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Characteristics of startup teams VCs consider when making early-stage investment decisions

Master's Thesis
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Abstract

Investing in early-stage startups is one of the most challenging and risky forms of investing. This inherent complexity stems from the uncertainty under which these decisions must be made; products are new, members of the founding team may lack a track record, and it is unclear how the team can work together to grow the business. Nonetheless, early-stage investment is a critical undertaking for venture capitalists (VCs), and thus is a common and widespread undertaking, with large returns at stake.

However, key questions about VCs investment decision making remain unstudied, leaving startup teams with few insights on how they should position themselves and approach VCs. For instance, most existing research focuses on large cross-sectional datasets that explore a wide array of industry, financial, market, and team factors. These expansive datasets therefore lack the resolution to explore the complexity of team evaluation in detail. As a result, though a startup team may know that they will be evaluated by VCs, existing literature provides few practical insights about exactly what aspects of the team will be evaluated, and how. Therefore, we ask the practically-oriented research question of: What characteristics of startup teams do VCs consider when making early-stage investment decisions, and how are these characteristics integrated and considered as a whole? How does the importance of these characteristics vary across different VCs?

To explore this question, topline VC investors from North-Europe investing in early-stage technology startups were studied. We interviewed two VCs at each of our four focal firms. Moreover, we asked our eight informants about investment decisions (i.e. startups) that several of them had evaluated. These real-life evaluation examples meant that we were able to capture the complexity of decision making. Moreover, that we chose several startups that had been evaluated by at least two of the VCs ensured comparability across the decision-making processes. In total, we covered 13 investment decisions at the four VCs. These interviews clearly showed that the most challenging and ultimately the most important single aspect when investing in early-stage startups is the team. Analysis of the data produced a rich set of findings, which were then used to create practical recommendations.

This research identified and utilized six evaluation criteria, which were domain expertise, technological expertise of CEO, familiarity with founder, weight of CEO versus the team, level of involvement and young versus older founders. The findings for each of these criteria were different between the investors, each valuing and viewing the factors differently. This illustrated the large variance of opinion and preference, and the challenge entrepreneurs faced when trying to understand the phenomenon.

In light of these findings, three practical recommendations were made. Firstly, entrepreneurs and investors being familiar with each other was seen to be important to both parties. Entrepreneurs benefit from understanding the thinking of the VC they are contacting, and VCs themselves value the opportunity to become familiar with possible investment targets ahead of time. Secondly, experience as a topic was highly interesting as the investors had varying views. Some value experience in an industry, others value a previous background in entrepreneurship, while others see experience as more abstract. Thirdly, regarding the early team the CEO had a magnified importance. The findings circulated topics such as the founder's ability to grow a company and evolving alongside it.

Keywords startup teams, technology, entrepreneurship, venture capital, evaluation, early-stage,

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Varhaisvaiheen startup yrityksiin sijoittaminen on yksi haastavimmista ja riskialtteimmista sijoitusmuodoista. Sen luontainen monimutkaisuus kumpuaa epätietoisuudesta, jonka alla päätökset pitää tehdä: tuotteet ovat uusia, perustajatiimin jäseniltä saattavat olla kokemattomia ja voi olla epäselvää, kuinka tiimi työskentelee yhdessä kasvattaakseen liiketoimintaa. Varhaisvaiheen sijoittaminen on erittäin tärkeää toimintaa pääomasijoittajille, sillä siinä on suuri tuottopotentiaali ja siksi se onkin yleistä sekä laajalle levittynyttä.

Keskeisiä kysymyksiä pääomasijoittajien päätöksentekosta ei vielä ole tutkittu, jolloin startup tiimeille on heikko näkemys siihen, miten asemointi lähestyttävän sijoittajan odotuksiin nähden kannattaa tehdä. Suurin osa olemassa olevasta tutkimuksesta keskittyykin laajoihin aineistoihin, jotka sisältävät poikkileikkauksen muuttujista eri aloilta, taloudesta, markkinoista sekä tiimeistä. Nämä aineistot eivät kuitenkaan tarjoa näkyvyyttä siihen, miten tiimin arvioinnin yksityiskohdista. Vaikka tiimi saattaa olla tietoinen, että sijoittaja arvioi heitä, olemassa oleva kirjallisuus tarjoaa vähän käytännön neuvoja arviointiin liittyen. Tämä johdattelee kohti käytännönläheistä tutkimuskysymystämme: Mitä startup tiimin ominaisuuksia pääomasijoittajat arvioivat tehdessään sijoituspäätöksiä varhaisvaiheen startuppeihin ja miten näitä ominaisuuksia yhdistellään ja tarkastellaan kokonaisuutena? Onko näiden ominaisuuksien merkityksellä eroja eri sijoittajien välillä?

Tämän kysymyksen selvittämistä varten tutkimme Pohjois-Euroopan huippu varhaisvaiheen teknologia startuppeihin keskittyneitä pääomasijoittajia. Haastattelimme kahta sijoittajaa neljästä eri yrityksestä. Kysyimme kahdeksalta haastateltavaltamme heidän tekemistään sijoituspäätöksistä. Nämä todelliset sijoitusesimerkit auttoivat meitä ymmärtämään päätöksenteon monimutkaisuutta. Päätöksenteko prosessin vertailukelpoisuutta lisäsi se, että valitsimme todellisia sijoituskohteita, joita ainakin kaksi yritystä oli arvioinut. Kaiken kaikkiaan katoimme 13 eri sijoituspäätöstä. Haastatteluissamme kävi selvästi ilmi, että kaikkein haastavin mutta samalla kaikkein tärkein yksittäinen ominaisuus sijoittaessa varhaisvaiheen startuppiin on tiimi. Aineiston analyysi nosti esille erilaisia havaintoja, jotka muodostivat pohjan käytännön suosituksille.

Tässä tutkimuksessa identifioitiin ja hyödynnettiin kuutta eri arviointikriteeriä: kokemus alalta, toimitusjohtajan teknologia-asiantuntijuus, tuttavallisuus perustajan kanssa, toimitusjohtajan painoarvo suhteessa muuhun tiimiin, sitoutuneisuus sekä perustajan ikä. Tulokset näistä vaihtelevat sijoittajien välillä ja jokainen arvioi ja tarkasteli niitä eri tavoin, kuvaten hajontaa mielipiteissä ja mieltymyksissä sekä yrittäjien kohtaamaa haastetta tämän tilanteen ymmärtämisessä.

Havaintojen perusteella päädyimme kolmeen käytännön suositukseen. Sekä yrittäjät että sijoittavat kokivat tuttavallisuuden tärkeäksi. Yrittäjät hyötyvät lähestyttävän sijoittajan ajattelun ymmärtämisestä ja sijoittajat arvostavat mahdollisuutta tutustua sijoituskohteeseen ennakkoon. Sijoittajilla oli vaihtelevia näkemyksiä kokemuksen merkityksestä. Jotkut arvostivat kokemusta alalta, toiset aikaisempaa yrittäjyyttä, kun taas eräät näkivät kokemuksen abstraktimmin. Toimitusjohtajan merkitys korostui varhaisvaiheen tiimeissä. Tulokset sivuavat esimerkiksi sitä, miten perustaja pystyy kasvattamaan yritystä ja kehittyä sen mukana.

Avainsanat Startup tiimi, teknologia, pääomasijoittaminen, evaluaatio, varhaisvaihe, yrittäjyys

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1. INTRODUCTION

Venture capital (VC) firms represent a major source of funding for startups. These companies and the investors within them utilize their expertise in various fields and industries to find, evaluate and invest in the startups most likely to succeed in the market and then help them develop their product(s) and team further (Feld and Mendelson, 2011). The level of competition around these startups is high and some VC firms purposefully target startups at the earliest stages possible in order to secure a sizable share in the company at a relatively low price (Chaplinsky and Gupta-Mukherjee, 2016). As the company is successful and grows, the value of the investment rises, and the VCs are able to capitalize on the initial investment. This being said, investing into early-stage startups is challenging due to the lack of information on the investment target, as there is likely no product, little business and the team could be the only concrete factor to evaluate.

Investors working in VC firms utilize their extensive knowledge and expertise in order to evaluate the startups they perceive to be most likely to grow and succeed in the market. There are multiple parts to VC investing, which have been widely documented in the past (Tyebjee and Bruno, 1984; Zider, 1998). These range from sourcing the investment opportunities, evaluating them, formulating deals and a variety of post-investment activities. Out of the various activities, the evaluation phase is when the ultimate decision on whether to invest or not is made, based on the assessment of the VC investors. These evaluations are already very subjective as individual investors value factors differently (Sharma, 2015), but when early-stage startups are discussed the lack of data and information asymmetry (Sander and Boivie, 2004) create a particularly challenging situation for the investors.

Early-stage startups are typically small in team size, the product is likely still in its infancy and there may not be any accurate financial data to work with. In addition, the team may be unknown and have no track record of previous success to show (Festel, Wuermseher and Cattaneo, 2013). On top of that the technology that they are trying to build may not only be hard for the investors to understand, but also extremely hard to develop. Also, grasping the founder's vision of the future can be challenging. For investors, this all poses a serious challenge. The area of investing in early-stage startups is highly risky with many of the early-stage companies being prone to failure (Salminen, 2019). Many of the decisions rely heavily on the expertise of the VCs, which can mean that many of the decisions are subjective.

Because of this, building an understanding on how individual investors and companies choose the startups to invest in can be problematic as the reasons behind the decision may not be able to be ascertained from analyzing past investment decisions quantitatively.

Although we know much about how venture capitalists work (Zider, 1998) and what they look for in an early-stage startup, the way the VCs evaluate teams for any given investment opportunity remains unexplored. While this may not seem to be a huge problem in the field, since a lot has been written about the VCs investment process (Klonowski, 2013), it is clear that entrepreneurs are suffering from lack of information on how their teams will be evaluated when seeking funding. Addressing this topic would be beneficial for both entrepreneurs and investors.

Our analysis deploys a very practical approach. Since the research subject, investor team evaluation, is a highly subjective area (Sharma, 2015), building towards an understanding of how investors think requires talking to these experts directly (Bogner, Littig and Menz, 2018). For the study, four VC firms operating in Northern Europe and focusing on early-stage tech startups were identified and two investors from each respective company were interviewed on the topic. In addition to discussing the topics broadly, startups the investors had evaluated in the past were utilized in the discussion in order to collect more case specific data. The insights gathered from each of the interviews were then compiled and compared in order to present a set of practical recommendations.

The challenges of trying to understand how investors evaluate early-stage startup teams are multiple. The details of team characteristics, flaws and strengths are not revealed in meta-level analysis, which is a common way VC investing is researched (e.g. Dimov and De Clercq, 2006; Petty and Gruber, 2011). The focus is rather on the team being worthy of investment, rather than why. In addition, many studies do not consider how the different factors interplay with one another. Our study focuses on the specifics of the investors viewing early teams rather than focusing on whether the decision was correct or not. This allows for a very detail-rich set of findings that can be utilized to gather deeper insights into investor thinking.

Our analysis of the findings produced six main factors frequently recurring among the investors and clearly being weighed when they evaluated a team. These factors are domain

expertise, technological expertise of the CEO, familiarity with the founder, weight of the CEO versus the team, the level of involvement and young versus older founders. These findings then resulted in three practical recommendations related to the familiarity, experience, and characteristics of the founding team. Familiarity has to do investors being familiar with the entrepreneurs and vice versa. Experience was a broader topic, which had to do more with the founders´ background and included things such as domain expertise, entrepreneurial experience, track record and length of experience. Characteristics of the founding team had a stronger CEO angle and focused on the ability to grow with the company and evolve with it as well as the importance of understanding how much support the CEO would need from investors.

Our report is constructed as follows. In chapter two, the latest studies conducted in the field are reviewed as well as the practical problems studied detailed. Next, the methods employed are described in chapter three. In chapter four our main findings are presented. In chapter five, the findings will be discussed, limitations of the findings described and recommendation for future research made. Finally, the study report will be concluded with key takeaways.

2. LITERATURE REVIEW

The aim of this paper is to build a better understanding on the venture capitalist investment decision making process when evaluating early-stage technology-based startups. Venture capital investing and its various aspects have been studied at length. Typically, the focus is on how successful VC funds or companies identify the best investment targets and what makes these companies successful overall (Dimov and De Clercq, 2006; Petty and Gruber, 2011). This success hinges on identifying and investing into the companies with the highest likelihood for success and reaping the rewards once the company has reached a certain level. How the VCs evaluate these companies differs by the investor, industry and startup stage among other things (Bertoni, Colombo and Quas, 2015; Basta, 2017). During this assessment stage multiple factors linked to the startup, the investment target, are studied, which eventually lead into the ultimate decision whether to invest or not. One of the main factors being assessed is the team behind the startup, the individual capabilities and their collective ability to grow the company. Assessing the individuals or teams is challenging, as is often the case when it comes to evaluating the quality of people as opposed to the financial performance of a company. This being said, a quality team is essential for a startup's success. This thesis focuses specifically on how the venture capitalist investors assess these teams.

Before that, however, it needs to be highlighted that the context of our research focuses on technology-based startups as opposed to other areas. The reason for this is the overall prevalence of technology-based startups (Camp and Sexton, 1992; McKendrick, 2017) and the possibilities they hold. In addition, high profile cases such as Spotify and Netflix have demonstrated the growth potential involved and the possibility of becoming global players in the market.

When it comes to the specific stage of the startups life the focus is on the early-stage companies. The reasons for this are multiple. First, investing in early-stage companies can result in highest gains (Chaplinsky and Gupta-Mukherjee, 2016). Investing a relatively small amount at the very beginning for a sizable share of equity can lead to exponential gains if the startup is to be successful. Second, the risk of investing into early-stage companies remains riskier than investing in the later stages due to a general lack of data and information asymmetry (Huang and Pearce, 2015; Jia, 2015). There is often very little data to work with and the actual solution the startups are providing is likely to be unfinished, or at least will

need further iterations. Finally, due to the lack of data and information available, early-stage startup investing can be a challenging subject to study (Rhunka and Young, 1991; Festel, Wuermseher and Cattaneo, 2013). The decision can often hinge on the personal experiences of the investor or other less quantifiable factors. Because of this, a practical research approach and interviewing the people making these decisions directly can help to expand what is known about the subject.

2.1 The venture capital investment process

Our study attempts to expand upon what is known about the venture capitalist investing decision making. In order to do this, the process through which VCs invest needs to be understood. The venture capital investment process can be broken down into distinct stages. Various researches have their own views on the specific steps. Some have included more steps than others and the names vary between papers. Regardless, the basic principles of what the investment process holds are more or less agreed upon.

Tyebjee and Bruno (1984) included five sequential steps in the process: deal origination, screening, evaluation, structuring and post-investment activities. In the deal origination step the investors become aware of potential investment activities. There are a number of ways a VC could become aware of a given company. The startup itself could make contact with the investor, industry events, the media, through intermediaries or a number of other ways, some more being more direct or indirect. During the screening phase the VC firm singles out the most potential and interesting ventures from the often large amount of deals that come to their attention. The VC firms are typically small in size in terms of personnel and as such the screening process is important to be kept efficient. The initial screening, as described by Fried and Hisrich (1994), is where the firm-specific screen is performed. The VC firms or funds have specific sizes, business areas and phases in which they are looking to invest and if the company does not fit their investment plan, or thesis, the startup will not be considered for investment. The authors also outline a secondary "generic" screening phase when the startup is analyzed using broader criteria. Overall, hundreds, or even thousands, of proposals are reviewed. This being said, many of the firms that pass through the firm-specific screening are ultimately rejected during this phase (Goldfarb, Kirsch and Pfaffer, 2005). There are other methods and processes when it comes to screening startups (e.g. Kaplan and Ströberg,

2001 and Vinig and De Haan, 2002), but the key takeaway is that screening plays an important role in keeping the investment process efficient.

The next step in the process is the evaluation phase (Tyebjee and Bruno, 1984). This is where the VCs assess the venture and whether or not to invest in it. There is typically very little operating history to analyze with early ventures and thus, the investors rely on their own expertise. Fried and Hisrich (1994) describe the evaluation phase as where the VC starts to collect more data on the specific investment target and the entrepreneurs behind it, and it is compared to the data provided by the startup. Typically, there are meetings between the VCs and the entrepreneurs in order for the investor to not only better understand the problem and solution the company is proposing, but also to assess the thinking of the founders themselves.

During the deal structuring phase, the investor and the venture attempt to come to a mutually acceptable agreement (Tyebjee and Bruno, 1984). The agreement includes things such as the per share purchase price, establishes rules limiting capital expenditure and other rules and establishes the entrepreneurs´ share of equity, among other things. The deal structuring phase is obviously something the entrepreneur should also pay much attention to. Different expectations housed by the entrepreneur and VC can lead the two parties working towards different objectives and possibly even venture failure (Ulrich, Dzidziso, Kamuriwo and Billitteri, 2016).

The post-investment activities phase expands the venture capitalist's role from investor to collaborator (Tyebjee and Bruno, 1984). After the deal has been formed the two parties begin collaborating with one another. On the investor side, Baum and Silveman (2004) describe this as the VC turning from a “scout” to a “coach”, offering management expertise after the initial investment. The degree to which this happens depends on multiple factors and varies from one venture capitalist to another. Some prefer to be more involved in the activities of the company, while others prefer to let the company run itself. The startup itself might want a certain level of involvement from the investors. In addition, Teten, AbdelFattah, Bremer and Buslig (2013) argue that the help and knowledge that VCs bring to the startup can also lower the overall failure risk of the investment, i.e. being involved with the startups is beneficial to the financier as well. Finally, as noted by Berglund (2011) there are also regional differences, for example between California and Scandinavia, in how active a role

the VCs take with their respective portfolio companies, which can also influence the investor-startup relationship.

