Bridging the Physical Gap in Entrepreneur-Venture Capitalist Dynamics in the Age of Social Distancing

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Abstract

The COVID-19 pandemic has led to a “physical gap” between startup entrepreneurs and venture capitalists (VCs) as traditional means of building relationships through in-person interactions have become more limited. To explore the venture capital process in the new environment of physically distanced communication from the perspective of entrepreneurs, we developed a survey based on foundational literature of trust building and entrepreneur-venture capitalist (E-VC) relationships and administered it in online survey of entrepreneurs actively engaged in the fundraising process. We were able to identify and assess the recurring issues expressed by 57 entrepreneurs from 11 countries who were seeking financing during the pandemic to understand the challenges they face and how they sought to surmount them. We found that while online communications have mitigated the geographical constraints in fundraising since the start of the pandemic, fundraising has become more difficult, and the key challenge has been building trusting relationships with VCs. To that end this research attempts to extend the literature of E-VC trust and relationship building from the in-person context to the physically distanced context. Practical implications of this research stem from our findings which suggest that to bridge the physical gap and form new relationships with VCs, entrepreneurs should increase their reliance on personal referrals to investors, emphasize their entrepreneurial team’s bona fides, and offer more detailed technical validation of their startup. Additionally, entrepreneurs should provide more frequent status updates and seek more frequent feedback to maintain existing relationships with their investors. Given that forms of virtualized business may define our new reality, the insights and strategies identified may provide guidance for entrepreneurs, their venture investors, and managers in other virtualizing industries where physical gaps must be bridged.

Keywords: venture capitalist, fundraising, pandemic, trust, entrepreneurs, social distancing, physical gap, startup

Introduction

The COVID-19 pandemic has led to a 'physical gap' between startup entrepreneurs and the venture capitalists (VCs) that they need to approach to raise essential financing. Building trust between entrepreneurs and the VCs who invest in their high-risk ventures is an essential element of fundraising and is typically done in person, particularly in early stage ventures because there is limited evidence about the viability of the early-stage venture, nor is there typically a pre-existing relationship with the VCs (Aldrich and Fiol 1994; Maxwell and Lévesque 2014). Building trust relies in part on inter-personal experiences and is critical in the entrepreneur-venture capitalist (E-VC) relationship (Harrison, Dibben, and Mason 1997; Shepherd and Zacharakis 2001). As traditional means of building trusting relationships through in-person interactions have become more limited this paper explores the venture capital process in the new environment of physically-distanced communication from the perspective of entrepreneurs.

Our primary research questions are: 1) How have pandemic related restrictions (e.g., the physical gap) to entrepreneur-venture capitalist (E-VC) interactions impacted the fundraising process? and 2) How have entrepreneurs adjusted their fundraising efforts in light of these restrictions (e.g. bridging the physical gap)? To explore these research questions, we developed a survey based on foundational literature of trust building and E-VC relationships and administered it in online survey of entrepreneurs actively engaged in the fundraising process. We were able to identify and assess the recurring issues expressed by 57 entrepreneurs from 11 countries who were actively engaged in fundraising during the pandemic to understand the challenges they face and how they seek to surmount them.

In the following sections we discuss the new challenges in attaining financing that entrepreneurs now face due to the pandemic-induced physical gap, a sampling of the literature we relied on to explore our primary research questions, the methods we undertook to gain insights from entrepreneurs, and our findings from this investigation. Finally we discuss the theoretical and practical implications of our findings, the limitations of our inquiry, and potential areas of future research.

Pandemic disruption of entrepreneurs' fundraising process

Startup entrepreneurs face a myriad of challenges, understanding market trends, forming a team, building a disruptive product, and most importantly, finding the financing to fuel their vision. However, amid a once-in-a-century pandemic, all of those challenges have been made even more complex. Some tasks (e.g., market research, product development, legal filings, marketing) lend themselves to adaptation to social distancing, while other tasks (e.g., team recruitment, fundraising) are far less tractable under social distancing.

Fundraising, that most crucial of startup tasks, has, heretofore, been driven by in-person relationship building (De Clercq and Sapienza 2001; Glücksman 2020; Fisher 2021). Financing discussions for startups are typically initiated and developed in person over time, leading to the often-lamented "20-minute rule." That is, entrepreneurs must have their business within a 20 minute-drive of venture capitalists (VCs) from whom they seek financing (Stross 2006). This physical closeness allows relationships to be built through repeated in-person interactions during the due diligence process. It also allows for on-going mentoring and due diligence by VCs after they invest their limited partners' (LPs') capital in their portfolio companies. Social distancing has brought disruption to in person meetings, or a "physical gap" to this process. We define a physical gap as an undesired physical distance in professional contact arising from macro environmental, business, or individual constraints.

