Understanding Early-Stage VC Decision-Making: The Role of the Entrepreneur's Experience in Obtaining Equity Financing within the German Entrepreneurial Ecosystem

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Dissertation written under the supervision of Rand Gerges-Yammine

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Abstract

Title: Understanding Early-Stage VC Decision-Making: The Role of the Entrepreneur's Experience in Obtaining Equity Financing within the German Entrepreneurial Ecosystem

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Key words: Venture Capital, VC Decision-Making, Human Capital, Entrepreneurship

In recent decades, there has been a significant rise in disruptive and innovative technological advancements that hold great promise for both the economy and society. Startups have played a significant role in this trend, becoming a crucial part of the dynamic German entrepreneurial ecosystem. Scholars agree that these ventures rely heavily on access to venture capital to fuel their operations and achieve their full potential. However, despite the crucial role of venture capital for start-ups, research on early-stage VC decision-making is still rare due to the subjective nature of the topic. Previous studies have mainly relied on quantitative methods, leaving ample room for qualitative research to generate new theories on the topic using grounded theory. Hence, this study employs the Gioia et al. (2013) approach on grounded theory to establish a model explaining the decision-making of early-stage funds in Germany and the rather unexplored role of the entrepreneur's previous experience.

The grounded theory model created based on the qualitative data proposes four aggregate dimensions which influence early-stage VC decision-making in Germany: 1) Assessment of Macroenvironment/Alignment with VC Interests, 2) Individual Approach to Venture Target, 3) Know-How of Founding Team, 4) Financial Viability and Venture Potential. The findings indicate that the entrepreneurs' previous experience can serve as strong positive signaling in a VCs decision-making process, however not as the sole driver of an investment decision.

Resumo

Título: Compreender a tomada de decisões de capital de risco na fase inicial: o papel da experiência empresarial na obtenção de financiamento de capital próprio no ecossistema empresarial alemão

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Palavras-chave: Capital de risco, Decisões de capital de risco, Capital humano, Empreendedorismo

Nas últimas décadas, houve um aumento significativo em avanços tecnológicos disruptivos e inovadores que apresentam grande promessa tanto para a economia quanto para a sociedade. As startups desempenharam um papel importante neste desenvolvimento, tornando-se parte crucial do ecossistema empreendedor alemão. Especialistas concordam que esses empreendimentos dependem fortemente do acesso a capital de risco para impulsionar as suas operações e alcançar o seu pleno potencial. Contudo, apesar do papel crucial do capital de risco para as startups, a pesquisa sobre decisões de capital de risco na fase inicial é escassa devido à natureza subjectiva do tema. Estudos anteriores basearam-se principalmente em métodos quantitativos, deixando espaço para investigação qualitativa gerar novas teorias usando a teoria fundamentada. Este estudo usa a abordagem da teoria fundamentada de Gioia et al. (2013) para construir um modelo que explique a decisão sobre onde investir os fundos de startup na Alemanha e o papel pouco explorado da experiência dos fundadores.

O modelo de teoria fundamentada baseado nos dados qualitativos propõe quatro dimensões globais que influenciam a decisão dos fundos de capital de risco em fase inicial: 1) Avaliação do macroambiente, 2) abordagem individual ao alvo do empreendimento, 3) know-how da equipa fundadora, 4) viabilidade financeira e potencial do empreendimento. Os resultados indicam que a experiência prévia dos empreendedores pode ser um forte sinal positivo no processo de decisão de um investidor de capital de risco, mas não é o único factor determinante de uma decisão de investimento.

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Glossary

BAs - Business Angels

e.g. - for example (from the Latin exempli gratia)

HC - Human Capital

SMEs – Small and Medium-Sized Enterprises

VCs - Venture Capital Funds

1. Introduction

The German entrepreneurial ecosystem has been thriving in recent years, with numerous startups and even unicorns emerging while simultaneously seeking initial equity financing to further fuel their growth (Richstein & Lins, 2018; Kfw, 2020). Startups are recognized as one of the major contributors to economic growth, and their emergence is crucial to both academia and policymakers. In fact, academia agrees that innovative startups play a crucial role in driving employment, wealth and growth, making them an indispensable part of dynamic economies (Ratzinger et al. 2017, Colombo & Grilli, 2010; Berger & Udell, 1998; Mason & Brown, 2014). Therefore, the success or failure of entrepreneurial ventures has increasingly been subject to much scrutiny among scholars, who have sought to understand the main success factors of startups, due to the rising prominence of the field (Colombo & Grilli, 2010). Aspiring entrepreneurs are facing numerous challenges on their journey to building a successful startup. Timing, founding team composition, crafting a business model that is able to succeed, and venture capital funding are factors that can determine the success of a startup. Raising capital is an important success factor for a startup's survival, especially through its early phases and continues to be that factor for its future growth in subsequent development stages (Prohorovs et al. 2018; Vanacker et al., 2013; klein et al. 2018).

By taking a snapshot of the current literature existing in the field of startup success, human capital as well as venture capital financing can be identified as main drivers of growth (Hechavarria et al., 2016; Colombo & Grilli, 2010; Baum & Silverman, 2004). The success of a startup is largely dependent on the entrepreneur's access to external funds, despite the fact that it is highly difficult to obtain venture capital funding due to, among other factors, the variety of investment opportunities for investors (Naiki & Ogane, 2021; Colombo & Grilli, 2010; Honig, 1998). It is argued that external equity certainly has an appreciable impact on the emergence of new ventures and nascent entrepreneurship in general (Hechavarria et al. 2016).