Overall, the venture capital investment process is multistep endeavor. From a finding generating leads, screening and assessing the investment opportunities, formulating an agreeable deal with the startup and a multitude of possible post-investment activities. Over the years researchers and entrepreneurship scholars have added onto the original model or altered it to be more inclusive or industry specific (e.g. Gompers, Gornall, Kaplan and Strebulaev, 2020). Now that a broader understanding of the venture capitalist process is understood, this study will move into the phase that is the focus of the research: the evaluation phase. To reiterate this is the phase in which the investment opportunity is assessed and ultimately will lead to an investment or a passing decision by the VC. The VCs have a variety of evaluation criteria they can utilize or prefer, but with early-stage startups the challenge lies in the lack of data and how it impacts the overall assessment process.

2.2 Evaluation criteria for early-stage startups

During their entire investigative process venture capitalists screen, evaluate and analyze the startup multiple times and in varying levels of depth. The criteria themselves are different between companies as they have certain areas they focus on and types of technologies they are interested in (Sharma, 2015). Some strategies may be built upon expertise present within the company, while others may target sectors where the largest gains can be made. The specific strategy is not only something that the venture capital firm should have a clear vision of, but the entrepreneurs seeking funding should also be aware of the strategy of the VC firm in order to better target their proposal (Williams, 2013). The following section will describe the various evaluation criteria VCs use as well as the sources they use to vet startups.

There are numerous possible criteria that investors employ when evaluating a venture. Tyebjee and Bruno (1984) outlined 23 different criteria ranging from patentability of the product to the quality of the management team. While the specific criteria may or may not be accurate to all investors, the broader themes within the model encompass many of the criteria outlined by other researchers. These areas are roughly defined as market attractiveness, product differentiation, managerial capabilities and resistance to

environmental threats. Fried and Hisrich (1994) defined these broader criteria as “generic criteria”. These included the concept, management and returns, which similarly contained other factors. Concept concerns the competitiveness of the service or product; management looks at the capabilities of the founding team and returns contains factors measuring the gains the VC is after. There are multiple ways to look at these criteria. Some of them are factors present within the startup itself like the management team and actual product, others have to do with external factors such as competition and the market situation. Other factors hinge much on the expectations of the VCs themselves and how well they believe the venture will do.

The VCs themselves often have extensive backgrounds in business and technology, i.e. they have a trove of information they can utilize when evaluating startups. Yet, there are bound to be areas where the investor is not an expert in or does not have the time to become one. Where do the VCs get the data to form an opinion based on their evaluation criteria?

The first source of data is the startup itself and the data they present to the investor. These can include financial information, description of clients, a prototype of the product or anything the startup feels might add to their value. At their early-stages the startups should focus on presenting the product or service and its benefits for the customer, and not the financial aspects as they are hard to predict at this stage (Tata and Niedworok, 2018). It is also an opportunity for the entrepreneurs to present themselves as knowledgeable and passionate (Chen, Yao and Kotha, 2009). While this can at times help convince the venture capital investors of the validity of their business plan and team, Wiltbank, Sudek and Read (2009) note that often investors disregard the data in the presentations. They argue that this is due to the optimism presented by the startups and the fact that even the best investors are more often wrong than right.

The VCs do, however, have additional sources of information. The VCs also use external sources when evaluating the investment target. While the VC investors tend to be experts in their area, network partners or other references are used to validate both the product and the team (Fried and Hisrich, 1994). Particularly in areas where novel technologies are being developed, for example quantum computing, there is only a finite number of people who know how to discern whether the solution being proposed is valid. References are a typical way to gain a better understanding of the individuals involved in the startup (Zhang, 2009).

There is, however, a limit to how many checks a VC will, or should, make. The longer an investor investigates a potential investment target the more likely they are to find flaws in it (Kunze, 1990), in addition to any other possible time constraints the investor may have.

Investors prefer to make investment decisions based on a large enough data set used to evaluate how the investment target measures with their evaluation criteria. This is a challenge when it comes to early-stage startups, as they are typically incomplete. The team itself will need more members, the product or service being developed is not in its final iteration and there may not actually be any customers or revenue. As such, there is little financial data to utilize (Festel, Wuermseher and Cattaneo, 2013). This ultimately leads to there not being much information available for the investors to utilize. This information asymmetry is a serious challenge for VCs, since they are dependent on the information the startups provide and what they can find out themselves (Sander and Boivie, 2004).

Our analysis attempts to supplement the understanding we have about how venture capitalists evaluate early-stage startup teams. In order to do this, there needs to be an understanding of how the VCs operate and the various factors they consider when evaluating startups as potential investment targets. The challenge posed by early-stage startups is the lack of usable data for the VCs to make their evaluations, which leads to them relying heavily on their own expertise and knowledge. In order to further understand this, challenge the investment target, the early-stage startups, need to be defined, which will be done in the following section.

2.3 Early-stage startup characteristics

There is always a person or a team behind a new venture. Steve Blank wrote in his book "The Four Steps to the Epiphany" that "all new companies and new products begin with almost a mythological vision - a hope of what could be, with a goal few others can see". According to Blank (2007) vision is the differentiating factor between the CEO of a large company and an entrepreneur. Startups are founded by these visionary entrepreneurs and built by them and teams they have established. Therefore, it goes without saying that the team is one of the most crucial parts of the success of any company.

Ed Catmull, the co-founder of Pixar and author of “Creativity Inc” says in his book “If you give a good idea to a mediocre team, they will screw it up. If you give a mediocre idea to a brilliant team, they will either fix it or throw it away and come up with something better.” Simon Sinek, worldwide known keynote speaker tweeted in 2013 that “We should invest in people not ideas. A good idea is often destroyed by bad people and good people can always make a bad idea better.”

Teams launching and leading new ventures have been discussed using many different terms, e.g. founding, startup or entrepreneurial team. One of the key challenges for startups is to build and motivate the teams, more specifically those with entrepreneurial characteristics, such as the ability to react on unforeseen events. (Giardino, Bajawa, Wang & Abrahamsson, 2015). Teams building new ventures are the lifeline of most economies (Klotz, Hmieleski, Bradley & Busenitz, 2014). They operate in an environment that is unpredictable, extremely dynamic, and even chaotic (Giardino, Bajawa, Wang and Abrahamsson, 2015). Such teams build companies that create better solutions, bring new innovative products and solutions to the market and create more jobs. The ability of a team to identify new business opportunities is strongly related to two factors, i.e. prior knowledge and experience (Shane, S., 2000), and entrepreneurial alertness, which is the ability to sense variations in the environment and spot related opportunities (Onetti, A., Pepponi, F. and Pisoni, A., 2018).

The demand for the aforementioned teams has never been higher (Klotz, Hmieleski, Bradley & Busenitz, 2014). To assess teams, the VC’s look at three different characteristics (Vihervaara, 2017). In the individual characteristics they look at the skills, experience, and ambition, whereas in the group characteristics they focus on role clarity, social capital and commitment. Team dynamics, which represent the top of the pyramid, include aspects such as shared leadership, psychological safety and constructive conflict.

The reason why the VCs think team formation is crucial from the very beginning is its ability to (Klotz et. al., 2014) affect the success rate of a startup. The challenges faced by startups in their early days in transforming an idea to a product and then to a business case are largely affected by the small size and inexperience of the team (Paternoster, Giardino, Unterkalmsteinera, Gorscheka & Abrahamsson, 2014). Finding or developing skills, knowledge and capabilities is crucial for a startup to create a new product. Despite the legends about individual entrepreneurs, creating and managing a successful venture is a team

effort with people having a rich, diverse set of skills and experiences. Fundamentally, a team's ability to meld talent reflects the success of a venture. (Ensley, Pearson & Amason, 2002).

In terms of importance, the team is significant with its enormous effect on how a company performs. Some young companies become resounding success stories while others languish or die. (Eisenhardt, 2013). Within a team, especially top management plays a crucial role. A study conducted by Kathleen M. Eisenhardt (2013) about top management teams and the performance of entrepreneurial firms showed top management teams being able to enormously influence in performance of entrepreneurial firms through their actions and compositions. Based on Eisenhardt's findings, top management teams in these small and young companies can have a better chance to change the course of their companies than executives of larger and more established companies.

Eisenhardt (2013) also studied the reasons for success or lack thereof in entrepreneurial firms and made an interesting finding. As mentioned above, top management teams can have a huge impact on the success of their entrepreneurial companies. As part of Eisenhardt's findings, teams that were most likely to launch a successful entrepreneurial firm with significant growth potential were larger teams, teams with previous experience on working together and teams more diverse in age and experience. The fundamental causes include teams with 4-5 members and diversity simply have more people with experience on working in the industry and working together. They also possess unique skills to tackle multifaceted challenges that come along when founding a new company. As per Eisenhardt, teams with substantial prior experience on working together seem to have an advantage in succeeding, having met some of the challenges while working together and through that knowing that they can be effective as a team.

Although Eisenhardt's study clearly shows that a top management team can have a great positive impact on a company's performance, it can also be the reason for failure. The authors of "What Do Venture Capitalists Do?" (Gorman & Sahlman, 1989) surveyed 49 top tier venture capital firms for their portfolio companies either in danger of failing or already failed. From these portfolios, 96 companies were identified to fit this category. The VCs were given 11 factors from which they had to pick three (3) main factors, which contributed the most to the difficulties of the startups. For 95% of the companies, or 91 out of 96, as the

top-three contributing factor, problems within the management team were chosen by the VCs. Furthermore, it was ranked as the most important contributing factor for 65% of those companies (i.e., 61 out of 96).

Another study by Kaplan and Strömberg (2004) supported the previous findings of Gorman and Sahlman (1989). Kaplan and Strömberg studied 11 VC firms and analyzed 67 of their internal investment memorandums. They organized their analyses in different categories including internal, external and the strength and weaknesses of implementation. Internal weaknesses lead the list with 61% of the startups included. The memorandums included information such as “incomplete management team”, “the CEO is a rather difficult person”, “we need to hire a CEO” and “we need to strengthen the management team and assure involvement of VC as chairman”.

As shown by the study by Kaplan and Strömberg, much attention is paid to the CEO. In startups, all entrepreneurs are strongly tied to the company. However, as Ben Horowitz, the co-founder of Andreessen Horowitz, one of the most prestigious VC firms in the world, described in his book “The Hard Thing About Hard Things” that the founding CEO is the one “married” to the company. Zaech and Baldegger (2017) argued that leadership is a highly relevant factor for success of startups as the foundation and development of startups is inescapably connected with leadership. As a consequence, leadership is playing a bigger role in the sphere of action of founding-CEOs. According to them, the leadership behavior of the founder CEO plays a large role in young companies with limited structures, processes, and routines. In addition to leadership, a startup CEO´s responsibility consists of taking care of the cash flow, regularly refining the company’s product vision, building the team, managing investors, brand management, and corporate development (Cohen, A., 2015). As the highest-ranking person in the company also is tied up to everything, the CEO has a great impact in the company.

In conclusion, in scalable startups, the team is the heart and core of the company and based on Cooper and Daily (1997) the successful high-growth companies are usually built around one. Ensley et. al., (2006) discovered in their extensive research team-founded companies to have higher success rates than those founded by individuals. The team is an important factor in companies' success as it has been mentioned many times in this section. In early-stage startups, the team is extra important because there is not as much to analyze as in a more

established company with things related to product and market still being somehow unknown.

2.4 Research gap in team evaluation

When it comes to evaluating the team, many researchers find it important. McMillan, Siegel and Narashima (1985) found the quality of the entrepreneur most influential. The details include things like the entrepreneur's capability for a sustained effort, their attention to detail and the compatibility between the investor and the founder. This would indicate that the qualities of the entrepreneur are a focal point in evaluating ventures. Yet, Hall and Hofer (1993) argued the opposite in their study, claiming that the characteristics of the entrepreneur or founding team did not play a large role in the decision making. They described it as being of impact only in the case where the entrepreneur was at the extreme end of the scale, i.e. very good or very bad. The founding team is almost always included as a criteria for evaluation, either by track record or personal characteristics. It is harder, however, to find a consensus on how large of an impact it has, while still stating that it does have some weight. In addition, it is also hard to define the traits within the founding team to signal future success (de Mol, 2019). Generally speaking, it is agreed that the team is important and affects the final decision, but the weight of the impact remains undefined.

The evaluation of early-stage teams, or people overall, is a highly subjective with the outcome of the assessment remaining heavily dependent on the personal experience of the evaluator, his/her background, preferences and any possible biases (Franke, Gruber, Harhoff and Henkel, 2006; Franke, Gruber, Harhoff and Henkel, 2008). Thus, with the assessment being very subjective and personal and with assessment styles differing from one evaluator to another, the best way to develop an understanding is to talk to the people making the assessments and the decisions.

The VC investing is often looked at from a meta-analysis perspective, where a great number of investments are looked at over a long period of time and the success of the investments assessed (e.g. Dimov and De Clercq, 2006; Petty and Gruber, 2011). Yet, this approach leaves the nuances and details of the team evaluation not fully understood. The quality of the team is often a factor included in larger data sets, but not allowing for a deeper look into

the subject. Furthermore, research rarely addresses the different factors interacting with one another. The factors are typically either looked as a group with the most important factors highlighted or simply at one singular factor at a time.

This completes our literature review concluding the evaluation of early-stage startups to remain highly subjective and reliant on the expertise and knowledge of individual VC investors. In addition, out of the various evaluation criteria available for the VCs to use when analyzing startups many do not apply to early-stage ventures. The one factor present is the team behind the budding venture, again a highly subjective one, where personal biases and views play a large role. The intersection of these two factors is, through its subjective nature, a challenging and interesting area for research.

3. METHODS

The aim of the research is to be explorative with a qualitative focus. The way the research is designed is to pose both broad and specific questions directly to the investors, and thus build an understanding on their personal thought process. The subject could also be looked at from a quantitative perspective by, e.g., externally looking at past investments, but that is not the focus of this study. Eriksson and Kovalainen (2008) argue that for a more explorative angle, a qualitative approach is advisable to get the best possible data. The ontological and epistemological starting point for this research is a constructivist position with the assumption based upon there being multiple different views surrounding the subject and collecting data from various sources (Easterby-Smith, Jackson & Thorpe, 2013). The goal is to interview multiple investors on their personal views on the investment decision making and combining the results with their previous investments/company evaluations to look for similarities and differences. These individuals are experts in their area, and thus ideal to interview in order to study the subject (Bogner, Littig and Menz, 2018). The aim is not to look at what the objective, correct investment decision may have been, but rather how the individual builds his/her own understanding of the investment target and ultimately decides to either invest in or pass on.

By interviewing multiple investors with different backgrounds, our study attempts to compare the empirical data collected from the interviews with one another. The purpose is to build upon what is known about how venture capitalists evaluate startup teams. The subject itself is challenging to analyze from outside-in, as many of the evaluations made by the VCs are subjective in nature. We believe the best way to understand how the evaluation is made is by taking a more practical approach and talking directly to investors. There are various factors that the VCs value and the literature does not single out any as the most important. As such, the interviews are conducted in a more open-ended manner and include multiple themes in order to not limit the possible findings (Given, 2008: 811). Thus, rather than trying to approve or disapprove a theory the aim of the research is to provide better insight into the actual evaluation process and areas the VCs themselves find most important.

3.1 Research context

The study context focuses on the startup scene in Northern Europe specifically focusing on venture capitalist investment firms. The field has been narrowed in order to not only enable interviews with high profile professionals but also to make the sample more homogeneous. In addition, the aim was to have the investors discuss startups as possible investment targets, the likelihood to collect multiple responses per startup was higher if the VC firms were from the same area.

Venture capital investment firms differ from one another in a number of ways, but there are also similarities between them. The size of the investment fund and overall size of the company can be different. Some companies handle large funds and employ tens of employees, while others invest relatively small sums and might only have five employees. There are other combinations that occur as well, for example a small company employee wise investing large sums. Also, a combination of these occurs. The size of the investment made is an indicator of the type of gains they are looking to accrue affecting the types of companies they invest in overall (Elango, 1995). In addition, some VC investors are not solely looking to generate profits, while still being an important factor, but may also be interested in the value created, in sustainability sense for example (Bocken, 2015).

The industry itself is very competitive. On one end of the spectrum you have the startups competing with one another to receive funding and on the other you have the investors looking for the companies most likely to succeed. This can be seen as putting certain constraints on the investors, which needs to be considered. There is a pressure to succeed and depending on the structure of the company and who the interviewee is, data collected may reflect this. Thus, anonymization is the key. In order to receive reliable and useful information from the interviewees they need to be assured that the data is handled in a manner that does not reveal anything sensitive. In addition, the aim is to utilize real startups as examples in the interview and to make sure the investors can be candid about the companies, whether they invested in them or not, assurances that the startups themselves are also anonymized need to be in place (Eriksson and Kovalainen, 2008: 65).

3.2 Description of sample

The sample for this research consists of eight expert interviews from four venture capital firms. Each interviewee works as a venture capitalist investor within a VC firm. The background of the interviewee prior to becoming a VC investor did not affect the selection process. Variation in the backgrounds was a staple of the field and comparing how each of the VCs utilized their specific expertise was thought to be beneficial. The interviews were held with two people from the same company, preferably at different levels of the organization, for example a partner and an associate. This was done not only to get variance within the answers per VC firm, but also to add another angle of analysis into the research, namely could differences be seen in how different positions view and evaluate investment targets. The companies within the sample were chosen based upon prior knowledge of said companies and their prior track record in investing. Due to the above the sample is very information rich (Schreier, 2018) and the likelihood of collecting useful data higher.