VCs go through sequential stages to evaluate ventures: origination, generic screen, venture capital firm-specific screen, first-phase evaluation, second-phase evaluation, and closing (Fried and Hisrich 1995). At the initial stages, investors' decision-making is very rapid. For example, Hall and Hofer (1993) find that VCs take less than six minutes for initial screening and less than 21 minutes for proposal assessment. Similarly, Maxwell, Jeffrey, and Lévesque (2011) find that angel investors use a more efficient heuristic rather than a complex fully compensatory decision-making model as discussed in much of the literature, by rejecting over 89% of the ventures in the initial interaction based on *in-person* assessment of the entrepreneur.

Since the VC process transitioned almost entirely to online during the pandemic, fundraising has become more challenging for early-stage ventures. For instance, Howell, Lerner, Nanda and Townsend (2020) report that VC investment declined by 38% for early-stage startups between March and May 2020 compared to the previous four months, while the pace of investment for late-stage ventures did not significantly change. Furthermore, according to the PwC/CB Insights MoneyTree Report (2020), the VC investment in early-stage U.S.-based entrepreneurs in the third quarter of 2020 was only about 3% (1.03 billion) of a total $36.5 billion invested. This significant decline in financing early-stage startups was also experienced in the U.K. and China where the decrease was 40% and 65%, respectively, in the first quarter of 2020 compared to the same period of 2019 (Brown, Rocha, and Cowling 2020).

While there are surveys and writings about the perspectives of VCs since the start of the pandemic (e.g., Gompers et al. 2020; PwC/CB Insights 2021; CB Insights 2021; Pitchbook/NVCA 2021), we know relatively little about the perspective of entrepreneurs regarding fundraising. Two recent studies in Germany (Kuckertz et al. 2020; Scheidgen et al. 2021) have addressed startups' challenges, their bricolage actions for survival, and policy measures since COVID-19 lockdown went in effect in early 2020. Understanding the entrepreneur's perspectives on fundraising in a time of pandemic is crucial, because of the limited access to funding for startups during crises (Scheidgen et al. 2020), and because startups that are not profitable require financing (Bernstein, Korteweg, and Laws 2017; Bernstein, Giroud, & Townsend 2016; Dutta and Folta 2016) to invest in product development and build market share. Through an analysis of experiences under social distancing entrepreneurs can be provided with alternative practices for bridging the physical gap and fundraising successfully.

Despite numerous studies on relationship-building and trust (e.g., Hall 2019; Tamir and Mitchell 2012; Warnick et al. 2021), there is a lack of clarity about what early-stage entrepreneurs can do to build new relationships and trust (e.g., Nguyen and Rose 2009; Welter 2012) to increase the chance of being considered at the origination stage of the VC process. Therefore, this study explores how early-stage entrepreneurs, those seeking or recently earning their initial rounds of venture capital, are experiencing the virtual fundraising process, and how they are managing the challenges in this new process to bridge the physical gap in the absence of in-person interactions.

The entrepreneur and venture capitalist (E-VC) relationship and trust

Entrepreneurs and VCs develop reciprocal and cooperative relationships to nurture entrepreneurial endeavors to success (Huang and Knight 2017; Maxwell and Lévesque 2014; Serva, Fuller, and Mayer 2005; Shepherd and Zacharakis 2001). This relationship has both instrumental (taskrelevant) and affective (social and emotional) dimensions that evolve over time based on experiences with each other which confirm or annul one's own belief about the other party's trustworthiness manifested in their behavior (Huang and Knight 2017; Mayer, Davis, and Schoorman 1995; Maxwell and Lévesque 2014; Shepherd and Zacharakis 2001). Thus, the development of trust, based in part on inter-personal experiences, is a critical element to cooperation, risk-reduction, and efficient decision-making in the E-VC relationship (Harrison, Dibben, and Mason 1997; Shepherd and Zacharakis 2001).