Especially during the early stages of a startup, the lack of profitability, revenue streams and proof of success leads to information asymmetries as well as moral hazard issues when dealing with potential investors (Klein et al. 2018). In such a situation, human capital helps investors in their decision-making process by distinguishing whether the team is composed of high- or low-quality founders (Naiki & Ogane, 2021; Pierrakis & Owen 2021).

Studies show that entrepreneurs possessing higher levels of human capital are more likely to identify opportunities that result in the creation of new ventures. (Shane and Venkataraman, 2000). Aligned with the other outlined literature, the study pursued by Colombo & Grilli (2010) found that VC financing has a significant impact on a startup's growth. Moreover, the results indicate that human capital is directly correlated to a venture's performance, as well as indirectly through the higher probability of attracting equity financing (Colombo & Grilli, 2010; Baum & Silverman, 2004).

1.1 Research Objective

Academia widely acknowledges that human capital and startup funding are critical drivers of startup success. Consequently, this master's thesis focuses on the relationship between these two factors. Specifically, it aims to shed light on how VCs in Germany make their investment decision and what role the entrepreneur's experience plays in securing equity investments. Despite its emerging importance, this particular topic has not received adequate scientific attention (Colombo & Grilli, 2010; Naiki & Ogane, 2021; Ratzinger et al. 2018). Scholars generally agree that human capital can be categorized into experience and education (Colombo & Grilli, 2010). However, this master thesis specifically examines the three types of experience that serve as signals in the initial equity financing process: managerial experience, industry-specific experience, and entrepreneurial experience (Unger et al. 2011; Naiki & Ogane, 2021). By interviewing German early-stage VCs, this master thesis seeks to challenge existing assumptions, shed new light on this rather unexplored but relevant topic, and provide valuable insights for aspiring entrepreneurs looking to increase the chances of obtaining venture capital financing in Germany.

This master thesis begins by providing a thorough introduction to the topic of venture capital decision-making and startup success, including background information and theoretical assumptions to establish a common understanding of venture capital. This enables a deeper dive into critical aspects of how VCs make decisions in the early-stage, and allows for a structured approach to answering the research questions. Section 2 presents the current academic status quo on the research topic, highlighting the research gap and subsequent research questions. Section 3 explores the research design and methodology, including the use of grounded theory and qualitative data obtained from the twelve expert interviews. In Section 4, the findings of the interviews are analyzed to create a grounded theory model that describes early-stage VC decision-making in Germany. The model is composed of four aggregate dimensions, providing a comprehensive and holistic overview of the decision-making process. The fifth chapter presents the main findings of this master thesis and then in chapter 6, we conclude with a discussion of the limitations of this study, as well as recommendations for future researchers on VC decision-making from the investor's perspective.

2. Literature Review

The literature reviews plays a critical role in this study by providing insights into existing research relevant to the field. Specifically, via the literature review this thesis first aims to identify the factors that influence VC decision-making and based on this examine the relevant studies on the importance of human capital for the entrepreneurial the success of a startup, as well as its relevance in the VC decision-making process. By analyzing the relevant academic literature, this thesis aims to identify research gaps and develop new theories with the help of the qualitative research approach of Gioia et al. (2013) as presented in the methodology section of this paper. The following literature review serves as foundation of this master thesis aims to support the researcher in developing the research questions, while also providing an extensive understanding of the current knowledge in the field (Saunders et al., 2012).

2.1 Findings of Relevant Studies

This section provides the reader with a understanding of the current status-quo in the field of VC decision-making from the investor's perspective, with a particular focus on entrepreneurship literature. To achieve this, an extended literature review is conducted, which includes a thorough analysis of the existing studies on the topic across multiple entrepreneurial ecosystems.

2.1.1 Startup Success

Startup success has been largely studied in the field of entrepreneurship research, yet the factors that contribute to a startup's success remain elusive. The reviewed literature finds several factors to be important for the success of a startup; however, academia is ambiguous as to which of these factors contribute most to the entrepreneurial success. An essential component of entrepreneurship studies is obtaining a deep understanding of the factors that lead to the success of new entrepreneurial projects.

As suggested by Santamaria & Bulchand-Gidumal (2021), there is no unique way of measuring the success for startups as the success can derive from a combination of subjective measures such as economic, financial or social factors. Startups typically distinguish themselves from other emerging businesses through their emphasis on high levels of innovation in either technology or business models. (Bernardo et al., 2022). Slávik (2019) defines startups as “an entrepreneurial experiment and a very small beginning enterprise that provides a space for selfrealization, an opportunity to develop and implement unusual and risky ideas." Additionally, it is commonly perceived that opposed to other young firms, startups generally have a better access to novel sources of funding which in turn, helps them to growth faster than SMEs (Bernardo et al., 2022).

Santamaria & Bulchand-Gidumal (2021) grouped the crucial success factors for startups into three different categories to enhance evaluation. The first category is the entrepreneurial profile, the second is the startup's strategy and characteristics, and the third considers the macro environment's effect on the venture's performance. Besides financial metrics such as profitability and growth, Santamaria & Bulchand-Gidumal (2021) argue that the success of a startup depends on the founder's expectations. If the startup does not align with their vision and they don't enjoy working on their project, it is more likely to fail. Many founders aim to achieve a balance of economic, social, and personal goals with their startup. Furthermore, their study identified the existence of two different entrepreneurial profiles with regards to startups success. It is proposed that founders born before 1950 rather follow a traditional vision of success by focusing on financial metrics such as revenue growth and profit, whereas the comparably younger generation of founders incorporate more dimensions in their personal concept of success. They specifically view success as primarily achieving a sense of equilibrium in their own life, giving back to society, and pursuing their interests and lifestyle. (Santamaria & Bulchand-Gidumal, 2021; Claire, 2012).