The VC firms in the sample operate in Northern Europe, all focused on investing into early-stage technology-based startups. The size of investments broadly ranged between €50,000 to 750,000. While the investment round sizes vary between countries, for this sample the focus is on the pre-seed, seed and A-round stages. As to preferences to a specific technology there was some heterogeneity within the sample. One of the funds focused on impact investing, i.e. the success of the investment was not only measured in financial gains but also by how it contributed to sustainability or other forms of societal value. None of the companies focused in any one industry and their portfolios included companies in different areas, albeit still focusing on technology.

Our sample was framed in order to get more comparable results. Were the investment targets widely different from one another, the results might differ too much from one another. The reason for the stage specificity is the same, as the approaches to VC investing change between the earlier and later stages. These have been discussed in more detail above in the literature review.

The access to the interviewees was gained utilizing the personal network of the researchers. The interviewees were identified from within the companies, approached directly, the nature of the research explained, and consent confirmed. The broad themes of the interview were

sent beforehand to the interviewee and the startups to be used in the interview were also agreed upon prior to the meeting.

In the interviews actual startups were used to allow for more case specific information to be gleamed. Each of the interviewees were contacted and asked whether they were open for discussing specific startups and which cases they were most comfortable with discussing. Similarly to the interviews themselves, any identifiable factors regarding the startups were not included within the research paper. In addition, some startups also emerged as discussion topics during the interviews and they were also utilized in the analysis. In the table below the various industries and main business areas for the startup companies are included.

	Industry	Main business area
Startup 1	Logistics	Food delivery
Startup 2	Food	Recycling
Startup 3	Materials	Sustainable solutions
Startup 4	Cyber security	Education
Startup 5	Purchasing intermediary	Software
Startup 6	Entertainment	Streaming
Startup 7	Asset purchasing	Software
Startup 8	Health	Education
Startup 9	Quantum Computing	Software
Startup 10	E-Commerce	Devices

Table 1: Description of startups within sample

3.3 Data collection methods

The data for the study were collected through interviews. The aim of the study was not to analyze whether an investment decision is correct or incorrect, but rather to understand how different investors view investment targets and what they value or see as not value adding. The interview should not limit the types of answers to be gained. Literature around the subject as well as industry sources can identify factors common in startup investing, but there may be attributes beyond these that an investor(s) may find of impact. The people interviewed are experts in the field with years of experience, and, thus, assuming the literature can cover all possible angles could limit the results of the research.

For the aforementioned reasons, a semi-structured approach was selected (Given, 2008:811). The aim of the interview after all is to compare the different approaches in thinking within the sample. Having themes rather than specific questions can help guide the interview, but not limit the answers. If a particular topic is more important in the mind of the interviewee, it is worthwhile spending more time on it. Yet, investing is a sensitive topic and a structured approach is beneficial in order to ensure the interviewee can answer direct questions if they feel less inclined to elaborate on their process. The predetermined questions will move the interview forward and guarantee that some answers for all themes are received.

Before going into the set themes of the interview that interviewees will be asked about their background and that of the firm they represent. This is done in order to gain a better understanding of the sample and the various backgrounds of the VCs. Ultimately, this is done more as a due diligence and as an opener for the interview, but it might also help understand the decision making of the individual. The other themes for the interview were the team evaluation, how the numbers the startup presented were evaluated, how the product or service is evaluated and compatibility between the VC and startup is evaluated. In addition, there were additional questions that did not fall into any of the themes but were thought to add to the study.

The interviewees were also asked to choose three startups they are familiar with to be used as examples for the interview. The companies could be ones they invested in or passed on. Consequently, in discussing the various themes within the interview, the proxy companies could be used for framing the questions. Ideally, the interviewee could describe his/her answers and thinking not only in general terms, but also how their thinking matched or changed for the specific companies. This would lead to more data points per interviewee and lead to a richer sample overall. Yet, it was up to each respective interviewee how much, or if at all, they would wish to divulge regarding the startups. The companies could be ones they invested in; in which case the interviewee could be uncomfortable describing the startup in negatively. Regardless, it is ultimately up to the interviewee, which companies and how much they are willing to discuss and for the sake of the study it was not worthwhile to limit the sample based on interviewee preference.

3.4 Data collection results

Each interview was based on the guide and lasted for roughly one hour. There were differences in the duration and time spent on each theme between interviews as expected. While the emphasis within each interview was slightly different, all of the themes, team, numbers and product as well as other smaller areas, were covered. There were also differences in the startups the interviewees chose to discuss. Overall, the data collection went quite smoothly with only limited challenges due to scheduling conflicts.

The interviewees themselves all proved to be very forthright in their answers and very rarely did the interview guide need to be utilized to its fullest. The data collected appears very rich with the interviewees being very open about discussing the particulars in their thought process. Based on the earlier interviews within the sample, some minor modifications were included in the interview guide during the study.

A major concern of the interviewees was the anonymity of all associated parties: the interviewee, company they represent and startups that were discussed. Special emphasis needed to be placed on this, as not to reveal anything by describing the context of the sample or findings in detail. For data protection the findings each of the individuals, firms or startups discussed were all anonymized.

3.5 Analysis method

Once the interviews were held, they were first transcribed. Writing out the interviews made the data more usable and amenable for coding. The interviews were coded based on the responses given to each of the questions within the themes, as planned (Shank, 2002: 79 cited in Eriksson and Kovalainen, 2008:128). This initially allowed for a comparison of the answers to the broader questions and identifying key differences and similarities between the responses. This has some similarity with the cross-case analysis approach, in which multiple cases are compared to one another to look for similarities and differences and then comparing it to the broader literature (Stake, 1995: 78 cited in Eriksson and Kovalainen, 2008:130). New subjects emerging during the interview were assigned their own topic if

they could not be included in the broader themes. Following this, if the topic had come up in other interviews the responses were grouped with one another.

After all the responses had been coded under each theme, the data were perused for the most meaningful insights into the evaluation of early-stage startups by looking at the responses to the predetermined questions and then the subjects that arose during the interviews themselves. The final focus areas chosen were based on the value each of the interviewees assigned them and how these both aligned and differed with one another. The subjects should be ones that most of the interviewees had a position on and preferably the responses not identical to one another. In addition, the factors ultimately chosen were also reflected upon with the pertinent literature. There was a preference to focus on areas with more contradictions, rather the literature and interview mirroring each other. While there was a benefit to being able to identify more instances where the thinking between the investors and literature was aligned, it was thought to be more fruitful to key in on the areas where differences could be ascertained.

Our main focus was set in how the venture capitalists evaluated early technology-based startup teams. This was not only for the variance and number of responses gained from the interviewees, but also with the subject being something both the interviewees and the literature agreed was difficult to do and lacked a framework for doing. The interviews revealed it would be beneficial for both parties that the entrepreneurs understand investors and the process better. The aim of our study was not to provide the said framework, but rather open up the team evaluation process of the VCs. Once the broader theme was chosen, the next step was to identify the decision, or evaluation, criteria the VCs utilized when evaluating teams. While many said there was not a single correct way, or indeed no way at all, to evaluate a team accurately, many stated there were things they did evaluate. The criteria identified from the data were evaluated similarly to choosing the broader theme. Some subjects chosen were ones all of the interviewees had thoughts on, and the ones ultimately discarded those lacking depth or with responses aligned between the interviewees. All the identified decision criteria on team evaluation are contained in the table below, as well as the reasons for selection or rejection (c.f. the findings section).

Decision criteria	Selection	Justification
Domain expertise	Yes	Very relevant and seen to lower the team related risk as well as in validation of the proposition. The domain expertise meant was defined as a business area or function with the VCs rating the benefits of said experience.
Ambition level	No	Everyone agreed the higher ambition level the better, at least as high as investors, but not always. NB: the Finnish entrepreneurs were not as ambitious as those from the other Nordic countries.
Age of the founder	Yes	Interesting to investors. Since domain expertise was judged important and typically coming with age, older founders were preferred. Yet, the drive of first-time founders was highly regarded.
Diversity of the team	No	Diversity was perceived important and every company needs to invest in this, but it cannot be forced as being limited by the environment.
Weight of the CEO vs. Team	Yes	The investors differed and many backpedaled on their answers, causing the answers to be somewhat vague, which made the factor interesting to discuss.
Familiarity with the CEO	Yes	Highly relevant to some, as seen to lower the team related risk if the investor was familiar with the founder. Also connected to the team evaluation.
Commitment of the CEO	No	C.f. ambition level above, strong commitment required to succeed and convince all the investors
Technological expertise of the CEO	Yes	Focus on tech startups. Majority agreed that a technical background is beneficial for the team, for CEO ambiguous.
Personality of the CEO	No	Important that investors get along well with the CEO since they will have to work together and coach for a long time.
Level of involvement of the VC	Yes	Varying views of the importance among the VCs, but clearly investors pass on companies that require too much involvement, albeit dissimilar from one VC to another.
Differences in vision	No	Everyone agreed that investors and entrepreneurs need to have a similar, but ideally not identical, vision for the future.

Table 2: Evaluation criteria for early-stage startup teams

Once the decision criteria were chosen the next step was a more in-depth analysis of the responses. The comments on each of the proxy companies were coded per interviewee to discern any patterns or differences each investor had when it came to each decision criteria. Next, the broader comments regarding the decision criteria were coded per interviewee. All of the startups used as examples were not evaluated by all of the chosen decision criteria and the broader comments by the interviewees allowed for a more complete picture. In addition, some chose not to discuss the specifics of companies and general comments were the only ones available. It also needs to be noted that all of the interviewees did not use the defined terminology, but the individual responses were identifiable.

The compilation of the data was performed by comparing the individual responses with one another and building a profile based on the decision criteria and how each of them was viewed and used by each of the VCs. The profiles listed how each of the VCs rated the different criteria and where they had, or could, make exceptions (c.f. Findings).

Next the factors were rated as low, moderate, or high, based on how each of the VCs had valued it. Thereafter the factors the profiles were opened up, the VCs compared to one another as well as the why and how the VCs differ analyzed. This was then used to formulate the practical recommendations presented in the end of the paper.

4. FINDINGS

This section consists of three parts. First, the six key factors employed by the investors in evaluating early technology startup teams will be presented and analyzed. Second, the way each of the VC firms and their representatives viewed and judged each of the factors will be described. This will allow for a more detailed analysis on how each firm viewed and valued each of the factors, or if indeed it mattered to them at all. Finally, the findings for each VC firm will be compared to one another. Some of the firms felt more strongly about certain factors than others or viewed the factor itself differently.

4.1 Decision factors

The six factors chosen as evaluation criteria for the study are the domain expertise of the founding team, technological expertise of the CEO, level of familiarity the VC has with the founder(s), weight of the CEO versus the rest of the team, level of perceived involvement the VC would need to have with the startup and preferences between younger and older, or more experienced, founders. Each factor will be presented individually highlighting the key characteristics emerged.

4.1.1 Domain expertise

The investors viewed the domain expertise differently. Some had a very clear view, while others alluded to the subject rather than directly highlighting it. Yet, the factor was raised multiple times during the interviews and was clearly identifiable. The study perspective the knowledge and expertise a founder or team has in the industry they are looking to operate in appeared of key importance. If a company is building a medical technology solution, do they, e.g., have anyone in the team who has worked in the industry and understands its complexities?

The value of domain expertise in investing is clear and substantiates the team to be more likely to “know what they were doing” in terms of finding a solution to the identified problem. Yet, multiple things were included (understanding the customers, other players in

the market and the “real world realities” of the marketplace etc.). One of the VCs mentioned that understanding the real-world processes were particularly hard to do:

“Because, and especially if they don't come from the industry, they cannot have a clue about it.”

Having more knowledge of the space they are planning on operating in helps them understand the challenges of not only the industry itself, but the very problem they are attempting to solve and validate the problem, or demand, the startup is attempting to address. The founding team may have observed or been affected by the problem themselves giving them better insight into the challenge, as one investor noted:

“Does the person have that domain expertise track record or not? If not, then okay, interesting. You would be surprised how many people think they have figured out a problem they have never experienced themselves”

The impact of domain expertise varied, some rated it very highly while others were more lenient in how much domain expertise was required, or in what form. The ability of the founder to “get things done” was also considered important adjacent to domain expertise. Since the focus of many of the VCs were technology-based startups, technological expertise was also considered as being domain expertise to an extent. One of the VC highlighted the case as such:

“Because we're doing quite a bit of deep tech investments… For us to, kind of like, if you look at the companies we have in our portfolio, so the technical angle is so strong and that's usually where the difference is and comes from. It's hard to do that as an add on later on, yeah, something like that.”

All the VCs were very open about utilizing their own respective domain expertise when evaluating the team and their pitch. They often also utilized either experts from their network or external ones to further analyze the team, also sought after by the startups themselves upon deciding who to contact for funding. One VC explained a case where a startup had been in contact with them asking:

“We know that you've been on the board of (company name) for this long and this long and helped them build their things so you could probably help us because these are the things that we're struggling with.”

Overall, domain expertise was the most important factor to some of the VCs, while others did not think it to be as significant. There were also differences in how domain expertise, or track record, was viewed. Some wanted it to be direct industry expertise, while others were satisfied with broader evidence on being able to “get things done”.

4.1.2 Technological expertise of the CEO

The VCs interviewed for this research focus on investing into technology-based startups. While the industries and areas might differ, leveraging technological innovations is at the core of the businesses, and, thus, the expertise required as well as the ability to develop these technologies vital for the startup to succeed. The CEO was the person they were mostly going to be in contact with, as they typically are the sole startup member on the board. A CEO track record of being able to build similar solutions rendered assessing the startup´s capability to develop the product or service easier. With the early-stage startup teams being small some VCs noted that having the founder, or CEO, being a technological expert was something they valued.

“I would prefer them to have a technical background. Yeah, I would prefer them to be the person who was kind of who's on top of the product and knows it inside out.”

While the technological expertise of the CEO was valued, some of the VCs were more skeptical on having the CEO lead the technological side of the business. This could ultimately take away time they could invest on other important matters within the business, as described by two VCs:

“I think sometimes the CEO being technical can actually be an issue, especially if they are the only technical person in the team because the first thing that's going to happen is that the CEO is going to need to spend a lot of time on the technical side if you don't have enough support from the rest of the team that can actually be a very big issue.”

"I think for CEO's it's not very important to understand or to have a technical background. Yeah, the CEO should know how to run the company and no it doesn't have anything to do with having a technical background."

Thus, the VCs did not seem to require the CEO to be the technological lead with the knowledge and skills present somewhere within the company. This could mean, e.g., having several people working in a team or strong CTO. Several VCs mentioned having serious concerns if there was no one heading the technological side of the business. Two of the VCs alluded to the challenges like this:

"If you're building a product that is technical, you can't really outsource your core business. And if you don't see the problem of not having a technical co-founder, or a very strong tech lead in the company and you're building a technical product, it's also a bit concerning."

"So, if you know the product, the vision is clear and everything, but recruiting a CTO is very difficult afterwards. Usually they would have a technical person at least in the core team."

The CEO being a technology expert was not a prerequisite to investment, but it came across multiple times as preferable. Many conceded this ultimately quite rare and also why the early teams typically consist of multiple people as opposed to just one individual.

4.1.3 Familiarity with the founder

This factor considered how familiar the VC is with the founder or the early team prior to investing, i.e. the investor knowing the founder personally, how long they have been able to follow the founder or how often they met them during the evaluation process. There was variance between the VCs on how well or long each of them preferred to know the founder before investing. Some were satisfied with knowing fairly little, while others required data points from a longer period.

Overall, those who preferred knowing the founder for a longer period of time felt that it mitigated some of the risks associated with investing into early startup teams. The longer the

period of time the VCs had to observe the entrepreneur, the more data points they required to build an understanding on the individual with possible interactions with the entrepreneur in order to become more personally familiar. Some of the VCs described it as such:

"We wouldn't dare to invest if we didn't feel, if we feel that we didn't know the key individuals well enough. And preferably over a longer period of time and preferably we would get some references from people who have known them longer who we trust."

"We met him (the founder) multiple times before and not just one person but several people from our side, so we already had a lot of data points on him and how he is as a person. So, in that case it helps us to assess the CEO pretty well or better than if we would not know him from before."

"I think typically we want to invest in what we call investing in lines not in dots, so spending actually quite a lot of time. So hopefully we know them years before. Then we've seen that person's development curve. That's kind of an optimal situation, but in real life quite often it happens that we have to decide in weeks. During that time, we try to meet them regularly, get references on them, on the people."

The familiarity factor also surfaced in discussing whether the VCs would invest in an entrepreneur they had worked with before. Many felt having worked with the founder, whether successful or not, helped in creating a clearer picture. One VC commented on the question of the likelihood of investing in a founder they had invested in before:

"Yes, I think the likelihood is higher, absolutely. But I would still look at whether you understand what they do, but you "de-risk" quite a few things when you have a serial entrepreneur who has been successful and you´ve seen good and the bad and the ugly"

Answering the same question another VC said:

"Yeah we would and we have actually done it and we have also invested in founders who have let's say failed with one of the previous businesses, but we still like them as a founder and we thought that well they can still make another thing work."

Some VC's emphasized knowing the founders from the past or having been a founder before does not necessarily mean a bigger likelihood of success. Also, familiarity on its own does not translate into investing. Some of the VCs did not find familiarity with the founder important to consider. They also were skeptical about evaluating the individuals overall, as noted by the VCs:

"I think you can never evaluate someone thoroughly. I think we have already seen a few cases, where we are, what we thought of someone has changed after investment. You would have to talk with someone for years to actually know someone thoroughly."

