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Challenges start-up founders face between the ideation and first round of investment phases

A study on the discrepancy between narrower and broader perspectives in the Portuguese ecosystem

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Abstract

The research project presented below delves into the largest and most significant challenges that start-up founders face between their ideation and first round of investment phases. Through literature review on the subject matter it is postulated that these are mostly related to lengthy legal procedures, a lack of a science-based approach to building a business, and tensions between partners and investors of the start-ups. However, interviews reveal that the issues most present in founders' minds are those related to recruitment, decision-times, and clarity in procedures.

Keywords

Start-up

Lean Start-up Method

Founder's Dillema

Start-up Incubator

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1. Introduction

1.1. Relevance & Motivation

One third of the reasons for start-ups' failures are related to product-to-market fit. The remaining two thirds stem from decisions taken by founders, and their relationship with the ecosystem in which they operate. These were the findings of Wasserman (2008) after analyzing more than 10,000 start-ups across several venture capital firms' portfolios. The Portuguese government has been pushing and subsidizing its start-up ecosystem in order to boost and facilitate commerce and favor the proliferation of successful start-ups. (Ministério da Economia, 2018) However, and despite its 2 unicorns, it is now forecasted that Portugal won't produce many highly successful companies in the near future. (StartupBlink, 2019). For founders, aiming to beat the destiny and adverse odds laid out for them, it is crucial that the decisions – that end up bringing most to their untimely collapse – are as best advised and informed as possible. Studying the challenges and "pain-points" of established start-ups not only benefits future founders themselves, but also the incubators whose purpose is to advise and steer their partners' success. In an environment where a wrong move can prove fatal and time is of the essence, knowledge, alignment, and experience tend to fuel successful endeavors.

1.2. Problem Definition

To provide a better understanding of possibly avoidable setbacks faced by founders, and ways in which incubators can offer better focused help, the thesis aims to answer the question: **Which are the largest challenges founders face between their ideation and first round of investment phases?**

2. Literature review

The writings that follow are intended to contribute to a better understanding of the external and internal factors that affect a start-up's success in general, and more specifically in Portugal. It is divided into sections, each dealing with a subset of these influential factors.

2.1. The Portuguese "Doing Business Report"

PORTUGAL	
Ease of doing business rank (1–190)	**34**
Starting a business (rank)	57
Score for starting a business (0–100)	90.89
Procedures (number)	6
Time (days)	6.5
Cost (% of income per capita)	2.0
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	60
Score for dealing with construction permits (0–100)	73.17
Procedures (number)	14
Time (days)	160
Cost (% of warehouse value)	1.2
Building quality control index (0–15)	11.0
Getting electricity (rank)	32
Score for getting electricity (0–100)	86.45
Procedures (number)	5
Time (days)	65
Cost (% of income per capita)	34.5
Reliability of supply and transparency of tariffs index (0–8)	8
✘ **Registering property** (rank)	36
Score for registering property (0–100)	78.36
Procedures (number)	1
Time (days)	10
Cost (% of property value)	7.3
Quality of land administration index (0–30)	20.0

OECD high income	
Ease of doing business score (0–100)	**76.55**
Getting credit (rank)	112
Score for getting credit (0–100)	45.00
Strength of legal rights index (0–12)	2
Depth of credit information index (0–8)	7
Credit bureau coverage (% of adults)	7.9
Credit registry coverage (% of adults)	100.0
Protecting minority investors (rank)	64
Score for protecting minority investors (0–100)	60.00
Extent of disclosure index (0–10)	6
Extent of director liability index (0–10)	5
Ease of shareholder suits index (0–10)	7
Extent of shareholder rights index (0–10)	4
Extent of ownership and control index (0–10)	6
Extent of corporate transparency index (0–10)	8
Paying taxes (rank)	39
Score for paying taxes (0–100)	83.75
Payments (number per year)	8
Time (hours per year)	243
Total tax and contribution rate (% of profit)	39.8
Postfiling index (0–100)	92.71