Bernardo et al. (2022) recently found the following seven factors in descending order to be the most influential for entrepreneurial success: Idea, CEO decisions, Business model, Marketing, Team, Funding and Timing. Based on the number of apparitions in relevant scientific research, the study revealed that these seven factors are the most decisive for startup success with an aggregate weight of 65% of appearances in the reviewed literature. As this study found a comparably high gap of appearances for these distinct seven factors compared to other possible factors, they were excluded from the study due to a lack of relevance. Furthermore, the overall number of success factors journals claim to be most important is usually lower than eight. (Bernardo et al., 2022) In addition to those key factors, there are other factors that indeed play a role in determining success for a startup; however, these are synthesized in a different category as literature suggest their lower significance.

In addition, Okrah et al. (2018) states that turnover, innovation and funding are the most vital factors responsible for startup success; however, it is noted that these factors alone do not necessarily make a startup successful. Pticar (2016) found a stable financing to be the key success factor of a venture and that the further development depends on an adequate financing. It is further argued that a positive turnover can increase the probability of obtaining funding from VCs (Okrah et al., 2018).

Santamaria & Bulchand-Gidumal (2021) provide evidence that being previously in an incubator/accelerator program has a significant impact on the venture's success. Despite, Peña (2002) found a positive correlation between education, particularly business education, motivation, and the performance of the startup. However, scholars lack evidence to support the claim of Peña (2002) that these factors have a direct impact on the chance for startups to obtain venture capital.

2.1.2 The Investor's Decision-Making

The VCs decision-making process is adjusted to the respective development phase and investment stage of the startup. The literature generally agrees that these stages can be divided into early-stage, expansion stage, and late stage (Eisele et al., 2004). Nonetheless, this master's thesis focuses on the decision-making of early-stage VCs (Appendix 8.2).

Early-Stage VCs tend to be highly selective in their funding decisions, which caused the increasing interest in research aimed at better understand their decision-making (Fried & Hisrich, 1994). VCs seek to maximize profits by investing in ventures with high risk. To do so, they gather information about a startup and its corresponding founding team. These information's are then used to make a well-informed investment decision. In entrepreneurship studies, scholars generally agree that VCs follow a multi-step decision-making process (Kim & Lee, 2022).

According to scholars, the decision-making of VCs has undergone changes over time due to the increasing complexity of the entrepreneurial ecosystem and the growing number of startups requiring funding (Kim & Lee, 2022). Generally, VCs consider multiple factors while making investment decisions, such as the entrepreneur's human, as well as anything related to the proposed product (Zacharakis & Shepherd, 2005). Gompers et al. (2016) focuses on the general decision-making of VCs, and further examines their investment selection decisions. When assessing an investment in a startup, VCs consider factors such as market opportunity, technology, the actual product or service, competitive environment, and the capabilities of the founding team. It is agreed that "the entrepreneurial team is an important component of the sourcing and screening process" (Gompers et al., 2016; Kaplan & Strömberg, 2004). Having already succeeded as an entrepreneur is a crucial factor that venture capital investors look for when attracting potential investment opportunities (Gompers et al., 2010).

A study pursued by Kaplan et al. (2009) proposed a framework to identify the key factors that influence the success of a VC investment. The framework characterizes the entrepreneurial team as the “Jockey,” while components like business model are referred to as the “horse”. Their study basically results in the fact that these components are interdependent; however, mention the possibility for VCs at a later stage to replace the initial founding team. Therefore, Kaplan et al. (2009) suggests that VCs should spend marginally more time on the due diligence for the actual business model rather than the human capital of the entrepreneurs. However, human capital remains a crucial part of a VCs decision-making (Kaplan et al., 2009; Kim et al., 2022; Petty & Gruber, 2011).

In a study pursued by Gompers et al. (2016) on US-based VCs, the team was identified as the most important factor in the investment decision-making process, with 95% of the respondents mentioning it as important, and 47% of the respondents stating it as the most important one. This study provides evidence that the business-related factors such as market opportunity and business model were only rated as most important by 37% of the participating VCs. Surprisingly, the valuation and VCs ability to add value were of comparably little importance as only 3% of respondents marked it as most important (Gompers et al., 2016). Prohovoros et al (2018) emphasizes the importance of the startups founding team and the general team composition for early-stage VCs; however, according to a study conducted by Mason & Stark (2004), early-stage VCs and BAs have distinct approaches and set different priorities. The study revealed that BAs place a comparably greater emphasis on the personal fit between entrepreneur and investor. The results of their study in England show that early-stage VCs give a low ranking to the “Jokey” part of the decision-making process. They found that VCs prioritize “horse” characteristics such as the overall market and financial considerations (Kim & Lee, 2022). Furthermore, the entrepreneur’s reliability and trustworthiness as well as the motivation are crucial when assessing the human capital of a founding team. (Kim & Lee, 2022).

Furthermore, Pierrakis & Owen (2021) found evidence that the founding team is the most important evaluation criterion for early-stage investors, both VCs and BAs. Their study showed that this importance adapts as startups progress. Once a startup undergoes a standardization phase, human capital becomes more replaceable for investors (Pierrakis & Owen (2021); Prohovoros et al., 2018). In a longitudinal study conducted by Petty & Gruber in 2011 on VC decision-making, they discovered that the significance of decision-making criteria varies significantly depending on the respective stage of the evaluation process. The study indicated that financial valuation and deal structure become more critical at later stages. Contrary to prior studies, they found that the capabilities of the founding team was not a primary criterion for refusing venture capital during any evaluation phase. (Petty & Gruber, 2011; Zopoundis, 1994). Opposed to their study, Hudson & Evans (2005) found the investor's gut feeling about the management team to be crucial. They describe the decision-making of early-stage venture capital investors "more as art than science" (Hudson & Evans, 2005).