"Because one cannot without being a very experienced psychoanalyst, or like something like that, you cannot properly evaluate individuals."

In conclusion, some of investors emphasized the familiarity factor more than others. Those who preferred to be more familiar with the founder preferred the opportunity to observe the individuals for a significant period of time. The ones who found familiarity to be less important also noted that analyzing individuals entirely was very difficult.

4.1.4 Weight of the CEO versus team

Team dynamics, sets of skills and experience surfaced with this topic, arguably one of the toughest. Conflicting answers were received on discussing the evaluating teams and decision making, as well as the respective impacts of the CEO and team. While the majority of the VCs stated they always evaluate the team as a whole and therefore give more weight to the team than just the CEO, they still ended up highlighting the importance of the CEO over the team. Here are a couple examples:

"Well, the focus is on whoever is the key person and the lead in the teams. Typically, there would be one person that we do focus on who's the entrepreneur who's typically the CEO. We do meet other key team members along the process. Even though I say that the focus is on the entrepreneur, the answer is the team as a whole still."

"CEO is of course an extra important. Let's say, all the founders are typically extra important and that then depends a bit on the product or the market."

Some of the VCs clearly judged the impact of the CEO over that of the team. Some of the answers were:

"We do look at the leader, the CEO, the entrepreneurial founder type. That person is really the most important, I think. If that (person) is of a very high quality then we can be less demanding of others, because we would trust that this person can put together the right, best kind of team."

"In terms of the founding team, or the founders, we dive the deepest into the person who's the CEO. I think that's without exception. But obviously it's also about the dynamics and the combination of people."

"I think, well, the CEO is obviously usually the person who is putting together the whole round, but they are at least going to be if not yet the person who's also going to drive the company forward the most. They are also the person that we are going to work most with. Most likely it will only be the CEO in the board meetings with us."

Only one of the answers clearly tilted towards the team:

"The most important are the founders, or the management team, they could be different. These people are those that we spend most time with, so we try to understand as well as we can. After all, most of the operational decisions are up to this group of people."

In general, the interviewees stressed the importance of the team aspect and mentioned that there is always a team behind a company. Although the interviewees agreed that the CEO is the one leading the boat and is the one who builds the team, and replaces its members if needed, they still perceived it to be unnatural to say that one person weighs more than a team, despite highlighting the importance of this particular position.

4.1.5 Level of involvement

One of the reasons for the startups seek the help of venture capitalists aside from funding is the expertise they can provide them. During the interviews, the VCs described this as a fundamental part of the investment process and an area where they could leverage their own expertise and knowledge of their network to help the startup succeed. One of the interviewees described the ideal situation:

"You need to understand what your weaknesses and strengths are and to be able to build on those. The best ones already know why they want us as an investor."

The range extended from more technical consultation to coaching the management team into helping run the business itself. This depends much on the background of the founding team. The VCs described various scenarios in which the founder might, e.g., be an expert on the product, but lack the experience and skills in hiring. Some of the VCs described the process:

"out of the time that each company gets from us, a big part of it goes to well strategic issues, operational issues, legal issues, setting up expansions or working on the product or setting up incentives for the personnel or recruitments or all kinds of other stuff."

"I personally feel our biggest value is sort of the pitfalls that every single early-stage company has. I think that's sort of like a given that every company is going to have problems in those areas that we can most help with, probably their governess is not for example up to date. "

So, the challenges facing the companies were not always unique, but the VCs did agree that all startups do need help to some degree, as noted by one:

"No, there's no founder that doesn't need any support. If that kind of person exists, typically they are overconfident and do not really understand their own sort of gasps. All founders always need help and if they are not aware of that and they don't ask for help, that's a bigger problem."

While all VCs agreed the startups did need, or at least benefit from, their assistance, there was a threshold to how much assistance and time they were willing to spend. Sometimes it appeared to be the overall time needed, while in others due to the issue or area requiring mending. Some of the VCs described the time constraints as:

"Well, if there would be so huge gaps that would need to be developed, then we don't even invest because time is obviously something that is one thing that we don't, kind of we have a scarcity of. So, we have to be conscious of that."

"Yes, we think about this. If it's an area we don't know anything about and we think for example that the CEO needs a lot of support then we don't invest in, then it is too difficult."

Thus, some of the VCs were more open to spending more time with the teams. One mentioned it hard to say initially how much time they are likely going to have to spend and described the thinking as:

"I feel that we think it's a given that we'll spend a lot of time with the companies. There's not a single one that we would think that we won't have to like, there's always a case where you need to fire someone, there's always something that comes up regardless how awesome the whole thing is. I think it's hard to say beforehand what that's going to be."

So, while the assistance and expertise lent is central to the VC and startup team relationship, there are limits as to how far they investors are willing to go with some of the VCs mentioning there was an expectation for the startup founders to be entrepreneurs themselves, i.e. an ability to learn autonomously and quickly and work independently. The VCs described being an entrepreneur in saying:

"So, we do need them to be able to kind of be entrepreneurs themselves. They can get it done by themselves, basically. Because we can't be the entrepreneurs, we can't take them from someone who "can't get it done" to someone we think can recruit the people they need to be successful."

"Well I would say like relatively little. It's more like in this entrepreneurial world it's like you get thrown into the deep end and then you have to learn to swim. There's more talk about

mentoring and helping, but basically you expect the people to learn what they need to know really quickly."

The help and guidance of venture capitalists is central to the investment process and indeed one of the reasons why a startup could prefer one investor over another. However, the degree each VC views the time invested into the startup worthwhile appears to vary between investors.

4.1.6 Younger versus older founders

The companies the VCs invested in had founders with varying backgrounds. Some were more experienced with a career in an industry, while others were starting out. The more experienced and likely older founders were typically described as having a better track record or career. Experience itself could either be from some industry or an entrepreneurship. Some valued the people who had been entrepreneurs before, as described above. Another VC was more skeptical on the experience gained from being an entrepreneur previously:

"Because what serial entrepreneur (and) entrepreneurship gives you are things such as, like, discipline, but then your drive might be lower in 2020 you don't need to have some sort of special skill, to be able to run a company. You have like 20-year-old people out there who can run companies, they might have more relevant expertise running a company than someone older."

Having a career in an industry had its benefits as mentioned above. Depending on the industry and the length of the founders' career, it could also become an issue when switching from a more standardized work environment to entrepreneurship. The experience the founder had accrued might mean that radically changing working styles could be too heavy a task or challenge the younger entrepreneurs did not face. Some of the VCs mentioned that this could be an issue:

"We deal a lot with older founders and there's a special thing there to make sure that they know what they're getting into. If they've been in big firms everybody says that they can do it, but sometimes they don't really understand what it is to be an entrepreneur. It is different, assessing more experienced versus younger entrepreneurs. I think, if it's the right stuff it's

even easier for the younger one to learn it, than for a senior person to unlearn the corporate ways."

"I have met some very corporate teams and then you notice that probably it just won't kind of work because they're too slow to make decisions. But then again people that are 40 to 50-year-old have the highest likelihood to create great companies, like even the fastest-growing startups... So, it doesn't always mean that you have that baggage."

Age and experience were described at times as being a virtue and something that the founder could, and should, leverage to their advantage. Thus, depending on the individual or team, the career experience could also hinder their ability to adapt to be an entrepreneur and working more independently and agilely.

Each investor was presented with a list of companies, as described in the methodology section, used to further identify patterns of thinking and how the early teams were evaluated, and analyzed below.

4.2 VC profiles

The findings on how each VC firm viewed each of the evaluation criteria will be evaluated below and the instances where differences in thinking between the individual representatives of each VC firm occurred noted. For the most part, the thoughts of the individual investors reflected those of their counterparts within their respective companies, but there were a few notable differences. The length or detail to which investors discussed each of the factors varied for a number of reasons. The less important factors were often discussed more briefly, while more time was spent on discussing factors found to be more impactful. The companies discussed with investors also did not always exhibit all issues or strengths associated with the evaluation criteria, i.e. the topic was not discussed at length. While investors did discuss all the factors, there were differences in how each individual perceived each factor or how they viewed its importance overall as discussed below. Next, the VC firms will be presented in no particular order.

4.2.1 VC 1

Overall, the VC had a clear preference towards some of the factors. Familiarity with the founder was something clearly put forth as important in the evaluation as well as the quality of the CEO impacting the way the entire team was viewed but also whether the investment was possible at all. The technical expertise of the CEO did not play a role, granted it was present somewhere in the team. While the entire team was important there was an emphasis put on the CEO and their personal track record. This record did not necessarily mean having experience in a particular industry or technical expertise, but rather the ability to "produce results". Domain expertise was not something that was raised, but there were instances where having worked in industry was an advantage. Founders with industry backgrounds often had trouble adapting to be an entrepreneur and younger, high quality founders could be quicker to learn, than the others to "unlearn". They also thought that a corporate career could make you less ambitious which in turn made the investment less attractive. The VC did not seem to think much time was required from them to help the startup and that there was an expectation to learn independently, rather than mentor.

Domain expertise

Domain expertise did not stand out as necessary, or it was not clearly outlined by the VC yet willing to see a "track record" defined as:

"Yeah, we would consider track to be that you've been able to show that you can produce results. That's really all that matters, that these people who end up getting things done. And then there's other people who you know regardless of how much money they have, what the resources are, it's like a mediocre result."

While getting things done was more important than domain expertise, they did also regard this as being influenced by the domain in which you were attempting to work and considered it very different to build a consumer application as opposed to something for corporate clients. The VC described the example like this:

"But the thing is that you don't have to have that specific existing relationship (with consumers), but if you want if you want to sell to your energy utilities, it would be a really good idea that you already know the purchasing people from those big utilities and that have already sold something to them previously with a good track record."

So, depending on the product or solution being developed, the significance of domain expertise may change.

The VC also mentioned they utilize their own domain expertise in evaluating the opportunity and in discussing a more specific case an investor noted there was a noticeable benefit of having an industry background. It was described like this:

"Because especially if they don't come from the industry, they cannot have a clue about it. They cannot have a clue about how difficult it is to penetrate into existing supply chains."

So, there was a definite advantage in having worked in the industry, and the VC also noted a difference between industry knowledge and having an innovative product.

Technological expertise of the CEO

On the necessity of the CEO having a technical background, while not required, was viewed differently by the investors. When discussing the proxy companies, the CEO was not the individual with the technological expertise, considered a nonissue.

According to Investor 1, the CEO did not have to be the technological lead. In the cases discussed with the interviewee this was the case and not an issue, but the expertise needed to be within the initial team.

"No, the CEO doesn't have to be that tech person it needs to be within the team, within the absolute core team."

Investor 2 from the VC stated they did have a preference for the CEO to also be the technical lead of the company, as seen here:

"I would prefer them to have a technical background. Yeah, I would prefer them to be the person who was kind of who's on top of the product and knows it inside out. I wouldn't like to see this kind of setup where you have a technical person and then a business person in two different human beings, but that's not very many times the case, but it will be much better to have just one person whose CEO and product."

Familiarity with founder

In evaluating the team, being familiar with it and its founder played a role at least in two ways. First, there was a clear emphasis on investing time initially to get to know the founder described as:

"Yeah, well we emphasize that quite a lot (getting to know the founding team). We wouldn't dare to invest if we didn't if we feel that we didn't know the key individuals well enough. And preferably over a longer period of time and preferably we would get some references from people who have known them longer that we trust."

The process of getting to know the individuals is described as a prerequisite for investment with the challenge here being that it is time-consuming and often external sources are used as references to validate the team. The VC said this ultimately helped them identify and avoid any hidden defects that might be present within the startup team.

"It is one of the most important things, (especially) if there are hidden defects."

The other way factor for the familiarity factor was observed when discussing investing into entrepreneurs worked with in the past. In this situation the founder or team would already be known to the VC and the types of challenges mentioned previously would be less, granted that the entrepreneurs had done things correctly. Here the VC describes this:

"Yes, oftentimes we do, and we really would like that, because we like to know them for a longer period of time. Yes, this would be an ideal situation that we could work with somebody again, if something has gone well."

Weight of the CEO versus team

In evaluating of the team and leading member of the startup, the VC did note they do look at the entire team and its dynamics. Thus, they did have an increased focus on the CEO of the startup. The value the CEO could add to the company was clear, as it could impact how the entire team was viewed and also described as a prerequisite for an investment to have a competent CEO. More specifically, they look at the personal "track record" the CEO has. Familiarity with the CEO and team helped to assess the team and their track record, but not something the VC felt necessary. Thus, they were open to the idea of working with entrepreneurs they had worked with previously, as mentioned here by Investor 2:

"We would definitely like to see the same person coming back to us many times. We would like to see if there is someone who is now succeeding in one of our companies, that we really want to see them in the next one."

"We do look at the leader, the CEO, the entrepreneurial founder type. Is really the most important thing I think, if that is of a very high quality then we can be less demanding of others, because we would trust that he can put together the right, best kind of team."

"Yeah, absolutely it would, that is like the single most (important thing). I think this is, we are a clean tech investor so we want to see this cleantech, high impact, low capital and scalable as a qualifier but then without even if all of these are met if the CEO is not the right quality then it's not going to happen."

Level of involvement

On the amount of time the VC viewed as having to invest into helping the startup, they viewed it differently with Investor 1 thinking it to be quite low and with an expectation for the entrepreneurs to learn themselves, as described here:

"Well I would say like relatively little. It's more like in this entrepreneurial world it's like you get thrown into the deep end and then you have to learn to swim. There's more talk about mentoring and helping, but basically you expect the people to learn what they need to know really quickly."

Investor 2 noted they tended to spend more time than initially thought:

"We've been too kind because we've always probably thought that well we can help, you know, you know, there's some areas where they need to learn more and then we always think that well that's fine because we can help them there and there and there, and we probably spent way too much time then after making an investment kind of helping in all sorts of different areas."

The VCs did not, however, mention this was necessarily an issue with a clear expectation they will need to help in some areas, but perhaps the initial evaluation of the time needed to help just inaccurate.

Young versus older founders

Whether the founders of the company were older or younger did not appear to matter to the VC and not a factor they put much weight in. However, they did mention some of the challenges with working with founders coming from industry backgrounds, a situation which common for them:

"We deal a lot with older founders and there's a special thing there to make sure that they know what they're getting into. If they, if they've been in big firms everybody says that they can do it, but sometimes they don't really understand what it is. I think if it's the right stuff it's even easier for the younger one to learn it, than for a senior person to unlearn the corporate ways.…. the corporate environment can spoil you in a way. I've seen it many times, it takes like 10 years to, you know, unlearn it for those who can unlearn, and many can't at all."

Similarly, to some of the other investors, the VC did find working with people with longer careers and industry background possibly more challenging. Specifically, in this case, they highlighted the possibility of a lower level of ambition among founders coming from corporate backgrounds:

"I think it helps when you have a little bit less experience, like if we are closer to just getting out of the university you could have like bigger ambitions, which is good, because I think

there are very many times. If you have a very long history working for big corporations, for example, then you could be that you don't have any more things like very big ambitions and believe that you can actually make big things happen."

A low level of ambition was noted as being a challenge overall in evaluating startups. If the team was not ambitious enough, it did not make for an attractive investment opportunity as the possibility for exponential growth was lower.

4.2.2 VC 2

The domain expertise was seen as the first step in assessing the quality of the team. Although investors believe it possible to build a great company without having the domain expertise, it is something they value and view as being the criteria at the very core of their investment plan they base their decision on. The technical expertise of the CEO was seen as a good asset, but not as a requirement by investors. In cases where the technological side is not present with the CEO, they need to be good at hiring. When discussing the familiarity with the founders, investors saw knowing the founders as not very important and added they have made investments without ever meeting the team, although they do what they call "a hygiene factor checkup" before investing. Also, the investors believed knowing the founders well is more important in the later stage rounds, and, generally, they do not perform separate interviews with the founders. Instead of doing a deep dive into the personalities, they look at the team as a whole and try to understand what is important for that company and focus on that area. Finally, the investors agreed they think about the required level of involvement, and pass cases in which they do not know anything about the field the company operates in or the team needs a lot of support with too much time required. The investors also stated the current knowledge of the founder to be more important than the "future potential knowledge". If the founder knew more today, they would be more capable of understanding their own knowledge gaps, and a younger founder would potentially be at a disadvantage in this if they lacked experience.

Domain expertise

Domain expertise as a factor clearly stood out as the interviewee referred multiple times to their investment thesis, requiring the founders to have it. According to Investor 3, all investments they make have to follow this thesis.

"You basically have to have a thesis and systematically follow it and improve your capabilities of analyzing the companies you invest in against your thesis"

The VC said they always start by evaluating the team and the first question is: does the team have the domain expertise? Here's how Investor 3 commented:

"So, they had this kind of "secret" meaning that not everyone yet looked at the world the same way, which is very interesting. And I believe (the idea) cannot or typically won't evolve unless you have been very closely kind of monitoring the topic."

Investor also added there are many founders that have built great companies without having domain expertise and pointed out that it is not a must, but something their investment thesis requires and something they value.

Technological expertise of the CEO

For technology expertise of the CEO, the interviewees agreed it would be great to have, but not a requirement as long as the founder really understands the problem. Here's how Investor 3 formulated this:

"Ideally the "jackpot" situation is where the CEO has both domain and technical expertise. But this is rare, and typically teams have more than one individual"

This is how Investor 4 commented on this:

"We don't really consider that a thing if we think they can hire it or if they have that in the team, but the knowledge kind of yes, because we have the domain expertise thesis, definitely comes into play"

Familiarity with the founder

The investor also said they do not need to be familiar with the founder when investing into early-stage startups. However, they do what they call "a hygiene factor check-up", i.e. a technical check-up, and also ensure the individual is not fraudulent. In addition, they send an email and ask for details before engaging and search publicly available information on the founders. Investor believed knowing the founders and spending time with them is more important in later stages.