GNI per capita (US$)	19,820
Population	**10,293,718**
Trading across borders (rank)	1
Score for trading across borders (0–100)	100.00
Time to export	
Documentary compliance (hours)	1
Border compliance (hours)	0
Cost to export	
Documentary compliance (US$)	0
Border compliance (US$)	0
Time to import	
Documentary compliance (hours)	1
Border compliance (hours)	0
Cost to import	
Documentary compliance (US$)	0
Border compliance (US$)	0
Enforcing contracts (rank)	35
Score for enforcing contracts (0–100)	67.91
Time (days)	755
Cost (% of claim value)	17.2
Quality of judicial processes index (0–18)	13.5
Resolving insolvency (rank)	16
Score for resolving insolvency (0–100)	80.01
Time (years)	3.0
Cost (% of estate)	9.0
Recovery rate (cents on the dollar)	64.5
Strength of insolvency framework index (0–16)	14.5

Figure 1 Doing Business Report 2019

Every year, the World Bank Group produces its flagship report on the readiness and agility of countries regarding business ventures, the "Doing Business Report". The latest edition, encompasses 190 economies of the world, and ranks them regarding 10 distinct categories, "starting a business"; "dealing with construction permits"; "getting electricity"; "registering property"; "getting credit"; "protecting minority investors"; "trading across boarders"; "enforcing contracts"; and "resolving insolvency". According to the report, and highlighted by the group itself, Portugal ranks 39th even though being recognized with some of the most divergent and discrepant scores between categories. Portugal ranks amongst the best performing economies regarding “starting a business” with a score of 90.75 out of a possible 100. The report gives focus to reforms taken by the government that have reduced time and costs for company formalization, which seem to have increased the number of start-ups by 17%, boosting employment. Portugal boasts a perfect score of 100 out of 100 in the category of “trading across boarders” with a liberal and unbureaucratic approach. However, as previously stated, there are criteria that present challenging to the country’s score elevation. For aspects such as tax payment bureaucracy, time to register property, and costs to export (US$), Portugal preforms the worst out of the economies considered. Furthermore, and as of relevance for start-ups, Portugal appears to struggle in both legal and financial fields, hindering its overall score. On the parameter “getting credit”, Portugal scores a measly 40 out of 100 mostly due to “credit bureau coverage” which reports the number of individuals with track record of borrowing history from the past five years. Lastly, the report demonstrates a weaker “protection of minority investors” as a result of a sub-par performance in “extents of shareholders rights” and “director liability”.

2.2. The Portuguese Start-up Ecosystem

For the analysis of the Portuguese start-up ecosystem, both national and international reports and databases were reviewed so as to present a more comprehensive overview, namely StartUP Portugal’s national strategy plan starting in 2016 through 2020, the “StartupBlink” annual report of 2019, and the collaborative work of *Get in the ring* and *Halbe &Koenraads* “An overview of the Portuguese entrepreneurship ecosystem” edited in 2018.

The Portuguese ministry of Economics, through StartUP Portugal, has devised several measures so to foster the best possible ecosystem for start-up founders. Out of the initial 15 measures, 5 were revised in 2018, and 20 were added in the same year, demonstrating its dynamism. In order to strengthen its support, StartUp Portugal directed these new measures at three pillars, ecosystem, financing, and internationalization. For example, regarding the former, Startup Hub (measure no.1), intends to be a digital platform for start-up mapping and matchmaking, while also centralizing all the available types of support accessible nationally, InovGov (measure no. 4) moves towards building better networks between the public sector, the big corporations, and start-ups.