Trust, at the individual level, is generally understood to be the reliance or confidence in another's integrity and ability. For early-stage ventures, building trust with VCs is paramount, because there is not yet sufficient information or evidence about the viability of the early-stage venture or an existing relationship with potential funders (Aldrich and Fiol 1994; Maxwell and Lévesque 2014). Under these conditions, it has been suggested that trust emerges as a leap of faith (e.g., Fink and Kessler 2010; Maxwell and Lévesque 2011). However, others find that trust is formed through institutionally-based or third-party affiliation signaling (Hallen and Eisenhardt 2012; Scarbrough et al. 2013; Plummer, Allison, and Connelly 2016) or through interpersonal or informational signaling that can be intentionally developed for early-stage entrepreneurs to mitigate uncertainty about new ventures (e.g., Aldrich and Fiol 1994; Huang and Knight 2017; Nguyen and Rose 2009; Von Gehlen et al. 2018; Zott and Huy 2007). Venture evaluation and trust-building signals emanate from a range of sources, as Busenitz, Fiet, and Moesel (2005) conclude in their 10-year longitudinal study of 183 VC-funded ventures whereby VCs used a range of metrics and decision rules to evaluate the venture value and commitment.

As per the type of behavior that entrepreneurs can exhibit to foster trust at the early stage of a venture, Shepherd and Zacharakis (2001) suggest that entrepreneurs should convey, through open and frequent communication, that they are: committed to their venture; consistent; and a good fit with the VC. (Here, we rely on the common use definition of communication as the exchanging of information.) Zott and Huy (2007) find in their two-year study of 26 British ventures that those that acquire more resources (e.g., funding from investors, employees, customers) exhibited more frequently than those that acquired less, symbolic actions such as conveying the entrepreneur's personal credibility, professional organizing, organizational achievement, and the quality of stakeholder relationships. Maxwell and Lévesque (2014) find that entrepreneurs who successfully receive funding from angel investors exhibited both trusting behaviors (i.e., receptiveness, reliance, self-disclosure) and trustworthy behaviors (i.e., alignment with goals, consistency, benevolence). In the context of inter-organizational trust-building, Nguyen and Rose (2009) find that entrepreneurs in Vietnam build trust among them by four activities: establishing personal rapport; sharing business information and practices; seeking endorsement from informal third parties; and use of formal institutions, such as banks and legal agencies.

In a study of 36 various members of entrepreneurial process (e.g., entrepreneurs, technology transfer officers, and VCs), Scarbrough et al. (2013) find that trust among them is built through institutionally-based signals such as a venture’s technology or idea from a reputable institution or possessing intellectual property for early-stage high-tech ventures, as an indicator of relative not intrinsic quality. In a similar vein, Plummer et al. (2016) find that signals associated with third-party affiliations (e.g., reliable endorsements) increase the value of other signals about venture qualities, which helps early-stage ventures gain financing. Based on exchange theory, which posits that social behavior is the result of a cost/benefit exchange between individuals, Huang and Knight (2017) assert that the E-VC relationship consists of affective and instrumental dimensions, involving the exchange of financial and social resources. In the initial stage of the relationship, entrepreneurs use interpersonal signals (e.g., openly engaging with questions, mirroring an investor's views) that influence affect-based trust (i.e., trust based on positive feelings about another) and informational signals about the venture (e.g., technology or financial data) or the entrepreneur (e.g., education, credentials, or evidence of past entrepreneurial success) that influence cognitive-based trust (Huang and Knight 2017).

The sequence of affect- or cognitive-based trust can be simultaneous or in serial. While McAllister (1995, 51) argues "some level of cognition-based trust is necessary for affect-based trust to develop," Von Gehlen et al. (2018) find that affect-based trust precedes cognitive-based trust as a leap of faith between German technology ventures and VCs which then enabled resource transfer. Similar to signaling, Parhankangas and Ehrlich (2014) find that early-stage entrepreneurs who secure funding from angel investors use an impression management approach – the management of impressions about themselves via the regulation of information in social interactions - such as positive language and actively expressing conformity to investors' opinions. In fact, Li (2019), using a multi-stage game model of dynamic trust, found that characteristics of trust between VCs and entrepreneurs were determined by entrepreneurs.

Previous studies are informative to understand how trust can be built or destroyed for startup fundraising in in-person contexts. However, what is unexplored is how early-stage entrepreneurs perceive the fundraising process during the pandemic and which actions or strategies are effective for fundraising and for developing or maintaining trusting relationships with VCs in the physically distanced environment.

Method

As the purpose of this study is to explore how entrepreneurs have experienced the fundraising process and which actions or strategies they have found effective for fundraising in the age of social distancing, we developed an online survey based on foundational literature of trust building and E-VC relationships along with one of the author's direct experience as a venture capitalist. While the study is exploratory in nature we followed the guidance of Stebbins (2001: p. 5) who confirmed "…both quantitative and qualitative data may be gathered during exploration. In other words, although in most exploratory studies, qualitative data predominate, they are augmented where possible and desirable with such descriptive statistics as indexes, percentages, and frequency distributions. Indeed, some researchers even conduct quantitative surveys as a subsequent part of their investigation, asking respondents fixed-response questions predicated on the qualitative data gathered previously."