An important issue to Investor 3 was to understand how coachable the founder is and how that person reacts in situations with a lack of knowledge:

"For example, asking what you would do if you would need to go and sell tea? Some would say that: I'm going to learn everything about this tea. And some would say: I'm going to find a person who knows everything about this tea. I'm more leaning towards people who find other people because that's how organizations grow and scale."

This is how Investor 4 elaborated on the topic:

"When it feels that it is a possible winner, like a big winner, then we're quite fast to invest and we don't consider how much time we spend with them to get to know them. But we try to do like (an assessment of): okay, they are good at this, not very good at this. So, we discuss that when we do the investment and then also who should their next hires be, is it possible to do their plan that they are planning to do with this money, can they hire the people and so on."

Weight of the CEO versus team

On the weight of the CEO versus the team, the investors said they always evaluate the founding team as a whole and do not look at individuals, but how they interact with one another. The teams tend to be small with little separation between the team and an individual founder. The aim in evaluating the teams is always to understand what is important for that company to focus on that area. The investor also added they are optimistic about the teams being able to hire the people they need. Here's how Investor 4 commented:

"So, if it's like technology or if it's having a great CEO, then we kind of have to focus on that part that we think is the most crucial and we are always open to hiring people. That's maybe more of the viewpoint than is the team complete, because they often aren't."

Level of involvement

Investor 3 viewed this not as much as "time required" but more as openness and coachability of the people. Investor 4, however, said they think a lot of the level of involvement as a topic and it concerns them often. If the company operates in an area, they don't know anything about or, e.g., the CEO needs a lot of support, they don't invest because it's too difficult and requires too much time. In addition, Investor 3 said they cannot support teams with difficult personalities, such as being closed off and feeling the need of being an expert in every area:

"If the people need to be experts in everything before doing things, it is too heavy a lift for us."

This is what Investor 4 said about level of involvement:

"I think that's kind of maybe that's a good way to think about it that the team or the person needs to be like an entrepreneur themselves so that they don't need anything around. They can get it done by themselves, basically. Because we can't be the entrepreneurs, we can take them from someone who you know "can't get it done" to someone we think can recruit the people they need to do the stuff that they need to do to be successful."

Young versus older founders

The VC requiring domain expertise and more experienced people being more likely to create great companies would lead to preference of older founders. With domain expertise is a prerequisite for the VC, having it at a younger age may be challenging. Here's what Investor 3 commented:

"I think it's more important that they know a lot today because then they also maybe know what they don't know and then they can learn faster the relevant things."

According to Investor 4, they look at strong points the entrepreneurs have, and it is more about being able to add people to fill those knowledge gaps than trying to learn everything. Here is a direct quote:

"Sometimes that individual can learn a lot but there's too much stuff in the startup anyway, so you have to be great at recruiting anyways, so maybe more focus on making them great at hiring than making them great at everything. So, the future potential does not weight much."

4.2.3 VC 3

The domain expertise was not discussed by the investors, but they underlined the requirement of technical knowledge within the team with their deep tech angle where the difference comes from. Whether or not this can be considered as domain expertise is open. The investors did not see it important for the CEO to have a technical background, rather the knowledge within the team. In addition, they said that it is more important for the CEO to know how to build the company. When it comes to familiarity with the founder, it was imprecise how important it is to the VCs. They do not spend much time but meet at least five (5) times for any given investment and do a proper due diligence. They evaluate both the team as a whole and the founders individually, although remaining skeptical of being able to evaluate someone thoroughly. There is a definite focus on the founder CEO and analyzing the CEO´s capabilities to stay with the company for a longer time. Furthermore, the early-stage teams are often missing certain roles, but early-stage founders are not

expected to have all the necessary skills early on. The time of high involvement lasts for the first two years and taken usually as given that a lot of time is spent with their companies. Finally, at the early-stages it could matter more whether a founder is young or old, but overall, the issue wasn´t raised.

Domain expertise

Domain expertise was not discussed much by the investors, but the requirement of technical knowledge within the team emphasized in the development of an actual technical product. With their deep tech angle, essential knowledge is critical for making a difference. If the expected technical knowhow is not there, they would not invest. Can this be considered "domain expertise" is another thing, but this might be what it means for this particular investor.

Technological expertise of the CEO

The investors did not see it to be important for a CEO to have a technical background but insisted the technical skills to lie within the core team. Based on the investor's experience, it is very challenging to hire an CTO afterwards. Here it is how Investor 5 put the thought in words:

"The CEO can lack a technical background. That's not a necessity, but the team cannot. Usually they would have at least in the core team. If you look at the companies we have in our portfolio, the technical angle is so strong and that's usually where the difference is and comes from. It's hard to do that as an add on later on. Usually we would expect that the founding team would have those areas already covered and if they don't, then you know we wouldn't invest."

Investor 6 did not focus on the technical background but emphasized the importance of the CEO focusing on building the company rather than the product. The investors do analyze the technical skills of the team and take the considerations of the non-technical founders into account. Them not being concerned would raise a red flag. This is what Investor said about the issue:

"I think sometimes the CEO being technical can actually be an issue, especially if they are the only technical person in the team because the first thing that's going to happen is that the CEO is going to need to spend a lot of time on the technical side. If you don't have enough support from the rest of the team that can actually be a very big issue."

Familiarity with founder

How familiar the investors would need to be with the founder before being able to invest remained unclear. Typically, not too much time is being spent with them, but proper due diligence is being performed and multiple meetings held before deciding to invest.

According to Investor 6, they always meet the CEO at least five (5) times for a given investment and at least two people from the team interviewed. In case it is a larger investment, the whole team is brought in for a spectrum of opinions. While it is important for the investors to take their time and, their focus is on how the team responds to different questions. Here is the example that investor gave:

"I think the most important parts of like, how do they actually respond to feedback, how do they respond to us saying something, mostly on purpose, that we know that they are not going to agree with. So, it's questions that give us a feeling of like, how will this person react if there's a very difficult situation that needs to be solved, how will they start solving it?"

Weight of the CEO versus team

In evaluating the team investors were in line and evaluate both the team as a whole and the founders individually. The investors highlighted a large part of the risk lies in the team and it is important to analyze the team as a whole and understand the team dynamics. This is a comment from Investor 5:

"You can look at are there the right ingredients in the team. Do they do they have like high enough ambition to make it our targets? Do they work well together? Are they coachable,

you know? Do they listen? Then they don't necessarily have to follow everything, but there needs to be a dialogue and of course we look at things that are like we would we like to work with these guys for the next 5 to 10 years"

Here is what Investor 5 had to say about the individual part of the team evaluation:

"There is a little bit more, kind of, about our thinking behind it, but that's kind of like you have to look at the individuals, especially the founder CEO role is important. Kind of like and how they behave, but then also other key roles. How are the dynamics? You have like one guy who's like a dictator and everyone else just kind of hangs around, but it's not easy."

Investor 6 also added that although the people the founders have hired may be or become important, they do not see the importance of doing a comprehensive evaluation. This is what the investor said:

"We don't really dive deeper into the people who are actually employed in the company because that just sort of isn't that important in a sense. But in terms of the founding team, or the founders, we dive the deepest into the person who's the CEO. I think that's without exception. But obviously it's also about the dynamics and the combination of people."

The reasons why the CEO is so important in Investors 6 opinion were:

"CEO is obviously usually the person who is putting together the whole round, but they are at least going to be if not yet the person who's also going to drive the company forward the most. They are also the person that we are going to work most with. Most likely it will only be the CEO in the board meetings, for example with us. The CEO is the main point of contact. So it's from both from the sort of skills perspective, but also from the perspective that we need to get along with this person and the person needs to be able to take our feedback, process it and throw it back at us with like, okay, I'm going to do this type of thing."

It was also mentioned by Investor 6 as very important to understand the CEO has the capabilities to stay with the company as it grows, from the knowledge point of view. This is what investor said:

"I think the biggest point is whether the CEO/founder can stay at the role for a longer time because we really don't want to start changing the founder CEO. So, I think it's more about, especially where it's a first-time founder, evaluating whether the founder/CEO is capable of growing into the role while the company is scaling."

Furthermore, Investor 6 was skeptic for being able to evaluate someone thoroughly:

"I think you can never evaluate someone thoroughly. I think we have already seen a few cases, where what we thought of someone has changed after investment, and I think that's just natural. You would have to talk with someone for years to actually know someone thoroughly. So, it is a bit about first impressions."

Level of involvement

The level of investor involvement in the companies is quite high during the first two years, until another investor joins in and takes the lead. In general, they have once a week a dialogue with all the founders on top of all standard meetings, such as the formal board meetings. Investor 5 also commented in what kind of scenario they would pass an investment opportunity in regard to time investment:

"Well if there would be so huge gaps that would need to be developed, then we don't even invest because time is obviously something that is one thing that we don't, kind of we have a scarcity of. So, we have to be conscious of that. So, if it feels like this team will need a lot of coaching and there's like a few key roles missing and it's easier to say "no". Then we tell them "Hey develop these areas and then come back", so it can't be that, but then also varies with the company in their lifecycle and there are different stages in which you have to spend more time capturing certain aspects."

On the level of involvement, Investor 6 said it does not play a big role in the decision per se because it is impossible to say beforehand what will come up in the future. Here's a quote from the investor:

"I feel that we think it's a given that we'll spend a lot of time with the companies. There's not a single one that we would think that we won't have to like, there's always a case where you need to fire someone, there's always something that comes up regardless how awesome the whole thing is. It's just a fact of life that there will be something that comes up that we will need to spend more time on."

Young versus older founders

It does not matter much to the investors whether the founder is young or old, but it may be considered. With first time founders they felt the question was about how well the founder could grow in his/her role with the company scaling up. Yet, it mattered more in the earlier stages with less to show. Still, this was an issue only if there was a clear "red flag" of someone clearly not being up to the task.

4.2.4 VC 4

The impacts domain expertise and technological expertise of the CEO were not highly rated by the investors considering it important to be familiar with the founders and try to meet them as early as possible to be able to spend time with them and follow the team for a while. Although they always evaluate the teams as a whole, the CEO is extra important, together with the founding and management team(s). Level of involvement is of key importance in companies they have invested in and do spend a lot of time with. Yet, there is no one approach that fits all and it is also up to the company how much time they want from investors. In some cases, the investors may be more proactive and feel they could contribute. They also felt confident in investing in both younger and older teams but preferred seniority in terms of expertise.

Domain expertise

Domain expertise as such was not mentioned by the investors, but they did discuss the track record of a team. Here's a comment from Investor 7 about the track record:

"Of course, it's more about their current track record than the future."

To Investor 7, track record meant nothing but evidence of previous achievement.

This investor also mentioned industry knowledge considered as domain expertise. However, this wasn't pointed out as a must have, rather it was a nice to have thing. This is how Investor 7 commented:

"In [Startup] case, we were already quite convinced of the founder. However, we weren't sure, he doesn't have enough industry knowledge particularly. So maybe that was something that we would have hoped he had already had before starting the company."

Technological expertise of the CEO

As to the technical background, the investors were aligned in it being not important for the CEO to have it or even understand the technical side of the business, rather him/her needing to understand how to build a company. Here's a comment from Investor 8:

"I think for CEO's it's not very important to understand or to have a technical background. Yeah, the CEO should know how to run the company and no it doesn't have anything to do with having a technical background."

Other than this brief comment the topic did not seem to concern either of the investors from VC 4 too much. Here's a comment about the technical background of the CEO from Investor 7:

"In [Startup] case, that was one of our negative flags that they didn't have a CTO at the time. So, yes, that was a shortage that they didn't have. However, we interviewed the team and advisors around the company, and we were convinced they can manage and run the business and hire a CTO in the future"

Familiarity with the founder

As to familiarity with the founder the investors typically would want to spend quite a lot of time with them and ideally know them for years before to get a chance to witness the development curve. However, Investor 7 admitted that sometimes they have to make an investment decision in weeks:

"In real life quite often it happens that we have to decide in weeks, so we have to trust that we know them well enough in, you know, in a month or two months. During that time, we try to meet them regularly, get references on them, on the people."

Here's what Investor 8 had to say about the familiarity with the founders:

"Well usually we don't like seeing the opportunity at the very last minute and make quick decisions, if we don't know the people from before."

Weight of the CEO versus team

The investors evaluate the team as a whole but also individually in trying to understand how the team works together. In particular, they like to see the team at the close range to be able to follow them and analyze how they develop as a team, individuals and, in general, as a company with time.

"Typically, we want to see them in a meeting together because then we also see how the people interact with each other. So how the team complements each other in terms of skills."

The team is evaluated as a whole and each founder individually as highlighted by Investor 8:

"CEO is of course an extra important. Let's say all the founders are typically extra important and then (it would) depend a bit on the product or the market. So, if it's a very high-tech or deep tech company then the CTO is very important."

Investor 8 raised also another point why the CEO is extra important:

"After all most of the operational decisions are up to this group of people."

Level of involvement

The level of involvement is always considered in trying to understand how "high maintenance" the cases would be with investment and what their role would be in the company. For the investors it is important to feel they have a good chemistry with the founders in some cases working together for even 10 years. Here's a comment from Investor 7:

"So, there are two things. One is sort of how much we have to actually help them so that they don't know what they're doing. So that's a negative flag for us so that we actually have to spend a lot of time to rebuild the whole team, in a way. Then there's a positive side of it. It's that they actually take support, or they want to discuss ideas. (If) We have a good chemistry with the team that has a positive impact on the decision."

The same investor on whether there are any founders with no need for any help from the investor:

"No, there's no founder that doesn't need any support. It's that kind of person exists, typically they are overconfident and don't really understand their own gaps. All founders need help, but in different parts of the business, and if they are not aware of that and they don't ask for help, that's a bigger problem."

Here's a quote from Investor 8 about spending time with teams:

"Time investment does not necessarily factor negatively. If let's say, if it's a first-time entrepreneur of course, usually we prefer to work with second time or people who are doing it multiple times."

Young versus older founders

As to expertise in the area, the VCs have a clear preference on the more senior side. Yet, they have invested in very young and inexperienced teams very execution and numbers driven, something they don't see enough. Here's what Investor 7 had to say about the topic:

"I would say that the balance is still on the current, but we have to sort of see that this team has the potential to grow rather."

While current knowledge renders a larger impact, the VCs do not have ways for weighting out the skills:

"Team as a whole has a lot (current potential), but then within the team we don't really have a very proper way to rate different skills."

How the individuals of the VC firms viewed each factor was often similar to the other investors from their own respective company, with a few notable exceptions. The way the findings for each of the firms differ or agree with those of the others will be discussed below.

4.3 Comparison

Each of the VC firms had their own view on the most important factors to consider in early startup team evaluation. Above we have described the way each company viewed these factors as well as how the individual investors did. Next, all the venture firms will be compared with one another to illustrate how the thinking differs or not.

The table below summarizes the findings for each VC firm valuing the factors independently and based on the findings rated *low*, *moderate,* or *high*. This is based on the perceived importance of the factor to the VC firm and its representatives. *Low* meant the factor was not something the company viewed as being important in evaluating the team, while *high*

meant it was something influencing their view strongly. Where the two investors split, or the factor considered only somewhat important it was rated as *moderate*.

On domain expertise there were significant differences between the firms. VCs 2 and 3 considered the domain expertise to be very important when evaluating the startup teams. For VC 2 it was of key importance and dictating whether an investment could even be made. For them, domain expertise specifically meant experience on the field the founding team were planning on entering. VC 3 agreed domain expertise was important to a degree. Unlike VC 2, however, it meant technological expertise reflecting their focus on deep technology investments. VC 4 only mentioned domain expertise briefly highlighting the lack of domain expertise as an issue when discussing the proxy startup companies where they had chosen one startup over another working in the same market. VC 1 did not see domain expertise as very important and actually highlighting exceptions if the opportunity was otherwise highly attractive. Yet, as VC 4 they found not having domain expertise makes operating in a specific market difficult since fundamental realities would need to be learned. The main difference between the two lied in how domain expertise was viewed. VCs 2 and 3 both valued it and thought it was the root of any potential competitive advantage a startup could have. VCs 1 and 4 thought domain expertise were less important and rather viewed as something potentially causing issues were it not be present in the founding team, rather than something at the base of the company itself.

As to the technological expertise of the CEO, the VCs discussed the factor in a very similarly. Many of the individual investors mentioned they valued the founder to be someone who had technological expertise. Very few thought this was not something disqualifying a startup from being invested in but preferred in an “ideal situation”. Yet, some of the individuals highlighted having a CEO with a strong technological focus could hinder the company in the long run. While initially important, with growth the CEO should eventually focus on leading and managing the company rather than spending all of their time on the technological side of the business. These differences were not something found between the VC firms, but rather between the individuals within meaning the VC firms had conflicting ideas within. Overall, the factor was not viewed as being highly influential, regardless of which side of the argument you were.

How familiar the VCs wanted to be with the founders revealed extreme differences between the firms. VCs 1 and 4 valued familiarity very highly being able to follow the founders for a long period. The longer follow up of the early team was thought to give more data points on the individuals and enable a better judgement and understanding on the individuals behind the company. In addition, they preferred to spend a lot of time getting to know the individuals behind the company personally and meeting them multiple times rendering investing into the team less risky. VC 3 was more skeptical about being familiar with the founding team or trusting that you "know" the individuals well enough after all the time you have spent following them. On the other end of the spectrum was VC 2 not valuing familiarity or spending a long time getting to know the individual personally at all. Finding enough data on the individuals was noted to be simple and spending a lot of time on trying to become more familiar personally was not thought to be worthwhile by not decreasing the risk. In agreement with VC 3, VC 2 did not even believe an investor could ever really know or understand the individuals behind the company or accurately analyze people generally. The key details were the huge differences in time the VC firms were willing to spend becoming familiar with the founding team, some viewing that unfamiliarity could be a disqualifier, while others thought it mattered very little.