Extensive research has been conducted on venture capital and how VCs make their decisions; however, only a few high-quality papers on VC decision-making in Germany have been identified, one of which is written in German. One such study by Eisele et al. (2004) explores the relative importance of VC investment criteria across all financing stages. Their findings reveal that although the importance of criteria varies across the different stages, the appreciation of the VCs equity stake and the capabilities of the founding team are considered critical factors throughout the investment decision-making process. Their findings are aligned with those of studies conducted in other entrepreneurial ecosystems, such as Kaplan et al. (2009) or Gompers et al. (2016) which also found that the ability of the management is a crucial evaluation criterion. Eisele et al. (2004) also found that "familiarity of management with the target market" is essential to obtain VC funding in Germany, but unlike Tyebjee & Bruno (1984), it becomes much more critical during later stages (Eisele et al., 2004). Furthermore, Eisele et al. (2004) identified "being a clear improvement over existing products" as a crucial investment criterion, particularly during the early stage. Interestingly, other scholars have not focused much on this criterion.

2.1.3 The Role of the Entrepreneur's Human Capital

According to Ratzinger et al. (2017) human capital is widely employed in the field of entrepreneurship studies and has been used in academia to partially explain economic growth. Generally, the theory of human capital suggests that entrepreneurs with more human capital attain better outcomes. Moreover, it is argued that an entrepreneur's HC helps their ability to exploit and develop entrepreneurial opportunities. The concept of HC is closely associated with the characteristics of education and experience, which can be classified as crucial factors for an individual's development. Scholars agree that the extent and variety of work experience can positively contribute to an individual's human capital growth (Davidsson & Honig, 2003; Marvel & Lumpkin, 2007; Becker, 1964).

Furthermore, literature divides human capital into four distinct types being higher education, managerial experience, entrepreneurial experience and industry-specific experience (Naiki & Ogane, 2022). According to human capital theory, an individual's level of skills and knowledge has a direct impact on their performance and productivity. Therefore, investing in entrepreneurs' human capital can indeed lead to improved performance (Ratzinger et al. 2018). In the field of entrepreneurship studies, human capital is generally considered to be a more important driver of success than an entrepreneur's personal characteristics (Ratzinger et al. 2018). The study of Gompers et al. (2016) shows that the management team is the most important factor in early-stage VC decision-making, with 96% of respondents ranking it as important and 53% as the most critical factor. Moreover, when analyzing the management team and its human capital components, the study identified following factors as most important:

1. Ability
2. Industry experience
3. Passion
4. Entrepreneurial experience
5. Teamwork

Furthermore, Eesley & Roberts (2012) proposed a unique perspective on human capital by dividing the concept into innate talent and entrepreneurial experience. The study concluded that the relative importance of a founder's background and innate talent can vary depending on the respective situation (Eesley & Roberts, 2012).

When elaborating on venture capital, the issue of adverse selection and moral hazards has to be taken into consideration. A high amount of external equity in turn equates to lower restrained ownership which can lead to agency problems (Hechavarria et al., 2016). Adverse selection and moral hazard are particularly problematic in startups as investors have little access to relevant information as assets are often intangible and knowledge-based during the creation process in a venture's early stages. In essence, this causes adverse selection risks because founders essentially know more about the venture than investors (Hechavarria, et al., 2016). However, studies show that human capital can indeed offset this phenomenon by using specific mechanisms. Entrepreneurs with high levels of human capital can effectively identify and seize opportunities and therefore serve as "productivity enhancing tools". (Naiki & Ogane, 2021). Their study further divided entrepreneurs in necessity- and opportunity-based founders and subsequently found that opportunity-based entrepreneurs outperform necessity-based entrepreneurs in terms of their chance of obtaining equity financing. Therefore, motivational differences between these two forms not only effect the performance of the startup but also the success of financing. Moreover, their findings indicate that the impact of human capital on investment decision-making can surpass the impact of motivational difference (Naiki & Ogane, 2021).

Santamaria & Bulchand-Gidumal (2021) identified two common success factors of entrepreneurs and investors which are 1) generating revenue growth and 2) obtaining funding. With regards to fostering revenue growth, their multivariate model shows that the promotional partners' commitment to the startup, their level of expertise, and experience and network in the relevant area as well the ventures age are the factors that have the highest impact on considerable revenue growth. Conversely, they found that being part of an incubator and/or accelerator program indeed has a negative impact on the likelihood of increasing revenues. With regards to obtaining funding, they found that having previous entrepreneurial experience enhances the founder's probability of obtaining financing (Santamaria & Bulchand-Gidumal, 2021). Their research additionally found that having previously created a startup positively affects the probability of reaching initial equity investment milestones (Santamaria & Bulchand-Gidumal, 2021).

A study conducted by Prohorovs & Bistrova (2018) about startup success factors during its capital attraction phase is aligned with Santamaria & Bulchand-Gidumal (2021) by arguing that having created an entrepreneurial project prior to obtaining funding enhances the probability for a successful funding round. They further provide evidence that having specialized education and high-level management skills are decisive factors for investors to grant access to equity capital. The results show that a lack of professionalism in the founding team is the main barrier for founders to attract equity financing. With regards to the investor's perspective, their empirical study states that entrepreneurs see their financial availability as vital, while in contrary venture capital investors do not. This explains the power given to this decisive factor in deal negotiations (Prohorovs & Bistrova, 2018).

