

## SEMI-EXTERNALIZATION, SEMI-INTERNALIZATION, MISALIGNMENT COSTS, AND CEOs' ASSESSMENTS OF VENTURE CAPITALISTS' SUPPORT

**D. Khanin<sup>1\*</sup>, O. Turel<sup>2</sup>**

1) Graduate School of Business, Nazarbayev University, Astana, Kazakhstan; \*[dmitry.khanin@nu.edu.kz](mailto:dmitry.khanin@nu.edu.kz) ; 2) California State University, Fullerton, USA

Advancing transaction costs economics (TCE), we propose that hybrids (e.g., alliances) may be preferred to markets and hierarchies whenever the benefits of semi-externalization (partial adoption of the market mode of governance) combined with semi-internalization (partial adoption of the hierarchy mode of governance) less the misalignment costs that arise when these two conflicting modes of governance are combined exceed the benefits of full-blown externalization less the transaction costs and/or full-blown internalization less the administrative costs. Hence, we conjecture that venture CEOs' appraisals of venture advancement, the realized benefits to the startup as a result of forming an alliance with VCs, as well as of the misalignment costs of such an alliance will be related to their assessments of the advantages of semi-externalization vs. semi-internalization. We further hypothesize that CEO's evaluations of venture advancement and the misalignment costs, along with CEO experience, will be related to CEOs' assessments of the value of VC support. Structural equation modeling (SEM) analysis of the data from a survey of 104 CEOs of VC-financed ventures provided support for all the hypotheses.