We pretested the online survey (provided in English) with 10 people (five academics and five practitioners) with a request to provide comments and questions. Based on their comments and suggestions, we improved the survey by clarifying the survey purpose more specifically and making a few long questions more succinct (e.g., use "since the beginning of the COVID-19 pandemic" rather than "…you have experienced since COVID-19 began"). After seven iterations we distributed an anonymous online survey link to about 250 entrepreneurs through entrepreneurial organizations and the authors' professional networks and received 103 anonymized responses.[1] Among these, 57 responses were used for analysis as we limited survey respondents to those entrepreneurs who completed the entire survey within the 6 week time frame of data collection (May – June 2021), and are actively or recently engaged in the fundraising

[1] As the study survey was anonymous and 'non-interventional' (https://authorservices.taylorandfrancis.com/editorial-policies/research-ethics-and-consent/#researchinvolvinghumans) and met institutional requirements (https://myusf.usfca.edu/irbphs/what-needs-approval), IRB was not required.

process so that they could provide their insights on the challenges they faced and the strategies they pursued.

The survey had three sections. In the first section, the respondents were asked their agreement level on a Likert-type scale from 1 (strongly disagree) to 5 (strongly agree) about aspects of their fundraising experience since the COVID-19 pandemic began. For example, they were asked how easy or difficult it has been to build new relationships with VCs and to go through the due diligence process. In the second section, we asked respondents about the effectiveness of their strategies or actions in raising venture capital since the COVID-19 pandemic began, from 1 (not effective at all) to 5 (extremely effective), with an option of ‘not applicable’ if they have not attempted each action. For instance, we asked how effective it was to seek more referrals from mutual acquaintances with VCs in raising capital since COVID-19 began. For both sections, open-ended questions were also included for the respondents to provide their own comments regarding the challenges they have experienced about fundraising and the strategies or actions that have been most effective in building new relationships with VCs and in maintaining existing relationships with VCs. In the last section, the respondents were asked about their profile (e.g., age, gender, years of experience, current role), and their venture (e.g., funding stage, headquarter location, industry, funding amount raised before and after COVID-19).

Findings

Respondents' Profiles

The majority (86%) of the 57 respondents were male and 43.8 years old on average (SD=12.5), ranging from 21 to 72 years old. Most respondents were CEOs/Founders, except for six respondents whose current roles were VP, CFO, CTO, director, or manager. They had an average entrepreneurial experience of 12.7 years (SD=8.3), ranging from 1 year to 35 years. The majority (35 of 47; 78.8%) of the respondents identified themselves as Caucasian or White. Other ethnicities included Asian (9 or 19.1%) and Hispanic (2 or 4.3%) and Black (1 or 2.1%).

Most (83.3%) respondents' ventures were at the early stage of financing, namely, 44.4% at pre-A (convertible debt or angel financing), and 38.9% at series A stage. Most respondents' headquarters were in the U.S. (31 of 51; 60.8%) or UK/Europe (13 or 25.5%). The U.S. locations included California (20 of 31), Minneapolis, Maryland, Texas, and Missouri. UK/Europe respondents included the UK (4), Germany (3), and one each in Czech Republic, Finland, Denmark, and France. Other locations included China (1), Korea (4), Canada (1), and Israel (1). While 66.1% of the respondents' ventures were in technology (e.g., biotech, blockchain, cybersecurity, gaming), 8.9% were in health/medical products, 5.4% were in transport/logistics and 5.4% were in finance services. Other industries included energy, semiconductor, food & beverage, event organizing, real estate, and manufacturing. The capital amount raised by the respondents varied widely most likely due to the wide variation of their industries, ranging from zero to USD 220 million before the pandemic, and zero to USD 130 million since the pandemic began. The average amount raised before the pandemic began was USD 15.8 million, which was larger than the average raised amount after the pandemic began, namely USD 8.95 million. About half of the respondents raised USD 1.1 million before the pandemic, and half of the respondents raised 0.65 million after the pandemic began.