As startups play an important role with regards to innovation and productivity growth, Lewrick et al. (2010) argues that an entrepreneurial education along a venture's different development phases is essential to cope with the challenges starting a company, to learn about the capabilities needed and to build a strong network with investors to secure funding when necessary (Lewrick et al. 2010).

A well-respected paper from Davidsson & Honig (2003) in the field of entrepreneurship studies could not find a significant relationship between business education of entrepreneurs and the performance of their respective startup. A more recent study by Ratzinger et al. (2018) has further investigated the financing process by studying the impact of higher education of entrepreneurs on the probability of obtaining venture capital investments. They observed that the probability of entrepreneurs of securing equity investments from investors indeed increased by 3% if one member of the founding team holds a university degree in business (Ratzinger et al., 2018). These findings are aligned to the findings of Tan & NG (2006), which argues that entrepreneurship education is a factor that increases the overall confidence of a founder to participate in high growth venture. Furthermore Ratzinger et al. (2018) confirmed their hypothesis that startups founded by at least one founder with technical education enhances the probability of receiving equity funding by 7% and simultaneously the possibility of an exit at a later stage is increased by 3 %.

Both Stuetzer et al. (2012) and Ratzinger et al. (2018) argue that a balanced skillset of nascent entrepreneurs is vital for any kind of gestation activity towards building a startup, including securing financing. Stuetzer et al. (2012) further provides empirical evidence that a balanced skillset of entrepreneurs outperforms traditional human capital such as previous general work or start-up experience in the entire process of creating a startup.

Traditional human capital is further criticized by the paper and the study suggests achieving a well-balanced skill set within their founding team by adding members with complementary academic and professional backgrounds (Stuetzer et al. 2012). In addition to the previously outlined findings, the study performed by Ratzinger et al. (2018) investigates the impact of general higher education and reveals that having obtained general education increases the probability of obtaining equity financing by 4% and the probability of exiting the venture by 2%, thereby slightly underperforming the access to funding of founders with technical education. Surprisingly, general education shows a greater impact on the probability than having a business degree. With these results taken into consideration, their study argues that universities as educators for potential founders play a crucial role in obtaining funding, and the overall venture building process. By linking the educational efforts of universities with their growing focus on promoting economic growth, their study has successfully demonstrated the impact universities indirectly have on our economy by fostering nascent entrepreneurial ventures. (Ratzinger et al. 2018).

Surprisingly, the only journal that investigated human capital as success factor for startups within the German entrepreneurial ecosystem found a negative relationship between the number of years of relevant experience in the respective industry to the probability of obtaining initial equity financing. However, in general a positive relationship between human capital on the general availability of venture capital financing could be demonstrated (Richstein & Lins, 2018).

The empirical study of Eisele et al. (2004) provides evidence that the management team's human capital is a decisive investment criterion in Germany. With regards to human capital, it is noteworthy that "soft" criteria evaluating the personality of the founding team are more critical during the early stages, while "hard" criteria such as the management experience become more relevant at latter stages (Eisele et al., 2004).

Khanna & Mathews (2021) finds that there is not only a competition among entrepreneurs to secure funding but also between investors as comparably less established VC compete aggressively for nascent portfolio startups to successfully gain a reputation. Furthermore, the preference for reliability among startups in their selection of venture capital investors imposes an additional cost on established venture capital firms due to their superior alternative opportunities. Consequently, startups exhibit a tendency to "over-experiment" by excessively partnering with less-established venture capital firms, leading to the displacement of established expertise and overall welfare. Their study found that as a result, established VCs are disadvantaged by having to offer increased compensation to attract ventures, and therefore missing out on profitable investment opportunities and simultaneously finding themselves in a more competitive environment (Khanna & Mathews, 2021).

Academia generally agrees that funding is an important instrument for startups to accelerate growth; however, it also highlights the difficulty for entrepreneurs to secure equity investments (Ratzinger et al., 2016; Colombo & Grilli, 2010). Claryisse & Moray (2004) observed an underperformance in obtaining funding by venture capital investors when teams are composed of members with similar academic and professional backgrounds. It is further argued that early-stage venture capital funds value the entrepreneur's previous business experience and simultaneously use it as a key to considering an equity investment. Correspondently, many start-ups do not obtain funding because of a lack of an experienced management (Claryisse & Moray, 2004).

It is argued that an entrepreneur's HC helps to their ability to exploit and develop entrepreneurial opportunities. The concept of HC is closely associated with the characteristics of education and experience, which can be classified as crucial factors for an individual's development. Scholars agree that the extent and variety of work experience can positively contribute to an individual's human capital growth (Davidsson & Honig, 2003; Marvel & Lumpkin, 2007; Becker, 1964).

2.2 Research Gap

After conducting the literature review, a gap in current research can be identified, and based on this gap, a research question will be formulated to address the issue. Previously, the relevant studies and their findings regarding startup success and VC decision-making, particularly the role of human capital were presented. Scholars generally agree that human capital plays a major role when obtaining venture capital funding. However, current literature is mainly of quantitative nature, and a lack of qualitative studies explaining this phenomenon can be identified. Prior research has primarily taken a holistic approach to investing the role of human capital, without delving deeper into one of its specific components. Besides, there is a lack of research that specifically examines the role of an entrepreneur's prior experience in decision-making of early-stage venture capital funds, and how this role evolves along the different phases a startup has to undergo.

This gap in the literature is particularly relevant within the context of the German entrepreneurial ecosystem, as there is a lack of understanding regarding the role that the entrepreneurs prior experience plays in the investment decision of early-stage VCs operating within this ecosystem.