The "StartupBlink" report evaluates the performance of 1000 cities in 100 different countries and ranks them, much like the aforementioned report in the previous sub-section, using a mathematical algorithm that weighs the three main criteria, quantity, quality and business environment. Throughout its lifetime (beginning in 2017) Portugal has dropped 5 places in the overall ranking standing at 29th, and 13th in Europe. Lisbon, which was part of the top 50 for the last 2 years, has dropped 20 places and ranks now at 67th. Other major start-up hubs such as Porto and Braga, although experiencing a milder blow, have seen their ranks tumble. The report credits this downturn mainly to governmental action. On one hand, the positive updraft in the Portuguese economy might drive costs of living to rise, while on the other hand, as stated in the report, the Portuguese government might be falling victim to the hype of events such as the "Web Summit", event that cost 128 million to close the deal on location permanency. Moreover, Lisbon seems to be in the process of becoming a trendy location for expats, digital nomads and lifestyle business owners, none of which are predicted to develop unicorn type star-ups, and high impact ventures.

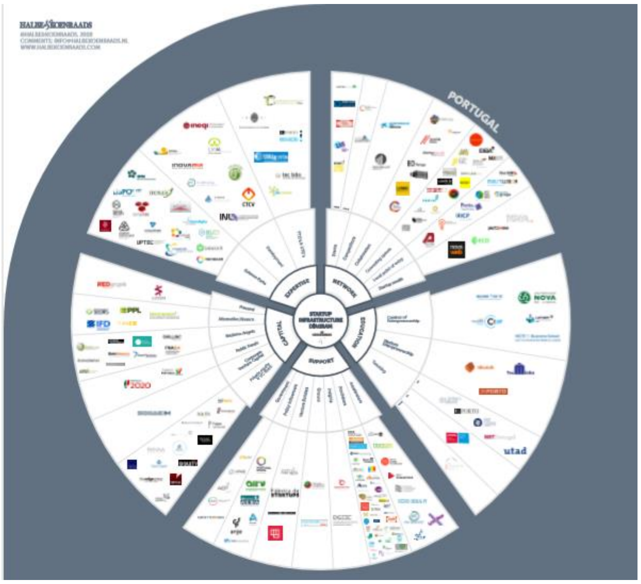

Figure 2 Portuguese Start-up Ecosystem

The second report, and as per illustrated in Figure 2. assesses the ecosystems through the lens of 5 different factors, network, education, support, capital and expertise. It highlights several figures prior to a deeper analysis, the first being that Portugal ranks 9th out of 60 in access to talent, that its environment comprises more than 150 incubators and accelerators, and that it is the first country in the European Union to create a special Visa for foreigner start-up founders. Starting with the criteria in the respective order, the report pinpoints events alike the “Web summit”, and organizations focused on creating a thriving ecosystem, such as Startup Portugal and DNA Cascais, as crucial factors towards the positive development of an entrepreneurial networking environment. Following, the Portuguese start-up ecosystem benefits from having a pool of highly educated founders and several prestige higher education institutions that adopt the methods of the Entrepreneurial School for entrepreneurial learning. Support, the next category, focuses on previously mentioned aspects, particularly the governmental efforts to lessen the bureaucratic burden placed on founders of new ventures, and tax alleviation. Here, the Portuguese ecosystem is, again, framed positively. Much like the “StartupBlink” report, regarding capital, the economic crisis that might have bolstered a new generation of entrepreneurs, did not do the same for capital availability directed at fueling these newfound ventures. However small, comparing to other countries in OCED, VC investment has been increasing, according to the report. The government-led Portugal Ventures holds 450 million in funds aimed at innovative tech companies and startups. Lastly, concerning expertise, here defined as access to specialists with specific knowledge that the founders do not have in-house, the report emphasizes “Portuguese science parks” – places that offer a wide range of business support services, ranging from co-working spaces to support services for intellectual property and product development – as strong contributors to creating a sense of community and propelling the exchange of knowledge.

2.3. Founder’s & Startups’ “pain points”

As recommended by Frederico Santos, mentor and advisor to this thesis, two relevant best-selling books’ insights draw a starting point for the further understanding and elucidation of the research question.