The CEO, or founder, of a startup is often highlighted as being the focal point of the early company. Most of the companies in our sample did note that the CEO was at their focus when evaluating early-stage startups, and even more than viewing the team as a whole. VC 1 went as far as noting a high-quality individual leading the company could compensate for the other team members lacking in some area and having a quality person was paramount for them to even consider investing, clearly highlighting the weight the CEO carried. VC 3 and VC 4 thought the CEO similarly held a key role in the early team. They were the individuals they spent the most time with and ultimately the one managing the company. Yet, all three did note they do look at the entire team as well, while more time may ultimately be spent on evaluating the CEO. VC 2 noted the early teams or startups approaching them typically to be very small and, thus, focusing on only one individual in a two or three-person team does not make sense. They, of course, also wanted the best quality individual to lead the early company, but having a working team was vital. So, many stated the CEO person leading the company to be at the core of all startup teams and their impact magnified compared to the rest of the team.

All of the VCs agree on wanting and needing to spend time with the startups they invest in. How much time they perceived required did however influence they inclination to pass or invest into a company. None expected they would not need to invest any time into helping the startup. VC 1 thought this not much of a concern as some time would have to be spent but did not factor into the investment decision. The other three thought of the time investment as something impacting negatively if it would be too great. There were differences in how this was described. Unfamiliar areas to investors were noted by VC 2 and VC 3 as demanding too much time if they had to help the startup with it. VC 4 viewed their involvement interestingly by also highlighting the positives of being able to work together with the company. Collaborating and improving ideas was something they felt ultimately improved the end result, but only if the startup itself was receptive. So, rather than just viewing it from the lens of the time required, they also saw a possibility to do more if more time could be invested. Ultimately, the VCs and startups will end up spending a lot of time together, if the VCs were to invest in them. If the team within the startup would require too much help, it would factor negatively.

The final factor, younger versus older founders, did not reveal any notable differences between the VC firms. Most of them felt there were benefits to both. Younger, less experienced entrepreneurs may be less capable initially, but possibly more ambitious and driven. Older and more experienced founders will have a better understanding of the market and a larger network. Overall, none of the VCs thought the factor on its own affected their decision. Rather, whether they were attracted or invested into younger or older entrepreneurs was dictated by their other preferences. VC 2 and VC 3, e.g., preferred the founders to have more domain experience, likely be found among entrepreneurs who have been working for a longer time. As to an actual preference to young versus old, nothing distinctive emerged.

Factors	**VC 1**	**VC 2**	**VC 3**	**VC 4**
Domain Expertise	Low	High	High	Moderate
Technological expertise of the CEO	Moderate	Moderate	Moderate	Low
Familiarity with the founder	High	Low	Moderate	High
Weight of the CEO versus team	High	Low	Moderate	Moderate
Level of involvement	Low	Moderate	Moderate	High
Younger versus older founders	Moderate	Moderate	Low	Low

Table 3: Comparison of VC evaluation criteria

Comparing how each of the factors was viewed by each of the VCs further illustrates the differences in preferences for and views on the factors chosen. The VCs were not completely aligned in any one factor with all factors exhibiting at least two different ratings. Yet, some of the factors were clearly less important, i.e. the ones without a "high" ranking. Differences within each factor did emerge, with four of them having both "high" and "low" ratings. The "moderate" ratings are harder to pinpoint with the rating possibly reflecting differences of opinion between the investors within one VC firm or those in specific cases. All in all, it would appear the VCs view the factors differently both in rating and sometimes even definition.

4.4 Conclusion of findings

In our analysis, it appeared evident that the VCs differ vastly in their approaches to evaluating teams. Definite similarities among the VCs did emerge, but without any, complete overlap. Interestingly enough, there was no one factor deemed most or least impactful for all the VCs to agree upon. Yet, the technological expertise of the CEO and the age of the founder were not of high importance to any. Consequently, four distinctive profiles could be constructed.

In profile 1 (VC 1) familiarity with the founder, as the founder in general, is valued very highly. The two together illustrate a heavy emphasis being put on the individual leading the company and getting to know them. Domain expertise is rated fairly low as is the level of involvement. Emphasis is put on the CEO, not necessarily one with an extensive background

in the industry. The VCs do not appear expect to have to put too much time into supporting the founder as their team, i.e. a preference to have a strong founder likely in the need of less help. Overall, there is a strong preference to have a capable founder to be vetted thoroughly and an opportunity to get familiar with.

Profile 2 (VC 2) differs from the rest with its clear preference, even requirement, to have a high level of domain expertise on the area the team is looking to enter as the single, key factor with the others more case specific. No emphasis was put on familiarity with the founder and a clear vision of what they were looking for with the other factors being able to swing the evaluation in either direction.

Profile 3 (VC 3) scored the factors relatively evenly, and most were discussed as being case specific with only extreme situations heavily influencing the evaluation. The domain expertise is very highly rated and considered a requirement for investment. Overall, quite a bit of "instability" on factors considered relevant, which makes pinpointing the profile difficult. While quite clear in the need to have domain expertise, somewhat undecided on how the other factors influence the evaluation.

In profile 4 (VC 4) the main focus is on the familiarity with the founder and level of involvement. A high level of familiarity with the founder of the startup and a longer period of observation are the key. The factor that is unique to this profile is the level of involvement surfacing in two ways. First, no willingness to spend too much time helping the startup if there was simply too much to do. The benefit and desire to work with the companies invested in considered impactful is being highlighted. Emphasis put on wanting to be familiar with the founder in order to work effectively and enjoyably, and with, at least, a conceptual difference between profiles 1 and 4.

The interviews conducted in the context of the study proved fruitful and provided a great amount of information and insight into the evaluations venture capitalist perform. First discussing the individual factors chosen followed by delving into the individual VC firms and finally comparing the result by factor with one another allowed for the analysis to be conducted from multiple angles.

Consequently, a large variance in what VCs value, or do not value, clearly emerges in evaluating startups. Practical recommendations for entrepreneurs will be presented and discussed below.

5. PRACTICAL RECOMMENDATIONS

The following section will detail some practical recommendations for entrepreneurs looking for VC funding based on the findings of our study. These are generated both from the findings and pertinent literature, and also compared to one another. The recommendations focus on things found to be most beneficial for future entrepreneurs and findings that contradict or disagree with the key the literature. After all, early-stage investing with its lack of data and high level of uncertainty is largely based on the subjective evaluations by the investors. Based on our data, the three, key areas most important to consider are the familiarity one has with the investor, what experience means to investors and the characteristics the VCs consider most within a founding team.

5.1 Familiarity

Knowing who you are working with is an advantage in any business and our data allows for the generation of two pieces of advice for the entrepreneurs. First, the benefit of being familiar with the potential investor, i.e. being aware of the preferences and the evaluation factors they value. Second, how the investors themselves value the familiarity they have with the founders of the startups they are considering investing in.

5.1.1 Familiarity with investors

The first impactful factor, highly rated in our data, is the familiarity the entrepreneur has with the venture capital investor or the firm they represent anticipated to decrease the team risk associated with investing in early-stage teams with much of uncertainty involved. The more data you have on the entrepreneur the more knowledgeable you are, and it end up being easier to predict the trajectory of their development and ability to run the company.

On the flipside of the coin, i.e. the familiarity the entrepreneur with the investor, there are definite advantages to being more familiar with whom you are seeking investments from. The variety in investors on the market is considerable with their different backgrounds, areas

of expertise and focus areas. The way they evaluate their “targets” also differs as do the factors they consider important in pondering a potential investment, also impacted by potential differences in the strategies of the individual VCs. Understanding the people behind the investment decision and their priorities is vital in order to be able to seek funding from those valuing what a particular entrepreneur is able to bring to the table.

Analyzing the venture capital firms can be challenging even in the face of a lot of public information being available. The opportunistic nature of the venture capital market results in most investors willing to identify as many opportunities as possible even though they might not get past the first evaluation phase. In a business where the winners are able to identify and fund the companies with the best teams and brightest ideas, being able to view all possibilities can be valuable. Because of this all VCs may not expose their focus with the risk of missing out on a potentially successful startup not contacting them due to the limitations publicly divulged.

While there is a possibility for defining what the investors value to be challenging, it is worthwhile with the early team often does not having a whole lot to show. The product is likely still in the works, the team may be incomplete and aside from some pilot customers there is likely no business yet. This means that what the team itself can bring to the table is likely to render an impact on the investors. What skills does the team have? What backgrounds do the team members have in terms of education or work experience? Is there something lacking within the team initially? How do the team members complement one another? These are some of the key questions posed by any investor. Depending on the team composition, approaching the investors whom the entrepreneur knows to value the skills, backgrounds and know-how the team possesses is a first step in ensuring compatibility between the investor and entrepreneur.

5.1.2 Familiarity with founder

Something many of the VCs value is familiarity with the founder or CEO of the startup. Similarly, to entrepreneurs who investigate potential investors and analyze their compatibility, the VCs also analyze the character of the team in addition to their technical skill set. There is a definite benefit for startups or founders to have a strong reputation, as it

is likely to lead to more recognition from investors and possibly make financing more likely (Shane and Cable, 2002). This in itself is not a groundbreaking finding and the benefit of a strong reputation is widely known. Yet, it would appear there are additional ways entrepreneurs can leverage familiarity. For some VCs, the benefit of knowing or being familiar with the founder or founding team appears rated very highly as compared to the other factors, for example domain experience. Making yourself visible or known to the VCs through networking, media or industry events will likely be a more effective way to approach the ones who value familiarity and it could even be used as a way to overcome a lack of certain skills or proficiencies. This of course only works so much, as no VC is likely to invest into an entrepreneur solely based on familiarity and them having no applicable skills. An argument could be made, however, that this lack of skill could be compensated with familiarity. Some of the VCs acknowledge the importance of knowing who you are investing in and how it decreases the "team risk" further strengthening the argument and renders marketing a startup is beneficial.

The concept of VCs valuing familiarity very highly is an interesting one. The nature of early-stage investing is that there is a lack of data an investor can rely on in evaluating whether or not to invest in a startup. Familiarity as a factor for investment it is a highly subjective one. Our investors described a number of cases where they felt they knew the founder or team well, or someone in their team did, which was then weighed in on the ultimate decision. Some of the decisions led to investments, others did not and sometimes familiarity did not impact the final verdict. Familiarity as a factor is hard to quantify and many of the investors appear to prefer to observe the startup team for a fairly standard period of time, or at least they had an idea of how long of a time was long enough and vice versa.

The impact of familiarity is heavily linked to the size of the local startup or even global market. Companies like Index Ventures, Andreessen Horowitz and Sequoia operating in the US have a completely different scale of deal flow compared to, e.g., those operating in the Nordics. In smaller markets with less deals available the situation is different as the entire startup ecosystem is smaller. Yet, every VC is not necessarily aware of every startup and entrepreneur in the market and it would be interesting to study the importance of familiarity the VC has with the founding team in different geographical areas. For entrepreneurs looking for funding, they should be well acquainted with the local practices and how familiarity impacts the evaluations of local VCs, also being something to consider when seeking

funding across borders. Connecting with foreign investors is hard to begin with and particularly difficult if they value the ability to become personally familiar with investment targets and their teams. A study shows that out of the VCs located in the US with a sizeable amount of assets under management, only 13 have invested in more than two European startups in the last two years (Userovici, 2016). Top tier investors especially seem to value referrals from a respected figure in business or banking (Bowers, 2009) rendering it important for the first investors who join the company to have access to these top VCs or alternatively to get to know a founder from the VCs with existing company portfolios.

Familiarity not only impacts the way they can tailor their message or pitch to particular VCs based on their pre-existing preferences, but also valued differently by the VCs. The type of startup or team the VC has invested in the past and the types of skills or backgrounds they seem to prefer will allow entrepreneurs to find those most suited for them and position themselves better. The VCs may also value an overall familiarity with the founder prior to evaluation as something potentially lowering the risk involved. Yet, there are variations between VC and regions that entrepreneurs should be aware of in order to be successful in finding backers.

5.2 Experience

It was interesting to hear how the different investors discussed the experience entrepreneurs had, what parts of it they valued most and in which instances lack of experience was concerning. The experience the entrepreneur and their team bring with them could be argued to be their greatest strength and it was curious how large the variance was even within this sample.

5.2.1 Domain expertise

Some of the VCs talked about experience as domain expertise, i.e. they valued the entrepreneur's history in the industry they were looking to enter. Hands-on experience, prior knowledge of the market and previous relationships within the space were all valued. In a way it was thought to provide some level of insurance that the entrepreneur knew what they were getting into and it was indeed their source of competitive advantage. With their focus

on technology-based startups, technology expertise was also greatly valued, and expected, by the investors. Being able to develop the product effectively and efficiently by having previous experience in the programs and procedures required, was emphasized by some of the investors. However, as with some other aspects of evaluation, also the definition of domain expertise and how they validated it varied between the VCs.

5.2.2 Entrepreneurial experience

Also valued by some of the investors was prior entrepreneurial experience. In most instances this was discussed in the ability of running a startup previously. A history of entrepreneurship meant that the person was someone who knew what the startup environment was like and was more prepared for it. As a business environment there is a stark difference between entrepreneurship and, e.g., working in a larger corporation and being able to cope with that environment is a valuable merit. Interestingly, the question of having been a successful or unsuccessful entrepreneur was not as important. The overall experience was thought to be more valuable and in some instances a failure was thought to be more educational. Learning where you failed, and adapting, constitutes a valuable lesson. In the startup community there seems to be a belief that a serial entrepreneur has a greater chance to succeed than a first-time founder and some of the VCs seem to be more interested in backing the teams with previous experiences of their own venture. Studies of Junfu Zhang (2009) back this thought. However, recent studies as, e.g., Harvard Business Review by Walter Frick (2014) shows that past success does not predict future success, but past failure does predict a higher possibility of bankruptcy.

5.2.3 Track record

Some thought of experience in a more abstract manner. For some experience meant the ability to get things done. This in itself does not narrow down the definition and during the interviews this surfaced in a number of ways and was not limited to experience in a particular environment or function as long as it adequately showed the entrepreneur to able to be successful. This may, however, require more from the entrepreneur to properly highlight what exactly their respective track record is able to prove. This was an interesting factor to consider, as while the other forms of experience were often linked to either career

performance in an industry, technical expertise or history as an entrepreneur were something the investor themselves deemed to be adequate. It would be interesting to have heard how other investors rate this form of experience or if it is a consideration at all.

5.2.4 Length of experience

The length of experience and age of the entrepreneurs was also discussed and whether it influenced the VCs decision making. Age as a factor is not something extensively discussed in the literature as being a limiting factor, perhaps excluding the extreme ends of the spectrum, while it is more commonly talked about in, e.g., industry magazines and blogs (Haden, 2018; Azoulay, Jones, Kim and Miranda, 2018), with the statistics seemingly favoring the older entrepreneurs. In our study group, some valued a longer career in business as an argument for older entrepreneurs, while others stress the ability to quickly adapt and the drive an entrepreneur has, found among the younger entrepreneurs more often. Among the latter this can be taken both as a positive and a negative scenario in moving forward. It is more likely for younger entrepreneurs to lack experience solely based on the fact that they have been working for a shorter period of time. Yet, they may well have more understanding and experience on working in a startup environment than those coming with longer corporate careers. In our research we found that the VCs generally seemed to agree on this. There seemed to be a degree of experience even a young entrepreneur should have to be seen as a viable investment target. On the other end of the spectrum, the VCs talked about the difficulty entrepreneurs with longer corporate careers have in adapting to the startup environment.

Experience is one of the only things that an early startup team can always demonstrate and understanding that all investors do not view it the same way is important. Depending on the experience they have, some will not value it as highly as others. At the same time, with such a variance in views on experience there is a good chance that there is another investor who will look at an entrepreneur’s experience in a completely different light.

5.3 Characteristics of the founding team

The characteristics of the founding team is not only a complex thing to understand but also a very crucial topic for the investors. Therefore, getting this part right, if you will, is vital for an entrepreneur. As clearly demonstrated by our data, most of the VCs claimed to evaluate the teams both as a whole and individually with the CEO clearly rendering the most sizeable impact. Another reason why the CEO gets extra emphasis are, as Investor 6 put it, he/she is usually the one who puts the round together and is seen by some to be the one driving the company forward. Also, the CEO is the main contact to the investors and therefore it is important that they get along with the individual as the one getting the most sparring and the first one to receive feedback from investors. Unlike the other team members, the relationship the CEO or founder has with the investors is typically very different. Ultimately, there were expectations for the CEO to be able to grow the company and have the ability to adapt as the company evolves.

5.3.1 Ability to grow a company

Having a quality CEO was a prerequisite for some investors with his/her impact on how the company growth and how the team is viewed. Many stated it is only a matter of time for a startup to face difficulties eventually about surviving, and to get through these situations it requires nothing less than a great CEO. When thinking of a CEO's' quality, the investors tend to look at this individual's previous achievements, the so-called track record. The range of what is considered an achievement is quite large as investors tend to value slightly different things. However, a good track record can be described as demonstrating an ability to achieve a certain result in a situation in which the majority of people would fail.

