *Low*

Entrepreneur's past venture outcome: *Success*

Entrepreneur's ethical reputation: *Low*

Please indicate the number that best represents your response based on the profile above.

What is the probability that you would invest in this venture?

Low Probability 1 2 3 4 5 6 7 High Probability

Source(s): Authors' own work

Profile 2

(For reference, please hover your mouse over each attribute name to review its definition)

Entrepreneur's track record of task conflict: *Low*

Entrepreneur's track record of relationship conflict: *High*

Entrepreneur's past venture outcome: *Failure*

Entrepreneur's ethical reputation: *High*

Please indicate the number that best represents your response based on the profile above.

What is the probability that you would invest in this venture?

Low Probability 1 2 3 4 5 6 7 High Probability

Source(s): Authors' own work

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