Entrepreneurs' fundraising experiences since COVID-19 began

As may be expected, it has become more difficult for many entrepreneurs to raise venture capital since the beginning of the pandemic, with the largest group of respondents, 43.9% of the responding entrepreneurs strongly or somewhat agreeing. (Mode and difficulty of raising capital differs by stage, with early stage typically needing more in person time to build relationships than later stage follow on financings.) The highest number of respondents (64.3%) strongly or somewhat agreed that VCs put less stringent geographic considerations since COVID-19 began. As Respondent #12 commented, "… they [VCs] are less expectant of in-person meetings and geophysical proximity now." Meanwhile, the lowest number of respondents (31.6%) strongly or somewhat agreed that it has become more difficult to contact or communicate with VCs. To this statement, more than half of the respondents (54.4%) strongly or somewhat disagreed. The respondents found the online environment due to the pandemic has enabled easier communication, as "Zoom meetings are easy to organize, which is very convenient" (Respondent #41) and "…because you can hop online and do a search on LinkedIn or other platforms for VCs and try reaching out to many all at once" (Respondent #17).

Despite the ease of communications and fewer geographical constraints, 50.9% of the respondents somewhat or strongly agreed that it has become more challenging to build new relationships with VCs. As expressed by Respondent #42, although online communication has made it "easier to reach out…, [it has been] harder to form connections." In fact, difficulties in building trust and personal relationships in the online environment were by far the most frequently mentioned challenge to fund raising since the pandemic in the open-ended comments. For example, Respondent #15 stated, "Building deeper in-person relationships can only be forged through mirror neurons, body language, and face-to-face conversations. The complete relationship is critical to bringing on new investors to the board." Likewise, Respondent #41 said, "…not meeting and spending time with people in person makes it harder to form a genuine, lasting connection. Passion and charisma do not quite travel as well on digital media as it does in person." Respondent #17 also pointed to “a loss of physical contact, eliminating the ability to build rapport at a more personal level” as most challenging.

Because of this physical gap since the onset of the pandemic, entrepreneurs have relied on alternative signals to build trust and bridge the divide. For example, 50.9% respondents somewhat or strongly agreed that past work history of the entrepreneur or his/her team has become a more important credibility signal. To a lesser extent, 33.9% respondents somewhat or strongly agreed that the due diligence process takes longer or requires more steps. In the open-ended comments, the respondents also reported that the most challenging things about fundraising in the pandemic environment is that more due diligence and milestone progress checking are required now as it has become more difficult to validate venture metrics remotely. About this aspect, Respondent #13 noted, “Pre-COVID-19, VCs were somewhat flexible about companies having completed the previous milestones prior to funding the next round. Now, VCs are adamant that companies have fully met all the milestones in prep for the next round. This means that companies have to show clear evidence that they are ready.”

Table 1 below shows the percentage of the respondents who somewhat agreed (4) or strongly agreed (5) on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree), to the statements about their experiences since COVID-19 began. Moreover, Table 2 shows representative comments by the respondents on challenges to their fundraising experience since COVID-19 began.

[Insert Table 1 about here.]

[Insert Table 2 about here.]

Entrepreneurs' effective actions for fundraising since COVID-19 began

The most effective action for raising capital since COVID-19 began was seeking more referrals from mutual acquaintances to validate the founding team to venture capitalists, with the highest number of respondents (67.4%) reporting it to be very or extremely effective for fundraising. The second most effective action was to provide more detail to validate the venture's technical or business model assertion, as 60% of the respondents reported it to be very or extremely effective. Demonstrating the team's coachability and willingness to change was the third most cited effective action by the respondents (46.5%). Table 3 below presents the percentage of the respondents who reported either very effective (4) or extremely effective (5) on a 5-point scale from 1 (not effective at all) to 5 (extremely effective), to each of the actions or strategies for fundraising since COVID-19 began.

[Insert Table 3 about here.]

When the respondents were asked to provide the most effective actions or strategies in building new relationships with VCs in an open-ended question, the most frequently mentioned comment by 50 of 57 respondents was seeking more referrals from trusted contacts and following up on referrals. This is the same as the most effective action for fundraising since the pandemic began, as discussed above. In conjunction with and as a follow-up to the personal referral, having a great pitch and something relevant to offer is key after the referral. The most representative answer was given by Respondent #9, "…work your network for a warm introduction to the VC." Respondent #4 shared "Getting a personal referral to the venture capitalist through someone in my network who is acquainted with the venture capitalist is most effective." Additionally, Respondent #11 emphasized "Getting an introduction to the managing partner" who also added, "Cold-emails are dead and filling out forms with your business are very 2005." Similarly, Respondent #35 said, "Connecting with our network for referrals," while Respondent #38 highlighted "Introductions from common connections," as most effective. Thus, it is clear that entrepreneurs are attempting to bridge the physical and social gap or lack of human connection by relying on shared connections to signal trust and build relationships.