Although the technical background was seen in most cases as a good thing to have, it wasn’t required for the CEO to have a technical background since scaling up a business, based on the investors, means focusing more on business than the product itself. However, the CEO has to have abilities to grow the company and understand the problem they are trying to solve. Investors also try to understand whether the CEO can put things together and drive the team forward. Consequently, the ability to attract skilled employees and hire them was raised by many investors, especially in cases where the CEO did not have the technical

background needed to support the development of the product. Thus, the access to great talent through their own network remains a key asset for a CEO to have, or at least an understanding where to find these people. Investors also look at characteristics such as charisma, approachability, assertiveness and credibility believed to be important when trying to attract the right people, and hard to teach, if possible, at all. In addition, our data indicates it important to some investors that the founders are coachable and how they react in situations with lack of knowledge. Although coachability was raised by many, it seems to mean different things to different investors, i.e. the entrepreneurs listening to the investors as they see themselves as having experience in similar cases or situations previously. In many cases the investor knows more than the entrepreneur, but there are situations where the founder is more knowledgeable, particularly on the product or the current market situation, and the investor wanting the founder to take their advice could be an impairment. Coachability also means is that the entrepreneurs are willing to receive help from investors in order to clarify the thought process and remove bottlenecks. The latter differs from the first in the entrepreneurs being expected to navigate themselves rather than following a path the investor has drawn. This can go both ways, however, and there is the possibility of an investor projecting what they feel is the “correct path”, rather than trusting the entrepreneur to find their own way. This is something that entrepreneurs should keep in mind, however, as balancing between your own vision and that of the investor can cause conflict if not approached correctly.

5.3.2 Ability to evolve with company

One of the most critical points the investors look at and try to understand is whether the CEO can stay with the company for a longer time. If a startup manages to become successful, the company will change in size and terms of product offering. Although a change from 10 to 50, or from 50 employees to 200, may seem as a relatively small change, it is actually seen as difficult and crucial transformation from the perspective of succeeding in scaling up the business globally as it touches many things from the company's culture all the way to market expansion (Hoffman, R., 2020). Another reason for this is that the investors do not want to change the CEO, as it is seen to be a very tough, painful, and risky (Wasserman, 2013). As an example, raised by the investors, they see that the company looks like it is CEO and founders from the perspective of its organizational culture, and that changing the CEO would

influence multiple aspects in the company. This is particularly challenging with first time founders, as investors both recognize the need to make mistakes as a process of learning, but potentially damaging to the startup. Therefore, showing adaptability by having a mindset of learn-it-all instead of know-it-all is important to investors having experienced this kind of scaling challenges. Reid Hoffman, co-founder of LinkedIn and a venture capitalist talked in his book "The Startup Of You" about being in "permanent beta" with the individuals, founders will always evolving regardless of their role and that is the right mindset to have in a scaling environment. Given these points, it will be nearly impossible to know how a company will grow, but it will be necessary to evolve with changes.

5.3.2 Supporting the CEO

Earlier in this section we discussed how the VCs evaluate the teams as entities but also the individuals largely based on the assumption that the founding team, especially the CEO, has all what it takes to become a successful entrepreneur. The investors do not invest in companies where the CEO needs a lot of support, because it is too time consuming and challenging. Neither do they believe an entrepreneur who cannot be an entrepreneur themselves, as one of the investors put it, to bring them returns for their investment and, therefore, they try to find teams that succeed on their own more or less. The thought behind this is that in general investors cannot get somebody from the "can't get it done" level to building a global business. There are differences, as mentioned previously, between the VCs and their threshold for what is "too much support". For entrepreneurs this does not mean that there is no support available were they to secure funding from a VC. Rather, the question hinges on the amount and type of help required. During the interviews many of the investors echoed that all startups, regardless of the product type or team composition, always face the same challenges typically having to do with administrative manners originating from running a company and become increasingly frequent as the company grows. These are things all companies have to go through and learn to do, an excellent area to seek VCs for advice seeing that all the startups they invest in will likely face the same challenges. Yet, within our study group there were also instances in which collaboration and the startup and VC working together was raised as an upside, rather than solely a disqualifying factor. The variance in preferences and practices between the VCs is evident here once again, further emphasizing the benefit of knowing the investor being approached.

The team as a whole need to have all the skills needed to build the product and solve the issue they are combating, but that alone is not enough. The team also needs to be able to scale the business globally and have the ability to adapt with the growth of the company. Despite the investor evaluating a team as a whole or every individual separately, or both, the team seeking funding needs to have a strong leader. At the end of the day, this person will be the face of the entire company, and it would appear that from the investor's perspective this person requires an increased emphasis during the evaluation.

5.4 Conclusion of practical recommendations

Through this research it has become abundantly clear that VC investors view the teams and value their characteristics very differently. For entrepreneurs this can pose a challenge when it comes to seeking funding from these investors. Understanding the preferences of investors can enable entrepreneurs to tailor their value proposition or pitches to make the most convincing argument possible. The interviews shed light on key areas where clear differences or similarities in investor thinking could be observed.

Familiarity was the first topic that was discussed and has two aspects the entrepreneur should keep in mind. First, being familiar with the type of investors being approached is very important as it allows you to better understand the preferences the investor has, the types of companies they like to invest in and the types of teams they are involved with. Second, some investors value the familiarity they have with the founder of the startup very highly as they see it as a method to de-risk the investment opportunity by using the knowledge they have on the founder as a way to assure a certain type of behavior. Familiarity as a factor in startup team evaluation is an interesting one. It is an area the entrepreneurs can greatly influence themselves, particularly within smaller startup communities in which familiarity can play a magnified role.

The second area discussed were the different views investors had regarding experience. Interestingly, the different investors within the sample valued different types of experience. Some valued the experience an entrepreneur had acquired while working in a particular industry or function, also known as domain expertise. Some valued entrepreneurial

experience, while others looked at experience more broadly as the ability “to get things done” which leaves room for interpretation. The length of experience was also discussed and whether there was a preference for younger, less experienced entrepreneurs or older, more experienced ones. Within our sample the results remained split, with both types having their strengths. For entrepreneurs the varied views on experience the investors had offers some insight into the different types of experience considered and once again highlighted the benefit of knowing the investor you are approaching, as their view on experience can be very different from others.

Finally, the team characteristics and particularly the CEO´s role was discussed, and it was interesting to see how the founder, or CEO, was valued very highly, even over the rest of the team, not something we anticipated. According to the VCs the CEO should be someone who can not only develop the company, but also evolve with the company themselves. This is an area of the team that is of great concern to the investors, as the startup´s overall cohesion and success is seen as hinging on the founder. The investors also spend time coaching these founders and helping the startup team develop the company with differences in practices between the VCs. For entrepreneurs, the role of the founder would appear to have an enhanced impact in the team evaluation. This could theoretically encourage startups to either highlight the capabilities of their founders even further or highlight the need to thoroughly emphasize a team's collective strengths as it may not be something viewed equally.

6. CONCLUSION

As the final conclusion for this paper the main findings will be reviewed. In addition, as the limitations of this research will be outlined. Finally, recommendations for further research are made based on the findings made during the research as well as the constraints the chosen research method had.

6.1 Key findings

This exploratory study looked into how venture capital investors evaluate early-stage startups teams. using a practical approach. The aim was to gain detailed insights on how venture capitalists view early-stage teams and two expert investors from four different venture capital firms were interviewed. The interviews were semi-structured allowing for an expansion of the topics and ideas unique to them. In addition to the different factors included in the interview guide, startups the VCs had evaluated were included as example cases to collect more anecdotal data to see how the investors operate in practice. The insights were then combined and compared with one another to produce practical recommendations for entrepreneurs looking for venture capital funding.

Based on the interviews, six evaluation criteria for early-stage startup teams were chosen. These included domain expertise, technological expertise of the CEO, the familiarity the VC has with the founder, the weight of the CEO versus the rest of the team, the level of involvement the VC would have helping the startup and younger, less experienced and older, more experienced founders. The investors agreed on some and differed greatly in others. These views were then compared with one another for the generation of a series of practical recommendations.

The practical recommendations then outline how familiarity played a key role for entrepreneurs in understanding the investors they are approaching and how some investors value the familiarity they have with the founders, how investors viewed and valued experience differently and the magnified impact the founder, or CEO, has within an early-stage-startup and the expectations attached. The findings depicted an interesting picture,

namely how different investors´ views can be on the subject, which highlighted the benefit of a detail-oriented research with a practical focus.

6.2 Limitations and recommendations for further research

The study aimed at building more of an understanding of how venture capitalists evaluate early-stage startups as investment opportunities, and particularly focusing on how they view the early team. In order to do this multiple in depth semi-structured interviews were conducted with individual investors working in venture capital firms. Interviewing a smaller sample of experts allowed for the collection of rich and detailed data and the comparison of how different individual investors viewed similar types of factors and challenges. The study was conducted in this manner specifically to collect this type of data at the same time limiting the types of findings made and influencing the types of further research that could be conducted based on it.

6.2.1 Limitations

As stated, the manner in which the study was conducted was very straightforward and practical. Semi-structured interviews were carried out in order to allow for the collection of the richest data possible. While the interviews themselves went as planned, there are multiple factors that could have, or more likely, did influence the data gathered. While the interviews were confidential and no identifiable features of any of the VC firms or the startups discussed are included in the report, there is the chance that the interviewees could have withheld information or discussed the issues in a different light due to the context of the interview. In addition, as the discussion revolved around past investment the company had made, there is the chance for recollection bias (Erdfelder, Brandt and Bröder, 2007) or the interviewee misremembering why a certain decision was made in a certain manner. They also could have altered their answers to be more suitable for the interviewees, so as to give answers they thought would be perceived as favorable. While the interviews were kept open and adaptable, since an interview guide was used there is a chance that having no guide could have yielded more varying results. Yet, it is good to note that many themes and areas not initially included in the interview guide emerged during the interviews and were later included.

The context is another factor potentially limiting results to be obtained from this study. The sample itself is not large, though sufficient, and with a larger sample different results may have emerged. Yet, even within this smaller sample the differences between the individual investors were large and this could have also been the case in a larger sample. The research was limited to VC firms within Northern Europe partly due to convenience, but also in order to have more comparable findings and a homogeneous sample. Having different firms from all across the globe would certainly have been interesting and offered a different set of results but controlling for the additional geographical and cultural differences would have been challenging (Hayton, George and Zahra, 2002). All of these are fairly common challenges that qualitative researchers face, but in addition to these there was an issue with a more specific research context.

The challenges associated with evaluating early startup teams are linked to the lack of data available and the reliance on the expertise present in individual investors. Keeping this in mind, evaluating teams is a serious challenge as an investor's past experiences ultimately can affect how they analyze the decision later on. These possible biases present in the analysis of the VC investors are something entrepreneurs will also have to consider along with the other factors presented. This challenge could be extrapolated even further and pose the question of whether these biases could cause an investor to break their own rules for investment. Evidence of this type of bias has been found by some researchers already, namely the tendency to invest in “similar minded” teams (Murnieks, Haynie, Wiltbank and Harting, 2011). The evaluations are ultimately subjective enough even for multiple biases. Whether or not present in our sample is hard to say, but there were instances in which it appeared the overarching message from an investor differed relative to the individual cases discussed in the same interview. Pinpointing this remains outside of the scope of this study, but it may have played a role during the data collection process.

6.2.2 Recommendations for further research

While there have been many studies conducted related to startups, funding and startup teams, there is still a lot of room for deeper research in the field. As familiarity with founders was highly rated by our interviewees, we think that it would be interesting to study how

familiarity with founders is seen in different parts of the world. Since more and more capital is deployed in the venture capital market, and increasingly across international borders by starting joint ventures with seed and early-stage funds (Asel, P., 2019; Vermeulen et al., 2012), being familiar with founders might have an effect on deals that get done.

Another interesting, yet not exactly clear topic that kept raising up during our discussions with the investors was experience. We believe it would be beneficial for both investors and entrepreneurs to conduct a study on experience being defined in different geographical areas as well as different industries. There seemed to be great variance in how experience was seen, or at least discussed, and understanding or clarifying what different types of views of experience there are present and how these affect startup evaluations.

The topic of which founders are more likely to succeed, a serial entrepreneur or a first-time founder, was also discussed within this research. Some of the VCs seemed to prefer serial entrepreneurs, on the basis of them having the benefit of past experience, while others argued that the benefit was negligible. This also seems to be the case in current studies, as there are arguments for and against. Whether or not serial entrepreneurship is something that indicates future success remains to be studied, but it would be interesting to see where the preference for serial entrepreneur lies and what are the justifications for it.

Finally, ambition was raised by many investors. While investors clearly require the founders to be ambitious, their definition of it is unclear. In addition, the majority of our interviewees said that Finnish entrepreneurs are not as ambitious as, e.g., Swedish and that entrepreneurs from the Nordics are not as ambitious as the ones from Silicon Valley. While we understand that measuring ambition and comparing it is very difficult, it is not impossible. It would be interesting to better understand ambition in these circumstances, as it clearly concerns many investors. More precisely, what is seen to be ambitious enough and has it to do more with numbers presented, attitude shown or a combination of multiple things, as well as what external factors like market size or geography influence an entrepreneur's ambition level.

This paper attempted to illuminate a highly subjective area of venture capital investor thinking through a very hands-on approach. The approach was ultimately quite successful in bringing to light more nuanced thinking the investors had, albeit within a smaller context and sample size. There are multiple areas in which further research could be pursued based

on these findings, many of which would certainly be beneficial to entrepreneurs and investors alike.

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APPENDENCIES:

Appendix 1. General interview guide

The permission for the interview as well as the anonymity requirements for the interview were agreed upon prior to the interview. Each of interviewees will be asked all of the company specific questions for all of the startups cases they are willing to discuss.

1. Introduction

Background of interviewee: Education, working life and current role at company

Background of VC firm: Industry focus or opportunity focus, investment stage and typical investment size

Startup companies: Agreeing on the startups to be discussed and confirming which startups were invested in and which were passed

2. Team

When you evaluated the team members, do you evaluate the team as a whole or everyone separately? Do you think that the CEO or the CTO needed, or would have needed, to be evaluated independently?

How much time do you need to spend with the CEO or CTO to get to know them well enough to evaluate them thoroughly?

Did you take into account the team's current knowledge versus their future potential knowledge in your decision? How much did this weigh into the decision making?

Did you think about how much time you would have to devote to supporting the team or founder to help them achieve their goals? How did this factor into the decision making?

Did the CEO's lack of technical background affect the decision making? Did the lack of business knowledge affect the decision making?

How much does team diversity affect the investment decision?

3. Presented numbers

When evaluating the company, how much did the numbers the team provided factor in the investment decision?

Do you think making forecasts at the early-stage is important for startup success? Is it a worthwhile effort?

Do you rely, or do you think you can rely, on the data startups provide?

How important were the presented profitability calculations at the time of the business evaluation?

Did you pass or invest in this company because of its potential to be a unicorn?

4. Product

To decide whether it makes sense to invest, how important was it for you to thoroughly understand the product?

Do you have any limit on how much time you can invest in studying the product? For harder cases that need a quick decision, do you pass or invest based on the information you have and how much does gut feeling play a role?

How do you assess product-market fit? Does this change for early-stage startup products?

Generally speaking, what do you look for in a product? What are the most important attributes?

5. Compatibility

Do you want to invest in a team regardless of whether you have the knowledge and connections to help them succeed?

How important it is for you that the startup has the same ambition level as you?

How much can the founding team's vision differ from yours for you to still decide to invest in them?

Would you invest in an entrepreneur in whom you have previously invested just because you believe strongly in them?

6. Other factors

How much does timing play into the investment decision, meaning the company is not at the correct stage for investment currently?

Did another VC's decision affect your decision whether to invest or pass?

How often do you use gut feeling in making an investment decision?

Appendix 2. VC interview notes.

VC 1

Startup 1, logistics	1. Domain expertise	Did not feel the lack of knowledge on the part of the team was an issue. Felt the concept was not that difficult.
	2. Technology CEO	-
	3. Familiarity with founder	Felt the CEO met all the criteria for investment and that they knew them before.
	4. Level of involvement	-
	5. Weight of the CEO vs team	-
	6. Young versus older founders	Did not feel that the lack of experience was an issue.
Startup 2, food	1. Domain expertise	The team did not have experience from the industry, but it did not stop them from investing. Less strict since it was B2C, rather than B2B.
	2. Technology CEO	The CEO had not a technical background, but they felt the CEO was "holding the team together" and "heading the product".
	3. Familiarity with founder	-
	4. Level of involvement	-
	5. Weight of the CEO vs team	-
	6. Young versus older founders	In this instance the inexperience of the founding team did not matter, invested in them regardless. While they did not have the necessary knowledge initially, the believed they could develop and learn.
Startup 3, materials	1. Domain expertise	Yes, there was domain expertise present, which was important in this case. However, investors felt that it was not sufficient and that the team did not understand the "realities" of the business.
	2. Technology CEO	Yes, felt the CEO had the technical qualifications.
	3. Familiarity with founder	-
	4. Level of involvement	Yes, felt that the team had misjudged the amount of time required to get into the market. Would have required more time and capital than the VC was comfortable with.
	5. Weight of the CEO vs team	-
	6. Young versus older founders	-
	1. Domain expertise	No, they view "track record" meaning that you are able to produce results rather than having years of experience in a field.