In Eric Ries’s book, “The Lean Startup”, building a start-up is a process which should be undergone through scientific techniques and a systematic, rational approach; thus, it follows a guide-like structure accompanying the growth of said start-up. Beginning with Vision, it proposes a discipline of entrepreneurial management and articulates a way of gauging if start-ups are progressing, denominated “validated learning”. Following with Steering, which highlights the importance of a minimum viable product (MVP) necessary to test the founder’s main assumptions. Concluding with Accelerating, which focuses on scaling as quickly as possible, matter of which is not the focus of this thesis. It is inspired by the Lean Manufacturing revolution originated in Japan with Toyota, whose sole purpose was to unravel wasteful practices and remove them from the streamline. In his own words, “learning where and when to invest energy results in saving time and money" (Part 2 preface) It claims that many start-ups fail due to their focus on outdated notions of how effort translates to accomplishments and that building the perfect product will inevitably lead to astronomical success. In the author's perspective, companies, and especially start-ups, misuse their time designing a rigid business plan raised on romantic assumptions off the market, hence not being able to adapt if the market doesn't react in the proposed way (Part 1 chapter 1). Instead, it advocates for the creation of an MVP as early as possible, and for the integration of the "Build-Measure-Learn feedback loop". With this structure, that should be iterated as many times as necessary so to fulfill and exhaust the market that flourishes out of the consumers' real needs, start-ups are proven to be more flexible and adaptable without committing fully to an idealized plan. The author attributes failure, in addition to the factors stated before, to the lack emphasis start-ups give to "boring" procedures such as administrative tasks and accounting. On the pretense that a focus on these areas might hinder their creativity start-ups lose track of the information they should be gathering and focus on how to improve. As a recommendation the author coins the term "innovation accounting" (Part 2 chapter 7) as a disciplined method to hold innovators accountable. It is designed to measure progress, set up milestones and prioritize work.

Noam Wasserman, associate professor at Harvard Business School, and author of "The Founder's Dilemma" uses data he has collected for over 12 years of work, over 36 Harvard Business Review case studies, and data entry points of around 10,000 founders, mainly in tech companies and life sciences companies, to assess the main pitfalls of start-ups. During his book presentation at business software org in 2012, he states that 35% of VC-Backed Ventures have failed due to either product development, marketing fit with the product, or functional management, while 65% of the same ventures failed due to people related tensions, either between co-founders, or founders and employees/business partners. Eric Ries's book delves into the first group and calls start-up owners to action to prevent these pitfalls. However, "The Founder's Dilemma" digs through the latter, shoveling aside idealized notions akin to gut-feeling and instincts. The book defines five core phases: when to found, building the team, new-venture hiring, beyond the team, and exit dilemmas, each with their own set of crossroads, none of which having a roadmap. On the founder's side, therein lay key decisions that determine a start-up's success, the first regarding relationships. In the author's dataset, 50% of start-ups have hired friends or family, which for him poses a problem as it intertwines distinct relationship types, that of romance and friendship, and professional. The second decision respects roles, here two models are juxtaposed, "Neverland" where everyone gets a vote or part in the decision, or alternatively, the "Zeus" model, where much like in Mount Olympus, one person makes all decisions. It is argued that the latter is better suited for scaling and that the transition between the two models, can be a source of the dreaded tensions. Further along the book it is stated that the highest tension inducing decision is that of equity splits and that 73% of start-ups partake in them within the first month of founding. It is argued here that early equity decisions may become a looming vulture if work is distributed unevenly between the founders, thus it is urged, by Wasserman that founders favor a dynamic split over a static one if they are not able to answer questions such as "are the future roles set?" , or "is our business model set?", or even " are there any personal uncertainties for anyone". Lastly, when it comes to investment the professor poises two different questions that need be answered in timely manner, "Do you want Smart or Dumb investment?", and "Do you want to be a King (having more control) or Rich (having less control)

?”. While the former question addresses the issue of the advantages, or lack thereof finding investors that take a pivotal role in the operational and procedural side of the start-up, even if contrary to the founders’ original vision, the second tackles the extent as to how much the founder is willing to surrender control over its company. Statistically, according to the book, around 75% of original founders are then fired by their own board of directors. However alarming it may be to founders, the author states that on average founders who give up control have companies that are worth roughly twice as much.