The second most frequently mentioned action or strategy in the open-ended responses was having a strong pitch. For example, Respondent #1 highlighted "Have a really good, memorable pitch." Meanwhile, Respondent #53 suggested "Building some business numbers such as sales, users...", and Respondent #16 suggested "Building/Establishing credibility both on technical and business fronts." These entrepreneurial strategies to overcoming the physical gap appear to attempt to create the signal of expertise – a complementary signal to a human connection – a connection of intellect and capability that helps validate the potential success of the venture. Table 4 below shows representative comments by the respondents on the effective actions to build new relationships with VCs since the pandemic began.

[Insert Table 4 about here.]

In addition to building new relationships, the respondents were asked about their actions or strategies for maintaining existing relationships since COVID-19 began. According to the 50 respondents' comments, it was found that providing frequent updates on venture status is the most critical aspect. Relating these updates to milestones and asking for feedback and discussing future goals were also highlighted. As mentioned by respondents #4, #14 and #30, the most effective action is a cadence of frequent updates back to the investors. Similarly, Respondent #17 emphasized the importance of continued effort to keep in contact with VCs, saying, "… I send out monthly email updates, make personal calls, and find other points of engagement with investors."

[Insert Table 5 about here.]

Discussion

The pandemic has imposed social distancing in all aspects of business worldwide. The "physical gap" impact has been particularly acute in E-VC relationships, which have long been founded on connection, communication, and trust-building via in-person interaction (De Clercq and Sapienza 2001; Glücksman 2020; Fisher 2021). These impacts have been both positive and negative. On the one hand, acceptance of social distancing as a common business practice has led to a relaxation of the constraining "20-minute rule," (Stross 2000) easing geographical constraints in fundraising. The effects of this in helping make investment capital available to broader sets of entrepreneurs across the globe can only be positive. On the other hand, the process of consummating investment transactions – the final manifestation of a relationship that has built trust – has become freighted with much heavier demands, complicating fundraising for entrepreneurs in new ways.

The venture capital process (Fried and Hisrich 1995) has evolved apace with the pandemic-induced restrictions. While entrepreneurs previously might have broached introductory discussions with investors at in-person events, with further development of a trust relationship through repeated in-person interactions during due diligence, these activities have largely transitioned, fairly seamlessly, to online media in the time of the pandemic. The convenience of professional discovery tools such as LinkedIn, and ubiquitous, high-fidelity communications media such as email and video chat, have enabled entrepreneurs to establish initial connections with potential investors. Respondents to our survey reported not only the easier access to VCs despite the pandemic-induced physical gap, but also an increasing comfort for investors to engage investments beyond the "20-minute" geographical boundary.

While establishing the initial connection with VCs – bridging that first physical gap – may have become easier under the regime of social distancing, completely bridging the gap to build a relationship of trust, and secure an equity investment, has become far more complex (Howell et al. 2020). Virtualized communication may be sufficient at the introductory stages but bridging the physical gap to achieve levels of trust (Nguyen and Rose 2009) sufficient to make an investment, particularly an initial one, are beyond the scope of electronic media alone. In an equity investment process that is heavily, if not completely, virtualized, entrepreneurs are establishing their bona fides – bridging the physical/social gap – with investors via a reliance on a multiplicity of informational signals. While none of these signals is new, they have all acquired an increased importance on the path to equity investment; entrepreneurs are called upon not to engage in *new* behaviors to build trust under social distancing, but to redouble their efforts in *existing* behaviors. Signals of entrepreneur credibility such as a warm introduction from respected mutual associates, the past work history of the entrepreneur and their team have acquired increased saliency. Similarly, the credibility of the business model and technology is also under increased scrutiny through more thorough due diligence processes.

In terms of theoretical contributions, this study has strived to build on previous research in identifying what entrepreneurs can do to build new relationships and trust (e.g., Nguyen and Rose 2009; Welter 2012) in the new physically distanced business context. Specifically, the paper has tried to highlight the importance of informational signals about the venture and the entrepreneur as quality indicators (Huang and Knight 2017; Plummer et al. 2016; Scarbrough et al. 2013; Zott and Huy 2007) in a physically-distanced environment, even beyond their importance in the in-person context. The limits or physical gap stress the imperative of compensating for the affective (social and emotional) dimensions of building trust in the E-VC relationship (Harrison, Dibben, and Mason 1997; Shepherd and Zacharakis 2001). In identifying ways in which entrepreneurs overcome the physical and resulting social gap challenges, we hope this preliminary work may provide direction for future research to confirm the most effective strategies of building trust in remote environments for the E-VC relationship as well as other business relationships that are increasingly relying on physically distanced communication. Building trust early in E-VC relationships has been shown to be particularly important in the evolution of E-VC relationships (Panda et al. 2000).