The decision-making process of VCs within the German entrepreneurial ecosystem remains largely unexplored. There is a research gap in understanding how venture capitalists make their investment decisions, particularly with regards to the importance of an entrepreneur's previous experience. Furthermore, there is a lack of research that investigates their decision-making changes along the various investment stages that a VC typically invests in. This study seeks to address these gaps and provide a better understanding of the decision-making process of VCs in Germany. Thus, this study has an explanatory purpose.

This master thesis aims to fill these gaps with new insights for this specific research topic and thus create a guideline for aspiring entrepreneurs what investors in Germany look for with regards to previous experience to gain a competitive edge over other entrepreneurs aspiring to obtain venture capital.

Based on this identified research gap, the research question of this master thesis is defined as follows:

Research Questions
RQ1: *What are the key drivers influencing the decision-making of early-stage VC funds in Germany?* ***RQ2:*** *What is the specific role of an entrepreneur's previous experience in the decision-making processes of early-stage venture capital funds when granting equity financing in the German entrepreneurial ecosystem?* ***RQ3:*** *How does the role of the entrepreneur's previous experience change along the development phases a startup has to undergo?*

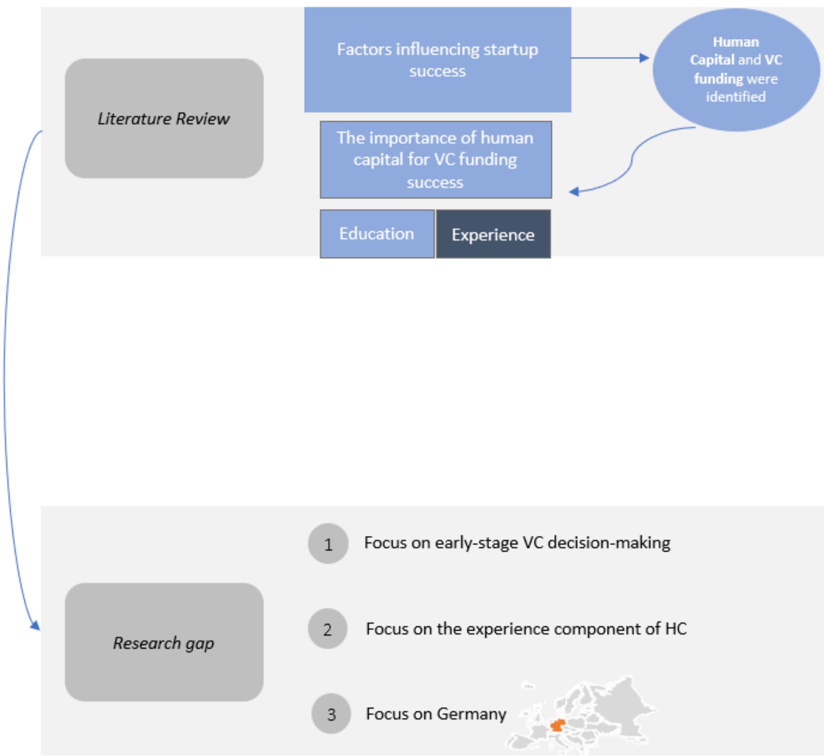

Figure 1: Approach to Literature Review (Own Illustration)

3. Research Design and Methodology

The objective of this study is to achieve better insights on the VC decision-making within the German entrepreneurial ecosystem and investigate the role that human capital, more specifically the entrepreneur's experience has when obtaining equity financing. The main goal is to arrive at an illustration of major factors in the VCs decision-making and give propositions on what investors in Germany look for. The objective of this study should ideally go beyond developing propositions for guiding future research. It should also strive to extract and emphasize transferable concepts and principles that can be applied in various contexts (Gioia et al., 2013).

Given the unexplored nature of research on the investors decision-making and the role of experience in the venture capital financing process, as well as the predominance of quantitative methods in existing studies, a qualitative approach to better understand the statistical results described in section 2, is performed. In recent decades, qualitative research has not only become more prevalent, but it has also contributed to the development of new theories in entrepreneurships studies (Gehman et al., 2018).

3.1 Finding the Right Theory-Method Fit

The importance of choosing the right methodology cannot be overstated in qualitative research, as it can significantly impact the quality and credibility of the research findings (Gehman et al., 2018; Gioia, 2021). Gehman et al. (2018) provided a comprehensive overview about the specificities of the different approaches to theory building with qualitative literature. Their paper emphasized the importance of choosing the right methodology and introduced the approaches of prominent scholars. As this study wants to understand the "lived experiences of informants" and get a better understanding how they perceive the role of human capital and the reasons for this, the Gioia methodology seems to be the most appropriate for the purpose of this study (Gehman et al., 2018; Gioia, 2013).

3.1.1 The Gioia Approach

This study employs a qualitative data collection method through semi-structured expert interviews. The data collected for this study is analyzed using the Gioia approach, a qualitative research method that offers a systematic approach to developing new concepts and articulating grounded theory. The Gioia methodology aims to ensure "qualitative rigor" in the presentation inductive scientific research, and to facilitate the systematic analysis of data in a comprehensive and evidence-based manner (Gioia et al. 2013; Magnani & Gioia, 2023).

The Gioia et al. (2013) approach is well-suited for building theory and advancing research in international business and entrepreneurship studies. Grounded theory methodology is effective for the purpose of this master thesis as it allows for a deeper understanding and explanation of phenomena. Furthermore, the foundation of this approach lies in interpretive research, with the aim of modeling as well as capturing the understanding of the expert interviewees, which is aligned with the objective of this study (Gioia et al, 2013).