2.4. Conclusions of literature review

The literature on the Portuguese start-up ecosystem seems to be coherent and consistent. Portugal, although, having a positive overall appreciation of its environment seems to struggle with some factors which could affect its privileged position as a major start-up hub. The essential takeaways to highlight are that the government seems to prioritize the prosperity of the ecosystem, through reduction of bureaucratic processes. However, some of its measures might be misdirected, especially regarding legal protections of investors, and property registration. Also, it is relevant to consider its push towards a better and more connected community of entrepreneurs. In relation to the writings of the aforementioned authors, their analysis, although of different branches of probable explanations for failure, seems to converge in the way both conceptualize entrepreneurship as a scientific process, a systematic method of rationale over instincts or sentiment.

3. Methodology

3.1. Hypothesis

Considering the literature review and insights collected at Bright pixel – a strong partner of SONAE investment management that focuses on incubating and helping tech related ventures - following the recommended research process described by Croswell (2009), some hypothesis regarding the research question are stated as such:

Hypothesis 1: Legal procedures rank high in start-up founders' pain points.

Hypothesis 2: Founders lack a science-based/ process-driven approach to their business.

Hypothesis 3: Tensions between founders and investors pose as an obstacle.

3.2. Approach

For questions that may present an expansive degree of complexity and nuance a qualitative research approach is better suited than a quantitative one. Qualitative research proves advantageous for it provides a flexible understanding and honors an inductive style focusing on individual meaning. (Creswell 2009).

Out of the five most commonly used qualitative research designs, according to Leedy, P and Ormrod (2015), a phenomenological study refers to a person's or a group of people's perceptions of an event. It is a study almost exclusively dependent on interviews with a small selected sample of participants – sample size usually comprised of 5 to 25 individuals – all of whom have had a direct experience with the phenomenon studied, in this case founding a start-up. However, the principal of saturation, defined firstly by Glaser and Strauss (1999) as the point in which no additional data is being found whereby the researcher can develop properties of the category and as the criterion for discontinuing data collection, must hold. Data saturation is not about the numbers per se, but about the depth of the data (Burmeister and Aitken 2012).

3.3. Data Collection

The primary data of this phenomenological study consists of a set of interviews with different founders of start-ups that operate with proximity to bright pixel, and one interview with one of the founders of bright pixel itself for his broader perspective. The interviews followed, as proposed, a semi-structured form which allowed for the founders to, within the aim and general topic, discourse and disclose any new angle to be considered. Length- wise, each interview extended from 15 to 30 minutes, and was mainly executed separately, for the exception of the founders of Reckon.Ai and Mind Prober which was conducted collectively.

Most of the interviews were conducted in Portuguese, save Bloq.it's, which due to the founder's nationality was conducted in English. When possible and with the approval of the interviewees, the interviews were transcribed.

For this project, the only assumptions made are that the founders have disclosed truthful information, have the best interest of their own start-up, and have understood the questions thoroughly.

For this study, saturation was achieved at the sample size of 8, however, in order to test saturation itself another interview carried out. The interview protocol and thematic concerns can be found in appendix 1.

