

## Research on Evolution of Conflict Reconciliation between Entrepreneurs and Investors Based on Grounded Theory

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**ABSTRACT:** In this article, 10 publicly reported actual cases of conflict reconciliation between entrepreneurs and investors are selected, and the grounded theory approach is adopted to construct the influence factors model for evolution of conflict reconciliation between entrepreneurs and investors, including 3 stages (conflict accumulation, conflict emergency and conflict aftermath), situational driving factors and mediating driving factors. A total of 8 main categories and 19 corresponding sub-categories are obtained, where the main categories are divergence of strategic objective, non-performance of contractual commitment, divergence of control right allocation, conflict manifestation, driving factors of conflict reconciliation, conflict reconciliation, individual characteristics of entrepreneurs and investors and external environment. Finally, suggestions for preventing and resolving conflicts are provided to promote the cooperation and win-win development of entrepreneurs and investors.

**Key words:** Conflicts between Entrepreneurs and Investors, Evolution of Conflict Reconciliation, Grounded Theory

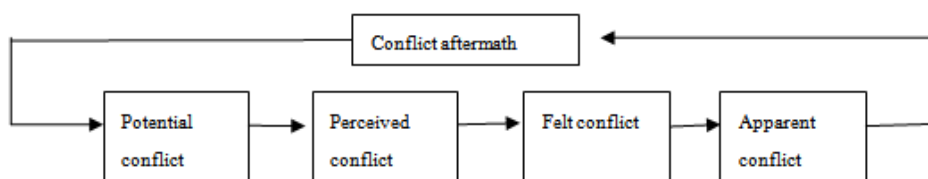
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### I. INTRODUCTION AND LITERATURE REVIEW

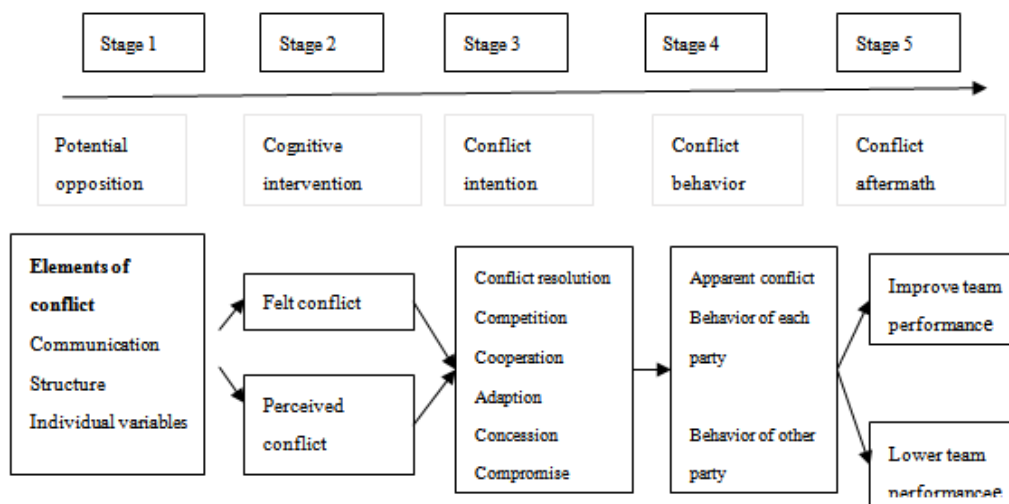
In recent years, under the promotion of the tide of entrepreneurship such as “mass entrepreneurship”, “grassroots entrepreneurship” and “everyone entrepreneurship”, the institutions and investment cases of venture capital (VC) and private equity (PE) have increased significantly. The pioneering enterprise and investment institution can achieve win-win development through an appropriate cooperation mode: the investment institution provides fund and resources to promote the development of enterprise, while the value increment of pioneering enterprise will bring great return and high profit to the investment institution. However, the investors prefer to get a better return in a shorter term, while the entrepreneurs prefer to lessen the control of investor and operate the enterprise independently, which is the inherent antagonism between the interest demands of the two parties, and will result in various conflicts in cooperation<sup>[8]</sup>. The conflicts between entrepreneurs and investors usually end with concession of one party or compromise. In case the two parties fail to reach a resolution on the conflict, huge losses are likely to be caused to entrepreneurs, investors and the stakeholders of involved enterprise.

The evolution of conflict, the process of conflict emergency and development, is a dynamic phenomenon. Pondy<sup>[3]</sup> had first put forward the dynamic development process of conflict: potential conflict, perceived conflict, felt conflict, apparent conflict, and conflict aftermath (as shown in Figure 1). On the basis of this, Robbins<sup>[4]</sup> had put forward a more specific five-stage model of conflict evolution: potential opposition, cognitive intervention, conflict intention, conflict behavior and conflict aftermath (as shown in Figure 2). The evolution of conflict reconciliation also follows the general evolution path of conflict, including potential conditions, conflict reconciliation intention, conflict reconciliation manifestation, conflict reconciliation.