In line with the methodology suggested by Magnani & Gioia (2023) in their paper on the Gioia methodology specifically in entrepreneurship studies, this master thesis adopts the three main procedural pillars. By following these pillars, the study aims to provide a comprehensive analysis of the qualitative data collected, with the ultimate goal of advancing knowledge in the field of entrepreneurship studies.

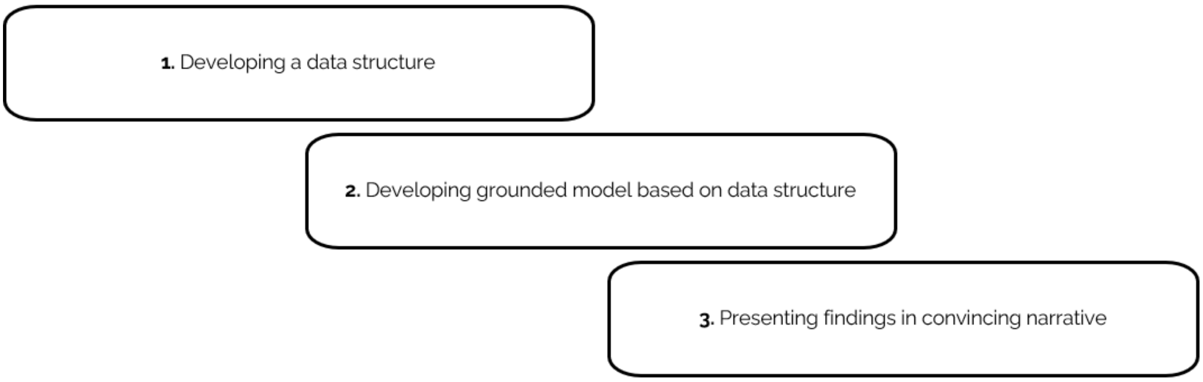

Figure 2: Three main procedural pillars of the Gioia methodology (own illustration based on Magnani & Gioia (2023))

3.2 Data Collection

This study utilizes the research method developed by Gioia et al. (2013), which falls within the field of grounded theory. This approach aims to develop new concepts from inductive research in a "qualitatively rigorous manner" (Gioia et al., 2013). Their 2013 publications provides a detailed explanation of the method which is followed in this study to ensure the quality of this research.

For this study, an inductive and qualitative approach was selected to gain a thorough understanding on the role of a founder's previous experience in the decision-making process of venture capital investors. Semi-structured interviews were conducted with 12 highly relevant German VCs, consisting of professionals occupying various hierarchical positions. The selection of interviews was based on their expertise in the relevant field. Gioia et al. (2013) describes such interviews as the "heart of these studies" as they allow for the collection of rich and detailed insights into the lived experiences of the interviewee candidates. By utilizing semi-structured interviews, this study aims to capture the unique perspectives of venture capital investors and gain a comprehensive understanding of their experiences and decision-making processes.

In order to collect appropriate data from VCs within the German entrepreneurial ecosystem, a questionnaire for the semi-structured interviews was developed according to the method outlined by Gioia et al. (2013). However, in line with the inductive nature of this study, a degree of ignorance to prior research findings was maintained during the composition of the questionnaire. The questionnaire consists of 14 open-ended questions and was adapted to suit each individual interview partner, allowing for flexibility and a tailored approach to data collection.

The development of the semi-structured interview guide in this study was a rigorous process that involved five development phases from Kallio et al. (2016). Firstly, the prerequisites for using semi-structured interviews were identified. Secondly, previous knowledge was obtained; however as mentioned earlier only to the extent required to form the development of the interview guide. Thirdly, a preliminary semi-structured interview guide was formulated and then tested to ensure that it was appropriate for this study. Lastly, the interview guide was presented to the experts. The selected research approach for this study aligns with the recommendations of Bryman & Bell (2011), who suggest that semi-structured interviews are a reliable method for gaining deeper understanding of people's decision-making in qualitative research. To ensure that the chosen approach is appropriate, one pilot interview was conducted to identify and mitigate any issues that may arise during the actual interview. (Bryman & Bell, 2011). This pilot interview ensures the author that the actual interviews are conducted in a more efficient and effective manner, and simultaneously helps to increase the validity of the findings.

In addition, it is important to note that the original audio recordings were conducted in German and were later transcribed manually in the same language. After conducting the interviews, the next step involved transcribing them and performing a pre-analysis to assess the level of saturation in the data. This was achieved after the twelfth expert interview. Consistent with the recommendations of Saunders et al. (2018), no new findings are emerging from subsequent interviews. To facilitate the analysis and subsequent interpretation of data, these transcriptions were then translated into English using the premium feature of DeepL, accounting for a total of 41 single-spaced pages. This multistep process ensured that the translated transcripts accurately conveyed the meanings of the original interviews held in German.

3.3 Data Sample

The following section describes the data sample used for this master's thesis. It will provide an overview of the respective entrepreneurial ecosystem and introduce the participating VC experts in this study, as well as explain how the researcher established contact with them.

3.3.1 Specificities of German Entrepreneurial Ecosystem

The German venture capital market has been growing steadily until the onset of the COVID-19 crisis. From 2014 to 2019, annual VC investment increased by the factor 2.8 to reach around €1.9 billion. However, the German entrepreneurial ecosystem still lags behind other European and international ones in terms of VC market size, especially in areas such as digitalization, manufacturing, and robotics. Despite some progress, Germany's relative gap with the UK has increased to a factor of 2.7 in the past three years, representing a shortfall of €700 to €1,700 million in investment volume annually. The VC market lag is even more pronounced in the biotech and healthcare sectors. In 2020, Germany had 12 unicorns with valuations exceeding $1 billion, which puts it in the mid-range in Europe, with fewer unicorns than the UK's 22 but more than France's five. Notably, Germany currently boasts 32 unicorns, with the emergence of 19 new unicorns in 2021. However, when large financing rounds are realized in Germany, foreign VC investors are onboard in nine out of ten cases, increasing the risk of such startups leaving the country (KfW Venture Capital Study, 2020).