3.4. Description of the interviewees

Name of the company	Academic background	Professional background	Age of the company	Costumer type served	Investment round raised
Oscar	High School	Work at a start-up	8 months	B2C	None
Bloq.it	Management/Econ	Business program for students	1 year	B2C	One- Business Angel
IziRepair	Management/Econ	Investment Banking/consultant	3 years	B2C	Financing
Advert.io	Management/Econ	Entrepeneur	2 and a half years	B2B	More than one- Venture Capital
Unnamed Venture	Engineering	Developer/ Founder	None	B2B	None
js.scrambler	Engineering	Banking Software developer	9 years	B2B	One- Venture Capital
Reckon.Ai	Engineering	Consultant	2 years	B2B	One-Venture Capital
Mind Prober	Neurosciences	Professor/Researcher	3 years	B2B	More than one- Venture Capital
Taikai	Management/Econ	Investment Banking/consultant	1 year	B2B	One- Venture Capital

Table 1 Description of interviewees

The interviewees, as seen in table 1, are divided between categories such as their academic and professional background, the customer type served, the amount of time the company has been in operations, and if they've ever raised an investment round. It is recognized that most of the founders have either a management/economics or engineering academic background. The majority has been working on their business for over a year and there is a representative split between business-to-consumer and business-to-business companies. Lastly, close to every start-up has gone through the process of finding a suitable investor. Even though Oscar and the yet to be named venture are marked as not having their first round of investment settled, they are either in the process of finalizing the procedure or have gone through the process in previous start-ups respectively.

The one interview that is not represented in the table is the one with one of the founders of Bright Pixel, Benjamin Junior, for his position differs significantly from that of start-up founders. The interviewee provides a more holistic and broader perspective regarding the research question. He has worked with over 500 start-ups, in several different stages, for more than 10 years.

4. Results

4.1 Interviews with start-up founders

Before acknowledging what was addressed more frequently across interviews, it is paramount to state what was not mentioned, albeit expected according to literature review, and previous meetings with the advisor at bright pixel. For the interviewees, legal procedures and administrative tasks such as registering the company don't appear to be relevant or decisive factors. Also, investor relationships have, across start-ups, been extremely positive in the sense that founders reported feeling supported by their investors, as well as recognizing their pivotal role in advancing the business, either through knowledge sharing or networking.

Throughout the interviews with the founders there were several different issues addressed that, although specific to each company, had many touching points. As such, in this analysis, "pain-points" are bundled together under the certain thematic umbrellas, despite having distinct technicalities, due to their overarching core issue. For example, under "Decision Times", whereas bloq.it found it rather lengthy to deal with municipalities and get licenses to install their lockers, Taikai dealt with a long bureaucratic process closing previously agreed upon contracts amongst large corporations. Hence, this section is divided into three main categories that encompass the most relevant themes discussed amongst the interviews. The topics are "Recruitment and Team Assembly", "Decision Times", and "Clarity and Procedures".

4.1.1 Recruitment and Human Resources

"I always thought that selling would be much harder, and it was easier. I thought hiring was easier, and it was much harder, it is much harder. (...) Hiring anyone is hard, but especially developers"- Advert.io

"Incubators should have a recruitment team to help start-ups, right now it is a very hard process"- Js.scrambler

"It's really hard, in the beginning, to hire people. You just don't have the money to hire people with experience, and for juniors to start contributing effectively, takes more of your precious time. (...) In my opinion it is very important to create a co-founding team that fulfills several roles" OSCAR

One of the first issues recognized by founders when discussing their most compelling problems is that of recruiting. This sample of start-ups stated that the process of finding the right people for the positions in need is lengthy and costly, absorbing their key resources, time and money, thwarting their progress in developing their product and investor Moreover, founders reported that with growing and expanding start-ups human resources issues only grow exponentially. Working on a dynamic, fast-paced, and unpredictable environment leads often to heavy burdens on founders and their partners and employees, resulting in burnouts that may lead to turnover and diminishing productivity.