Figure 1 Pondy's Five-Stage Model of Conflict Evolution<sup>[3]</sup>



**Figure 2** Robbins's Five-Stage Model of Conflict Evolution<sup>[4]</sup>



The conflict management strategy is the behavioral intentions of both parties toward conflicts, which can largely determine the conflict aftermath. In the early stage, Thomas<sup>[7]</sup> had put forward a two-dimensional model of conflict management strategies, in which the horizontal and vertical coordinates are defined as “other-interest-oriented” and “self-interest-oriented”, respectively, and five conflict management strategies are obtained, namely cooperation, compromise, concession, avoiding and confrontation. Nicotera<sup>[2]</sup> had put forward a three-dimensional model of conflict management strategies, namely “attention to one’s own viewpoint”, “attention to other’s viewpoint” and “emotional valence”, in which seven conflict management strategies can be obtained, including avoiding, estrangement, accommodating, arrogance, self-confidence, attacking and consolidation.

## II. OBJECTIVES

In this article, the actual cases are collected and a grounded theory approach is adopted to construct the model for evolution of conflict reconciliation between entrepreneurs and investors, thus to explore the driving factors of reconciliation, and promote the cooperation and win-win development of pioneering enterprises and investors.

## III. METHODOLOGY AND CASE SELECTION

### 3.1 Grounded Theory

The grounded theory, firstly put forward by Glaser and Strauss, is designed to explore and summarize relevant rules and theories through a systematic research procedure and by summarizing a large amount of empirical data<sup>[1]</sup>. Since the content of this article is a new theoretical model based on the original case data, this is an exploratory research, which can be effectively carried out with the application of grounded theory. The grounded theory usually involves the definition of research subject, literature review, data collection and analysis, 3-level coding (open coding, axial coding, and selective coding), construction of theoretical model, and theoretical saturation test.

### 3.2 Case Selection

In order to ensure that selected cases are typical and meet the requirements for construction of theoretical model, the cases in this article are selected according to the following criteria: firstly, the conflicts between entrepreneurs and investors occurred in various industries, including internet, real estate, manufacturing, catering etc.; secondly, the conflict events have been reported by the media, and comprehensive information that are sufficient for research have been provided; thirdly, the conflicts between entrepreneurs and investors end with reconciliation between both parties, including concession of any party or compromise etc.

## IV. CONSTRUCTION OF INFLUENCE FACTORS MODEL FOR EVOLUTION OF CONFLICT RECONCILIATION BETWEEN ENTREPRENEURS AND INVESTORS

### 4.1 Open Coding

Open coding is the process in which the original basic data are analyzed, decomposed, refined and categorized, in which the convergence of original data and research subjects will be realized through definition of phenomenon, development of concept and refine of categories. In the process of open coding, the coder is

required to abandon the subjective judgment, and code the original data with open mind and according to its original state.