Our finding also echo the prescription of the Allen Curve (Allen 1984) which illustrates the drop off in communication between colleagues as the physical distance between them increases, entrepreneurs may be advised to increase the frequency of communication as the relative distance from potential venture capitalist backers increases. In addition, the use of multiple strategies (e.g., personal referrals, professional bona fides, and increased technical specifications) to affirm competence and trust may be advised.

Practical implications of this research stem from our findings that to bridge the physical gap, entrepreneurs are advised to increase their reliance on personal referrals to investors, the entrepreneurial team's bona fides, and detailed technical validation to form new relationships with VCs. Additionally, entrepreneurs should provide frequent status updates and seek frequent feedback to maintain existing relationships with their investors. These findings and implications are consistent with what we know of the venture capital fundraising process in the physical world

(Nguyen and Rose 2009; Welter 2012), albeit with a stronger emphasis. Management team, business model, technical competence, and integrity are key items in attracting capital. In the era of mandated social distancing, it has become even more important to establish these criteria with potential investors in the virtualized world.

Additionally, VCs may also leverage our findings to build trust with those entrepreneurs who may anticipate a more trusting relationship with angel investors (Fairchild 2011). These strategies for bridging the physical/social gap – for building an interpersonal relationship and demonstrating competence – have the effect of reducing risk of investment (e.g., minimizing the discount rate) and increasing the potential return for the investment (e.g., expected future cash flows). Together, these strategies implicitly increase the present valuation of the venture to potential investors and thus enhance the likelihood of financing.

Conclusions, limitations, and future research

Even midst the historic disruptions of the COVID-19 pandemic, humans have seemed to remain social creatures, true to our 50 million years of primate evolution. Physical gaps must therefore be bridged. We imagine potentially a number of practical implications of this research. Firstly, deprived of the familiar, in-person means of establishing relationships of trust, entrepreneurs may be advised to focus their attention on other traditional methods, principally relying on warm introductions from mutual acquaintances. Secondly, the pandemic has also brought about increased scrutiny in the startup due diligence process, absent traditional in-person relationship-building; thus, entrepreneurs should ensure their bona fides is up to date with strong references at the ready. Thirdly, objective measures of an entrepreneur’s trustworthiness such as technical diligence and financial diligence have assumed increased importance as well so additional focus on technical preparations for product development as well. The final component of physically distanced trust-building (Huang and Knight 2017) has been an increased cadence of communication from the startup entrepreneur back to the investors; therefore, entrepreneurs should map out plans to increase and enhance communications with their investors before, during, and after financing. This component serves to communicate that a trusting relationship is in place: for value given (investment), an equal or greater value is delivered in return (business validation).

Theoretically, this study provides for an extension of previous work on trust building (Nguyen and Rose 2009; Welter 2012) in the context of entrepreneurial financing under constraints of geographical distancing. While there have been numerous studies on VC perspectives and experiences in the context of fundraising (Gompers et al. 2020; PwC/CB Insights 2021; CB Insights 2021; Pitchbook/NVCA 2021), there has been relatively little research on how entrepreneurs perceive the process of raising venture capital, and certainly little that addresses the topic of fundraising under the constraint of remote distancing. This study fills that gap by exploring the venture capital process in the new environment of socially distanced communication from the perspective of 57 entrepreneurs from 11 countries who are engaged in fundraising during the pandemic, to understand the challenges they face and how they seek to surmount them.

Although this exploratory study's results from 57 respondents are not representative of all early-stage entrepreneurs, we believe they provide some important practical if imprecise guidance to early-stage entrepreneurs when seeking financing from geogrpahically distanced investors. Furthermore, we acknowledge the inevitable limitations of an exploratory study. While we attempted to include a broad range of entrepreneurial experiences across various environments by contacting well over 250 entrepreneurs, this effort also reduced our final number of fully participating entrepreneurs to only 57 respondents. Thus, errors including non-response error and sampling error may have occurred. Additionally, varying national and regional social distancing restrictions during the survey may have impacted some responses. Nonetheless, as this study is intended to be exploratory in nature and included both quantitative and qualitative responses from the respondents, we believe the findings and preliminary guidance they provided does bring meaningful value to entrepreneurs seeking financing in this new era of physically distanced fundraising.