"Managing the psychological well-being of people is hard, especially when there is so much pressure. Either from money running out or having too many clients. (...) I wasn't aware of problems like this and then one day I wake up and half my staff is burning out" – Mind Prober

4.1.2 Decision Times

Time is the most fundamental resource for start-ups. Time to prove themselves, and their product-market fit, time to elaborate different strategies and theorize on possible new tactics, time to develop the business plan, and time to devote towards building a better relationship with investors. Subsequentially, the most prominent theme contemplated by start-up founders is that of discrepancy between their fast-paced and unbureaucratic decision making process, tailored towards quickness and agility, and their more established partners', aimed at stability and liability assessment. Be it with large corporations in the retail industry or small investors, from the time where partnerships are casually agreed upon till the celebration of contracts, founders feel like their time is misused.

"I had an agreement with a major partner and waited for several months before I got any official answer. I had to postpone a round of investment and direct myself to other types of clients because I couldn't keep up." – Taikai

"What ends up happening is that, from the ok to getting the money is really long. Sometimes you just don't have that time and you die midway. Portugal has that problem; decision is too centralized"- Unnamed Venture

"We started in March, and we were dealing with them until July, and even though it was going well, It was delaying a lot. (…) we still have a meeting in September or December" and we can't wait for that cause then summer is over" - Bloq.it

"Finding an investor was way easier than I thought, officializing takes so long"- OSCAR

4.1.3 Clarity and Procedures

When time is a rare commodity and burn rates are a constant worry for start-up founders, it is important that those are allocated in the most efficient way possible. The last theme, widely recurring in the interviews, is one linked with having a clear idea as to how the development process of the product should be done. Vague ideas on specifics are often counterproductive, leaving founders correcting and reviewing past work instead of focusing on the evolution of the company.

"The whole process of product development needs to be specified very clearly, I mean, what do you want to develop? You can say something like, "make a button to start a campaign", but there are distinct ways of doing so. The button can have a lot of different shapes, starting and launching a campaign are different things" – Advert.io

"Through everything you usually go like 3/4 times. We make some mistakes and then we need a lot of time to correct and review" Bloq.it

Akin to having a dubious conception of product development, having a chaotic work environment, usually associated with start-ups, leads to both stress-inducing behavior and a lackluster management of resources. Founders tend to over-intervene in every part of the process, from sales to development, which may result in a loss of focus and direction.

"For people in the genesis of the company it's really hard to let loose and trust that you can't be in every part of the process. (…) I can't let go of the sales part of the business, and I have been neglecting investors. We're talking about funds in the hundred million, and we're telling them to wait." Reckon.ai

4.2 Interview with Benjamin Junior

As stated previously, the interview with Junior aims towards getting a more holistic and broader perspective on the issues start-up founders face. When asked about the general topic, he gives insight as to how every start-up is unique and that each set of problems is remarkably complex.

"It's a hard question. Basically, asking that (what are the common "pain-points" he sees amongst start-ups) is sort of like asking how the universe works. I don't know."

However, he postulates splitting the question in three main themes that follow the chronological process of starting a new venture, operational problems (accounting and legal), team assembly, and interacting with investors.

4.2.1 Operational struggles

Junior expresses that founders have close to no knowledge on the practicalities of running a business from an administrative position, especially regarding accounting, (registering the company, invoicing, banking statements, and salaries) as well as legal responsibilities (labor law, contract law, employee processing, etc…).

"These are all aspects that people, when they get to this world, don't even imagine. Obviously, they can surround themselves of specialists in each of these areas, but at the end of the day, when your structures are this small, you're not going to have a budget to do this professionally and it will prove challenging"

4.2.2 Team Assembly

"How do you form a team with no investment? (…) It is a complex process and relies in being lucky to surround yourself with people as motivated as you. (…) Right now, you either prove, extremely quickly, where you want to get to, or you pick up your boots and leave. You're not going to be able to keep a structure for free eternally. "

Forming the team is a crucial stage in a start-up's journey, according to the interviewee, it is a phase where there is not yet means with which to pay salaries and founders rely on the sacrifices made by their partners and co-founders. At this stage start-ups form their work dynamics and are required to convey their capabilities to external partners and investors. It is argued here that there is a very limited time window where companies can keep their employees working on a concept he coins as "sweat-equity", before tensions arise and stress takes over.