General comments	2. Technology CEO	No, the CEO does not need to be technical person, but the skills need to be in the core team. However, they would prefer for the CEO to be the technical lead as well, and not see the leader and the technical expert in "two separate people".
	3. Familiarity with founder	Yes, they would not "dare to invest" if they were not familiar with the founders. Preferably for a longer period of time in addition the getting references on them. In addition, they would prefer to have multiple meeting with the CEO and email exchanges etc.
	4. Level of involvement	Mixed. Yes, they think the time is going to be fairly little. There is an "expectation to learn". No, mentioned that they always probably thought that they could help. Mentioned that they had probably spent "too much" time helping the team.
	5. Weight of the CEO vs team	Yes, there is definitely weight on the CEO. They feel that if the CEO "is of high quality" they can be less demanding on the other members and trust that they will be able to build the team. They still look at the entire team as well. Want to see some track record from them.
	6. Young versus older founders	They felt that older entrepreneurs coming from industry backgrounds would have more trouble getting accustomed to being an entrepreneur. There is a challenge in "unlearning things". They also felt that the younger entrepreneurs would have an easier time learning thing compared to the older entrepreneurs, if they were of high quality. The investors expect that the founders do not know everything in the beginning. If there is not track record, they need to believe that the founder is capable of learning and developing. In these cases, they claimed they could make an exception.
Profile (brief)	1. Domain expertise	Does not seem to be a main criteria. They do value it, but it does not seem to be a deal-breaker. Does view that domain expertise of their VCs is highly valuable. The founder did, however, need to have a track record of being able to product results, or show that they can get things done.
	2. Technology CEO	CEO themselves do not need to be the technology expert, but the skills does need to be within the core team. While there was not a absolute need for the CEO to be the technological lead, they mentioned that they would prefer for the CEO and CTO to be the same person.
	3. Familiarity with founder	Knowing the founder from before to some degree is a definite criteria for investing. They feel as if it lowers the immediate risk, helps with assessment and figuring out the founder’s track record as well as allows you to "dodge" initial challenges. This being said, this condition can be overruled as in the case of Startup 2, where the product was "perfect". They like to have multiple meetings with the founders, but in the ideal situation they would know the founder for a longer period.
	4. Level of involvement	Did not appear to think that too much time would have to be put into coaching the startups, although, they have the expectation that they will always help the startup in something. Feels that there is an "expectation" to learn. In addition, when it comes to certain areas within their sector, they have the view that some business ideas are doomed to take a long time, making the opportunity unattractive. In some cases, they mentioned that they, at times, even spent too much time.
	5. Weight of the CEO vs team	Feels that there is a definite focus on the CEO and their personal track record. If the CEO is of "high quality" it can lower the requirements for the rest of the team. The team still mattered as well. If the CEO was not the right quality, they would not invest.

	6. Young versus older founders	Mixed. Felt that there was a definite challenge for more experienced individuals becoming entrepreneurs as they have often grown accustomed to a certain way of working. Younger entrepreneurs do not have this baggage and might be quicker to learn than the other group to "unlearn". They clearly have a need for a track record which is hard to come by, if you are younger and lack work experience. This being said, the definition of track record was vague ("getting things done"). Also, they were clearly ready to make an exception on this, if the opportunity was attractive enough.

VC 2

Startup 4, cyber security	1. Domain expertise	Yes, both team members had a career in the field. They had personally witnessed the problem they were solving. He felt they needed to have it, since the customer group was large corporates. In addition, they validated their idea for the company through industry experts and found that it was sound.
	2. Technology CEO	Yes, they had the technical expertise, which was appreciated.
	3. Familiarity with founder	No, they were not familiar with the team before the investment. They do not do "deep dives" and did not in this case either. This being said, this process did take longer.
	4. Level of involvement	-
	5. Weight of the CEO vs team	No, the team consisted of two people initially, so the question was not relevant. The team was really good, but it was not complete.
	6. Young versus older founders	-
Startup 5, real estate	1. Domain expertise	Yes, felt the team was lacking in domain expertise, which made them not invest. You need to have a clear competitive advantage to compete in the industry, and the felt that was hard to have without domain knowledge.
	2. Technology CEO	No, it did not matter in this case, the CEO was not a "tech person" but felt the solution was simple enough that it would still be doable. Although the technology expertise was not important, but the "knowledge" was. In addition, investors felt they had a good "tech team".
	3. Familiarity with founder	No, they were not familiar with the team before the investment.
	4. Level of involvement	-
	5. Weight of the CEO vs team	Mixed. Yes, the CEO was "charismatic" and did not feel they would have a challenge scaling the team. However, investors felt the overall team lacked the domain expertise, which was the biggest issue. Technical skills in the team were present.
	6. Young versus older founders	-
Startup 6, entertainment	1. Domain expertise	Yes, felt that the team was lacking traction in their industry.
	2. Technology CEO	No, he felt the solution revolved around UI/UX and that the technology angle of the CEO did not come into play.
	3. Familiarity with founder	No, they were not familiar with the team before the investment.
	4. Level of involvement	-
	5. Weight of the CEO vs team	Yes, the CEO was charismatic, and he did not feel it would be a challenge to scale the team. However, they felt if was very "one person driven". Perhaps missing the team?

	6. Young versus older founders	-
Startup 1, logistics	1. Domain expertise	Yes, felt that the team lacked domain expertise, but noted that the team was able to be successful nonetheless.
	2. Technology CEO	-
	3. Familiarity with founder	-
	4. Level of involvement	-
	5. Weight of the CEO vs team	-
	6. Young versus older founders	-
Startup 7, real estate	1. Domain expertise	Yes, they felt that they did have the domain expertise, as opposed to Startup 5, which is why they invested.
	2. Technology CEO	-
	3. Familiarity with founder	-
	4. Level of involvement	-
	5. Weight of the CEO vs team	-
	6. Young versus older founders	-
Startup 8, quantum computing	1. Domain expertise	Yes, the founder had "serious" domain expertise. Long career and knowledge of a very specific industry and procedure that cannot be gained anywhere else.
	2. Technology CEO	No, the founder had no idea how to build the product, but it was not a issue. "Had one side of the coin".
	3. Familiarity with founder	-
	4. Level of involvement	-
	5. Weight of the CEO vs team	Yes, the CEOs domain expertise compensated for the lack of technical knowledge. It needs to be noted that the CEO could not build the product on their own.
	6. Young versus older founders	-
	1. Domain expertise	Yes, the field of quantum computing is so hard to understand they felt they "relied" on the team to be experts in it.
	2. Technology CEO	-

Startup 9, health	3. Familiarity with founder	-
	4. Level of involvement	-
	5. Weight of the CEO vs team	-
	6. Young versus older founders	-
General comments	1. Domain expertise	Yes, this is something they base their investment thesis on. If the domain expertise is not there, they will not invest.
	2. Technology CEO	Yes, ideally the "jackpot" situation is where the CEO has both domain and technical expertise. But this is rare, and typically teams have more than one individual. Having both expertise is a very good asset to have. However, if they do not have the technical expertise, they need to be good at recruiting and finding the talent to fill in the gaps.
	3. Familiarity with founder	Does not matter. They feel that they can gauge the people "well enough" without meeting them and use their track record as validation for being "a sane person". Then they simply do some "hygiene checks". They obviously talk to the teams, but very briefly. They have invested without ever meeting the people, so familiarity is not prerequisite for them.
	4. Level of involvement	Yes, but does not feel it is about the time required, but thinks it rather based on the openness and "coachability" of the people. If the people need to be experts in everything before doing things, it is "too heavy lift for us". In areas they are not experts in, if the CEO/team needs a lot of help, they feel that the time cost is too high.
	5. Weight of the CEO vs team	Team always evaluate the team as a whole. At their stage the teams are typically small, so there is little separation between team and an individual founder. They also mentioned that based on their experiences from their portfolio companies, they are optimistic about the team being able to hire the people they need.
	6. Young versus older founders	Did not directly comment on older or younger founders but mentioned that the current knowledge of the founder was more important than the "future potential knowledge". If the founder knew more today, they would be more capable of understanding their own knowledge gaps. Because of this, it could be assumed that a younger founder would be at a disadvantage in this if they lacked experience. The domain expertise plays a role in this as well. It is a prerequisite for the investor and having it at a younger age might be challenging. This being said, they also mentioned that they have had meetings with people with that have domain expertise (3-5 years) who have had trouble adapting to be an entrepreneur. On the other hand, they also mentioned that people aged 40-50 have the highest likelihood to create great companies, so the expertise that comes with age is not always baggage.
	1. Domain expertise	The single most important factor. Views this being the criteria at the very core of their "investment thesis". The first step when assessing the quality of a team. Used as a way to validate not only the team itself, but the depth and accuracy of their thinking.

Profile (brief)	2. Technology CEO	If a founder would have "both sides of the coin" it would be ideal, but this is rare and typically teams have more than one member. The other side of the coin does need to be there. So, not a requirement, but it can have value. If the technology side is not present in the CEO, they need to be good at hiring.
	3. Familiarity with founder	Not a thing they really consider.
	4. Level of involvement	Views the case of time investment a little differently. If the person is open to learn and be open to feedback, coaching them is easier. If they are closed off and needs to be experts in every area, it can be extremely time consuming. This leads to the case being "too heavy of a lift". In areas that are unfamiliar with them and a lot of help is needed, the time cost is too high and therefore they pass in those investment opportunities.
	5. Weight of the CEO vs team	Teams at such an early-stage are small, so they not only look at the individuals but how they interact with one another. In general, they look at the team as whole. However, if they have a great CEO then they focus on the most crucial aspects of the team and emphasize finding and hiring the missing pieces.
	6. Young versus older founders	Yes, felt that the current knowledge was more important than the potential to grow. The fact that they require domain expertise and the thought the more experienced people are more likely to create great companies would lean towards a preference to older founders. This being said, they also entertained the notion that there was a possibility for being too accustomed to the "corporate way of working" and that the transition to be an entrepreneur was too hard.

VC 3

General comments	1. Domain expertise	Mentioned that since they have such a deep tech angle, some sort of knowledge is critical, because that is where the difference is and comes from. If the technical knowledge is not there, they would not invest since it is an expectation. Can this be considered "domain expertise" is another thing, but this might be what it means for this particular investor. They also noted that technical expertise is required at some point in order to actually develop the technical product.
	2. Technology CEO	Mixed. No, the CEO can lack the technical expertise, but the core team cannot. Notes that recruiting a CTO afterwards is very challenging. Yes, they also added that if the CEO is too involved with the technical side of the business, it can be bad. Working on the technical side of the product is a big "time sink" and it takes time away from running the company. "At some point the CEO just needs to be the CEO".
	3. Familiarity with founder	Yes and no, typically they don't spend too much time trying to get to know them. They feel that evaluating a person even over a longer period of time is impossible. This being said, they also mentioned that working with previous entrepreneurs they were familiar would "de-risk" many things. On the other hand, they mentioned of a case where they followed someone for a year before investing. However, they have done very quick investments as well.
	4. Level of involvement	Mixed. Yes, aside from the "standard" time they spend with the teams, board meeting, calls etc. If there are large gaps and roles to fill, it is easier to say "no" and to say to "get back to them after you´ve gotten these fixed". No, feels that all startups always need help and it is something that they always do. Depending on the stage of the company, the earlier companies require more time, but they mentioned that personally they prefer to work with these early-stage companies regardless.
	5. Weight of the CEO vs team	Yes, definite focus on the CEO/founder and mentioned that other key roles weigh also, they are after all their main point of contact. They claim that typically certain roles are missing from the company at this stage, which can be added later on. This being said, they can be more open if the team can convince them of their setup. Also mentioned the importance of the CEO to stay with the company.
	6. Young versus older founders	Did not seem to weigh too heavily. They mentioned that they perhaps think of it, but not directly. They do wonder if the team is right and can they achieve the vision, but as to evaluating current versus future knowledge not so much. With first time founders they felt that the question was about how well the founder could grow into the role while the company was scaling. They also mentioned that it mattered more in the earlier stages, when you have less to show. Still, they only thought this was an issue if there was a clear "red flag" that someone was clearly not up to the task.
	1. Domain expertise	The deep technical angle the firm is pursuing means that a certain level of technical expertise is also required. Whether or not this can be considered as domain expertise is another thing. Anything beyond this pointing to a more specific industry knowledge was not present.

Profile (brief)	2. Technology CEO	Mixed. Not an issue. The CEO, specifically, does not need to be the technological lead. This being said, they noted that if the technological expertise is not present in the team hiring a CTO afterwards is very challenging. Yes, it can be an issue. They feel that if the CEO is also in charge of the technology, it can lead to a situation where the CEO needs to spend too much time on developing the tech rather than running the company. The CEO ultimately needs to focus on leading the company.
	3. Familiarity with founder	Unclear. They mentioned that at times they spend too much time trying to get to know them and despite this they at times get it wrong. On the other hand, working with familiar entrepreneurs arguably lowers the overall risk. They also mentioned that getting to know someone thoroughly is impossible, even over a long period. They have, however, invested in people they have followed for longer and shorter periods.
	4. Level of involvement	Yes and no. Yes, if there are major gaps in the team's knowledge or key roles that need to be filled, they prefer to say "no" and ask them to come back once they´ve fixed these issues. There are of course standard time sinks that go into helping a startup, but these were not considered to be detrimental to the investment decision. No, because all startups need help in some form, particularly the earlier in their cycle they are. Their personal preference is to work with these early-stage companies regardless.
	5. Weight of the CEO vs team	There is a definite focus on the founder, since that is the person, they have the most contact with. They mentioned that early teams are often missing certain roles, so it could be assumed that evaluating the entire team at this stage would not be as useful. That being said, they did not expect early founders to have all the necessary skills and that they would develop them over time. In addition, they hope the CEO will remain with company, which also weighs in the decision. The team composition matters as well and they are open to various forms in which they operate, granted that they have a convincing reason for the setup.
	6. Young versus older founders	Did not seem to weigh much in the overall decision making. There is a high demand for technical expertise and such, but as to evaluating this factor specifically they did not seem to be consider it. They mentioned that at early-stages it could matter more. Overall though, it did not seem to matter too much, or at least it was not pointed out specifically.

VC 4

Startup 5, real estate	1. Domain expertise	In this case they were already quite convinced of the founder. However, they weren't sure whether the founder has enough industry knowledge particularly. They hoped that the founder would have already had this knowledge before starting the company.
	2. Technology CEO	Were not convinced that they have a kind of the most amazing technical team, but this didn't have a big affect in the decision after all.
	3. Familiarity with founder	Yes, knew the CEO for 2-3 years before, so they considered to be very familiar with the founding CEO but not with all of the founders.
	4. Level of involvement	-
	5. Weight of the CEO vs team	Never met the team, just the CEO.
	6. Young versus older founders	-
Startup 7, real estate	1. Domain expertise	They did not have enough data points so difficult to say.
	2. Technology CEO	No, it did not have any effect.
	3. Familiarity with founder	They were not familiar with the founder CEO or with the rest of the founding team.
	4. Level of involvement	-
	5. Weight of the CEO vs team	Never met the team, which clearly weighted in their decision, since for them the biggest focus is on the team.
	6. Young versus older founders	-
Startup 10, e-commerce	1. Domain expertise	The team is very execution driven, very number and data driven team. This is something they don’t see enough, but something that makes them more confident about any given investment opportunity.
	2. Technology CEO	Mixed. Yes, this was a concern since the company did not have a CTO. No, did not have any effect.
	3. Familiarity with founder	Mixed. Yes, very familiar with the founders, knew them for about a decade. Had followed the company for 2-3 years and spent with them three months before investing in them. No, not familiar with the founders.
	4. Level of involvement	-
	5. Weight of the CEO vs team	The biggest focus is on the team.

	6. Young versus older founders	Important factor to look at the future potential because they're very young founders, quite still inexperience, but investors thought that the team has very good advisor pool around them, who then can actually support them and help them to grow as individuals as well.
General comments	1. Domain expertise	They look at this from the technical skills point of view, does the team have a CTO or good enough skills to build that product.
	2. Technology CEO	They think for CEO's it's not very important to understand or to have a technical background. CEO should know how to run the company and no it doesn't have anything to do with having a technical background.
	3. Familiarity with founder	In general, they want to spend a lot of time with the founders and get to know them well. Ideally, they would know them for years before. They try to spend as much time as possible and follow the team for some time. Usually they don't like seeing the opportunity at the very last minute and make quick decisions, if they don't know the people from before. That's why they try to meet them as early as possible, follow them for some time and then make the decision later on.
	4. Level of involvement	Always think of how much they will have to put time on the cases. Two important things, how much help the team would need, and do they take support. How much time would need to spend in any given investment depends on the team how much time they actually want from the investors. They felt that in some cases it's a little bit other way around, that it is the investors being a lot more proactive just because they feel they could contribute. They don't think there is one approach that fits in all the cases, but overall as an investor they are very active, with most of the companies in which they invested in they do spend a lot of time. However, they also mentioned that time investment does not necessarily factor negatively. In addition, they usually we prefer and think it's much easier to work with second time founder or people who are doing it multiple times than with first time founders.
	5. Weight of the CEO vs team	They evaluate both the team and the individuals, "but of course the CEO is the most important". They try to understand how they work together. CEO and CTO extra important. In general, the most important are the founders, or the management team, both founding or management team, as they could be different. These people are those with whom they spend most time with, so they try to understand them as good as they can, since after all most of the operational decisions are up to this group of people.
	6. Young versus older founders	It's more about their current skill set than the future. The balance is still on the current, but they have to sort of see that this team has the potential to grow rather. Although they rate the current knowledge high, they also pointed out that they don't really have a very a proper way to rate different skills.
Profile (brief)	1. Domain expertise	-
	2. Technology CEO	-
	3. Familiarity with founder	Important for them to know the founders very well, even years before. However, they are able to make investment decision in weeks. Founders are those people with whom they spend the most time with, because after all most of the operational decisions are made by them.

	4. Level of involvement	In overall they always do think about this.
	5. Weight of the CEO vs team	There is a definite focus on the CEO and the founders, CEO being extra important. Depending on the company (industry, etc.) some specific roles might be also very important.
	6. Young versus older founders	-