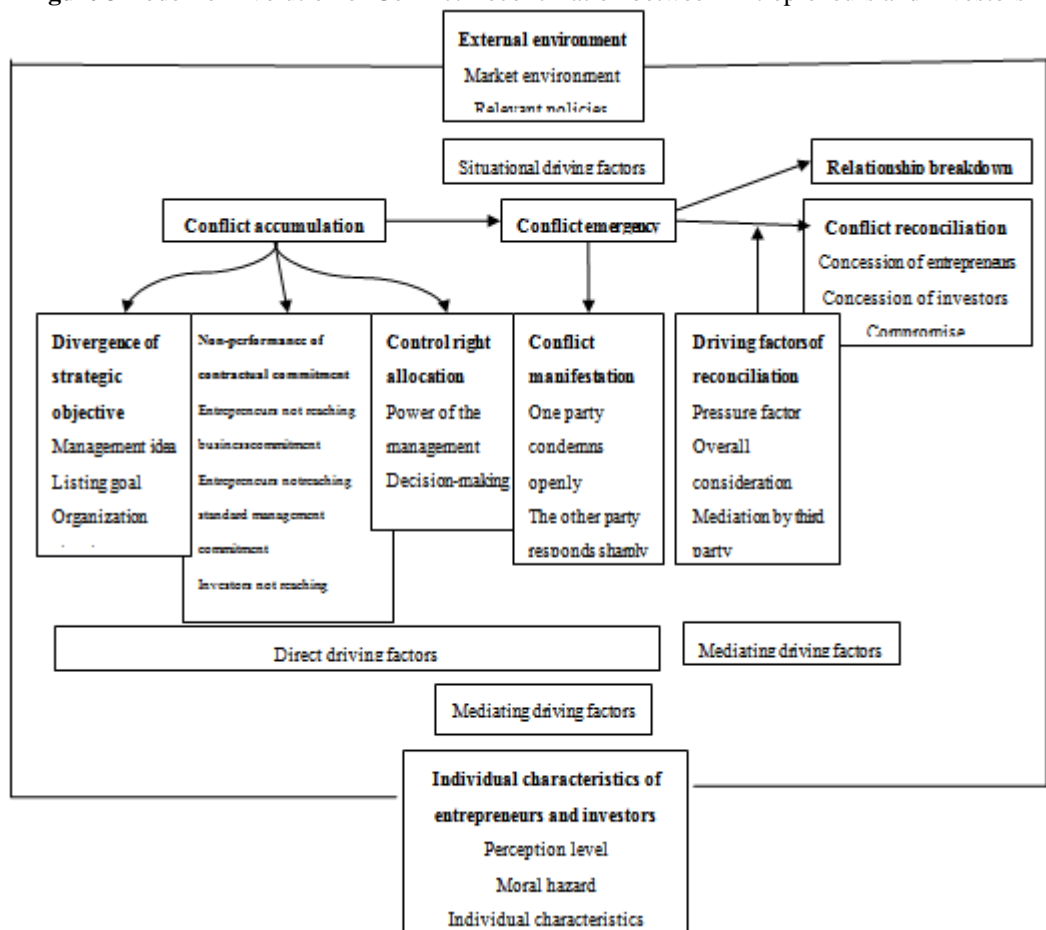
#### 4.2 Axial Coding

In this article, based on the classical coding pattern<sup>[5]</sup> of formation conditions of phenomenon → theoretical phenomenon → context → intervening conditions → action strategy → consequence, the interrelations among 21 categories were analyzed and refined into 8 main categories, namely divergence of strategic objective, non-performance of contractual commitment, divergence of control right allocation, conflict emergency, driving factors of conflict reconciliation, conflict reconciliation, individual characteristics of entrepreneurs and investors and external environment.

#### 4.3 Selective Coding

Selective coding is designed to refine the main categories into a core category systematically and reasonably connected to other categories, thus to include all relevant variables into a simple and compact theoretical framework according to a “story line”<sup>[6]</sup>. In combination with the original data and according to the analysis of 8 main categories, it was found that the category of “evolution of conflict reconciliation between entrepreneurs and investors” can be used for analyzing and summarizing the most other categories and concepts. Therefore, the category was defined as the core category.

Figure 3 Model for Evolution of Conflict Reconciliation between Entrepreneurs and Investors



## V. MODEL ANALYSIS ON EVOLUTION OF CONFLICT RECONCILIATION BETWEEN ENTREPRENEURS AND INVESTORS, AND SUGGESTIONS

### 5.1 Accumulation of Conflicts between entrepreneurs and investors

Conflict accumulation, the first stage of evolution of conflict reconciliation between entrepreneurs and investors, is the direct driving factor of conflict reconciliation, i.e. the source of conflict. It mainly involves three factors, namely divergence of strategic objective, non-performance of contractual commitment and divergence of control right allocation.

## **5.2 Emergency of Conflicts between entrepreneurs and investors**

The accumulated conflicts will break out at a certain node, after which the second stage of conflict reconciliation between entrepreneurs and investors (conflict emergency) will begin. In this stage, the entrepreneurs and investors will have different manifestation patterns: one party condemns openly, and the other party responds sharply.

## **5.3 Mediating Driving Factors of conflict reconciliation between entrepreneurs and investors**

The driving factors of conflict reconciliation have positive regulating effect on conflict reconciliation between entrepreneurs and investors. These factors include pressure factor, mediation by third party and overall consideration. Meanwhile, the individual characteristics of entrepreneurs and investors can regulate the evolution of conflict between the two parties in the whole process.

## **5.4 Situational Driving Factors of conflict reconciliation between entrepreneurs and investors**

As the situational driving factor, the external environment will affect the evolution process and path of conflict reconciliation between entrepreneurs and investors. The external environment includes market environment and relevant government policies.

## **5.5 Countermeasures and Suggestions for conflicts between entrepreneurs and investors**

According to the results of the analysis on the influence factors model for evolution of conflict reconciliation between entrepreneurs and investors, the following suggestions are provided to prevent and resolve the conflict, and to promote the reconciliation. Firstly, the entrepreneurs may adopt the dual-class share structure to prevent the weakening or dilution of control right. In early stages, the entrepreneurs usually choose to finance themselves to promote development with supports of fund and social resources, but this will inevitably result in dilution of equity. If no appropriate share structure design is adopted, the entrepreneurs will lose the decision right and control right on the enterprise. Secondly, both entrepreneurs and investors shall carry out evaluation on each other in prior to signature of cooperation agreement. The entrepreneurs shall evaluate the investment history and relevant resources to determine whether the demands of pioneering enterprise can be satisfied; the investors shall carry out evaluation of moral hazard and individual characteristics on entrepreneurs, and investigate the operation of the enterprise etc. Thirdly, during the cooperation, the entrepreneurs and investors shall enhance communication with each other, improve the level of communication and trust, and set the strategic objectives and make important decisions through negotiation.

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