4.2.3 Attracting Investors

For Junior the last of the three most important topics that may pose challenges to founders forming a start-up is that of attracting investors, especially how and when. For the interviewee here lay two different types of issues. Firstly, a lack of realism in their forecasts, described by the quote presented below.

"Entrepreneurs are, by definition, very optimistic. (…) There is a golden rule in these things, you must triple the effort and double the costs forecasted. (…) Investment processes, in my experience, should be made 6-9 months prior. No one writes you a check for the following month. Don't put yourself in a position where you die because you don't have cash."

Secondly a shortage of emphasis on the constant need of maintaining a healthy relationship with a large group of investors. Since there are not enough metrics to measure the size of the business or to guarantee an objective appraisal of the start-ups in earlier stages, according to Junior, the best way founders have to attract investors is through their emotional connection and general sense of trustworthiness.

"Founders have to have a constant concern of maintaining a good relationship with investors. Many of the decisions taken in early stage are emotional because there are no metrics of anything, it has a lot to do with empathy, at the end of the day, its all people, there is no formula where if you take out a comma it stops working."

5. Discussion

5.1 Limitations & Future Works

The study conducted focuses on a subset of founders whose "pain-points" might be skewed. In this sample, all of them are in some way related/ linked to an already established incubator, bright pixel, with its specific knowledge and experience tailored towards helping mitigate some of the issues present in start-ups that haven't had the fortune of finding partners with these characteristics. It would be interesting, in the future, to understand if there are significant differences between companies operating in widely different settings or under the help of other incubators in Portugal. Possibly, as per future subsequent work, it could be of interest to follow the same set of companies presented here to either analyze their strategies to mitigate the problems that have arisen or evaluate how the challenges have transformed with maturity of both the company and founders.

5.2 Conclusion and findings

There are two major conclusions of the phenomenological study conducted. Firstly, that the perspectives of incubated start-up's founders and the perspective of Junior, one of the incubator's founding partners, on their "pain-points" are somewhat dissimilar. Secondly, that there is some sort of misalignment with what would be the expected "pain-points" for start-ups and the ones reported by start-up founders themselves.

Although touching very similar issues, for example, both the founders and Junior state that investment is pivotal, their focus within the theme reveals divergent. For founders the issues seem to arise after finding an interested investor, especially regarding the lengthy process of celebrating the investment, while for Junior, the difficulty would be in attracting the investors. Legal and administrative issues, "pain-points" that both the literature (see hypothesis 1) and Junior highlight, are not even given the slightest focus by the founders. Even when asked directly, their answers were unambiguous.

Regarding the second hypothesis, Junior and the founders recognize the chaotic environment and emotional approach to business. Even though all of the founders use some kind of metrics to evaluate their progress, their procedures and approach are improvised, which may delay their progress.

The third hypothesis stands in stark contrast with the results found through the interviews. Not only have the founders not mentioned having a tense relationship with investors and co-founders, their experience has been, reportedly, overwhelmingly positive. Investors, throughout the companies sampled, have created value and facilitated the process of furthering the business.

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Appendix 1. Interview Script

Before the interview: Founder’s Background; Insights (Age, Round of investment, B2B/B2C)

Interview:

Topic 1. Open question - How did it start?

Did you use any framework for the formulation of the idea (Business Model canvas, value proposition canvas)?

What surprised you the most between what was expected to fail and what indeed failed? Which one are specific to the industry you’re in and which ones are broader?

How did you mitigate those problems?

Which ones do you still tackle?

What’s your biggest pain?

Topic 2. Open Question: Funding

How did you select the type of investor? How SMART was the investment?

Did you have any personal issues with the investors?

What was the report period? Did you use any platform to do it?

Was the investment always done through equity?

Did they reinvest?

Topic 3. Close question: Metrics

Which metrics do you use to evaluate the evolution of your products?