Future studies on the topic should deepen the investigation with a larger sample size to gain a keener insight into entrepreneurs' evolving behaviors. Furthermore, doing so with a broader geographic focus would enable an understanding of how physical/social gaps are being bridged across different societies. Technological advancement is a constant. Indeed, the ability to video chat with anyone with an Internet connection was not a possibility until quite recently, and similar ongoing advances may continue to fuel a replacement of in-person human interactions with virtual ones. As entrepreneurs and VCs are constantly at the forefront of technological change, they may be among the first affected by the continuing virtualization of human relationships. As the medium of communication for evaluating startups evolves, will the criteria for evaluation also evolve, and if so, how? The transformation of the Entrepreneurs-VC relationship under social distancing may well inform how other virtualizing business processes will also evolve. "Let's do lunch" might soon be replaced by "My chatbot will trade information with your chatbot."

We expect that the new technical tools and business norms (e.g., virtual meetings) will redefine our future reality as they provide efficiency as well as increased access to diverse talent regardless of geographical boundaries. Thus, in the new or next environment, entrepreneurs must learn and apply the lessons from this time of social distance to future situations where direct contact may not be possible, efficient, or even expected.

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Table 1
Entrepreneurs’ Fundraising Experiences Since COVID-19 Began

Fundraising Experience	**Percentage of Somewhat or Strongly Agree***
Venture capitalists put less stringent geographical considerations for ventures to be located close to them.	64.3%
It has become more challenging to build new relationships with VCs.	50.9%
Entrepreneur’s or the venture team’s past work history is more critical today to signal credibility.	50.9%
It has become more difficult to raise venture capital since the beginning of the pandemic.	43.9%
The due diligence takes longer or requires more steps.	33.9%
It has become more difficult to contact or communicate with VCs.	31.6%

Note: * On a scale from 1 (strongly disagree) to 5 (strongly agree).

Table 2
Representative Entrepreneurs' Comments on Challenges to
Their Fundraising Experience Since COVID-19 Began

Respondent #	Respondents' Comments (Direct Quotes)
2	Building rapport and trust with people you haven't met before
6	It is way more difficult to get to know investors personally. Typically, you would go to networking events and speak with them in person, now that all events are digital, it is way less personal and less effective unfortunately
14	Forming relationships remotely
20	Creating strong relationships. Warm introductions and connections become more important than ever
33	Video conference is not the same for relationship building as meeting in person
35	VCs used to love coming by to the office to meet the team and this type of relationship-building made it much easier to raise money and showcase the intelligence and value of the team…This is no longer an available method
39	Being able to connect with prospects at a personal level
56	Online presentation such as Zoom, makes harder to fully communicate

Table 3
Effective Actions for Fundraising Since COVID-19 Began

Effective Actions for Fundraising	**Percentage of very or extremely effective^**
Seeking more referrals from mutual acquaintances to validate the founding team to venture capitalists	67.4%
Providing more detail to validate the venture's technical or business model assertions	60%
Demonstrating the team's coachability and willingness to change	46.5%
Putting more effort to build a stronger or better social media signature (followers, blog posts, etc.)	39.5%
Learning about venture capitalists (e.g., their background, interests, etc.) to establish personal rapport	39.2%
Building a stronger advisory board to signal the startup's credibility	31.6%

Note: ^ On a scale from 1 (not effective at all) to 5 (extremely effective).

Table 4
Effective Actions to Build New Relationships with Venture Capitalists

Respondent #	**Respondents' Comments (Direct Quotes)**
2	Getting a personal referral to the venture capitalist through someone in my network who is acquainted with the venture capitalist is most effective
19	Building/Establishing credibility both on technical and business fronts
23	Warm introductions; follow ups
31	Given the challenges of building mew relationships the focus should be on leveraging existing relationships or just putting numbers on the board. Good metrics always win out
32	Referrals followed by zoom calls
54	It seems that the scarcity and importance of opportunities to establish new connections peaked since Covid-19. Meetings both in-person and Zoom are now appreciated more than ever, and have a bigger impact in investment decisions. When the opportunities are arranged based on personal rapport, they felt much more effective compared to pre-Covid 19

Table 5
Effective Actions to Maintain Existing Relationships with VCs

Respondent #	**Respondents' Comments (Direct Quotes)**
1	Ask for feedback on strategy, pitch, etc.
2	Provide periodic updates via email
6	Once you have a personal relationship with an investor, it is great to have video calls frequently to maintain the relationship. So that works quite well. It's just way harder to do that online
14	If you can't meet in person, then you need to use all other means available to keep the relationship strong. I send out monthly email updates, make personal calls, and find other points of engagement with investors
21	Follow ups; asking for the next milestones they are looking for and keeping them updated
32	People are busy and distracted. It's always preferable to have a reason to reach out to someone. The best is asking for advice on a strategic question facing the business
56	Frequent updates of our business status and any good news will boost their interest in us and willing to meet us in person as a result