The German Startup Monitor conducted a comprehensive study in 2022, providing valuable insights into the country's entrepreneurial ecosystem. One interesting finding was that despite Berlin representing just over 4% of Germany's population, it had the highest concentration of startups, accounting for 19.1% of all startups in the country. Furthermore, the study revealed that 60% of participating venture capital funds were located in Berlin which highlights the city's importance as a hub for entrepreneurship (German Startup Monitor, 2022; Appendix 8.3 & 8.4).

Another notable finding was that more than a quarter of startup employees in Germany are international, with teams in Berlin and Munich being particularly diverse. The percentage of female founders has also increased by 7.5 percentage points since 2013, exceeding 20% for the first time in 2022 (German Startup Monitor, 2022).

In terms of the study's focus, it found that the majority of founding teams combine tech and business expertise. However, teams with only a tech background have less established networks and less founding experience than mixed or business administration-only teams. Approximately 30% of tech-only founding teams have previous entrepreneurial experience, compared to over

45% for mixed or business administration-only teams. Additionally, the study showed that these teams have better-established networks than tech-only teams. (German Startup Monitor, 2022)

3.3.2 Guidelines for the Selection of Venture Capital Experts

Given the inductive approach and the time constraint of this study, the goal was to find a representative group of 10-15 VCs within the German entrepreneurial ecosystem. To achieve this, 23 relevant VC experts were approached using LinkedIn's premium feature. Only experts who shared a commonality with the author, such as attending the same university or having worked at the same firm, were contacted. As a result, eight relevant experts agreed to participate in the semi-structured interview, and an additional four interviews were recruited through warm introductions by the prior participants. For the purpose of this study, any individual working full-time for an early-stage VC operating within the German entrepreneurial ecosystem is considered applicable.

3.3.3 Description of the Sample of Venture Capital Experts

The final sample of this study comprises of a total of 12 expert interviews. Interviews with a duration of 27 to 42 minutes were conducted with individuals working for early-stage VCs based in a German office to gain insights into their investment decision-making process and how their assess and weigh the importance of the entrepreneur's prior experience. The investment ticket size for VCs included in the sample ranged from €50,000 to €10,000,000, with over 60% of them being located in Berlin. The other VCs German offices from the sample are located in Hamburg, Osnabrueck, Bonn, and Munich. (Appendix 8.3) Interviewees were selected across a range of seniority levels within the VCs, including Investment Associates up to the Founding Partner. All of the Interviewees in the sample were focused on the early-stage investments within the German Entrepreneurial Ecosystem.

Interviewee#	Name	VC Fund	Seniority Level	Initial Ticket Size (in €)	Industry	Location
1	Niko Marcel Waesche	GMPVC	Founding Partner	100k - 500k	Consumer Facing Companies	Berlin
2	Alexander Biedermann	BIF Partners	VC Manager & Partner	100k - 500k	Industry-Agnostic	Hamburg
3	Sinah Mussmann	Cavalry Ventures	Investment Analyst	500k - 4M	Industry-Agnostic	Berlin
4	Johann Rottmann	SCALEHOUSE Capital	Investment Associate	50k - 500k	Industry-Agnostic	Osnabrueck
5	Justus Müller	Verve Ventures	Investment Analyst	500k - 5M	Digital & Tech	Berlin
6	Ben Scheidt	Redstone	Investment Professional	1m - 10M	Industry-Agnostic	Berlin
7	Isabell Gollmer	Seed+speed Ventures	Investment Associate	100k - 500k	B2B and enterprise software	Berlin
8	Jakob Lilienweiß	High-Tech Gründerfonds	Investment Analyst	100k - 1M	High-Tech	Bonn
9	Edoardo Maschio	Flash Ventures	Investment Analyst	500k - 2M	Industry-Agnostic	Berlin
10	Daniel Becker	Matzen Ventures	Junior Portfolio Manager	50k - 500k	Industry-Agnostic	Hamburg
11	Alexander Brunner	Antler	Investment Analyst	100k for 11.5% equity stake	Industry-Agnostic	Berlin
12	Nikolas Schoneweg	HV Capital	Investment Analyst	up to 5M	Industry-Agnostic	München

Figure 3: Data Sample (Own Illustration)

3.4 Coding Process

The process of coding is a systematic approach to analyzing the data collected from the expert interviews. The coding process was conducted manually, involving a thorough review of each transcribed interview to identify relevant and meaningful paragraphs of each.

As described in section 3.1.1, the Gioia methodology was selected to analyze the transcripts and capture the respondents' understandings in this study exploring the decision-making of early-stage VC funds in Germany. This approach aligns with the study's purpose and enables the systematic organization of data while allowing for creative evaluations (Gioia et al., 2013; Magnani & Gioia, 2023).

The qualitative approach includes three crucial steps to obtain a proper data structure, as presented in Figure 4. The first step involves analyzing the transcripts and converting them into 1st order concepts. Based on these 1st order concepts, 2nd order themes are identified by searching for similarities and differences. In the final step, the 2nd order themes are aggregated into dimensions that describe the grounded theory model (Gioia et al., 2013).

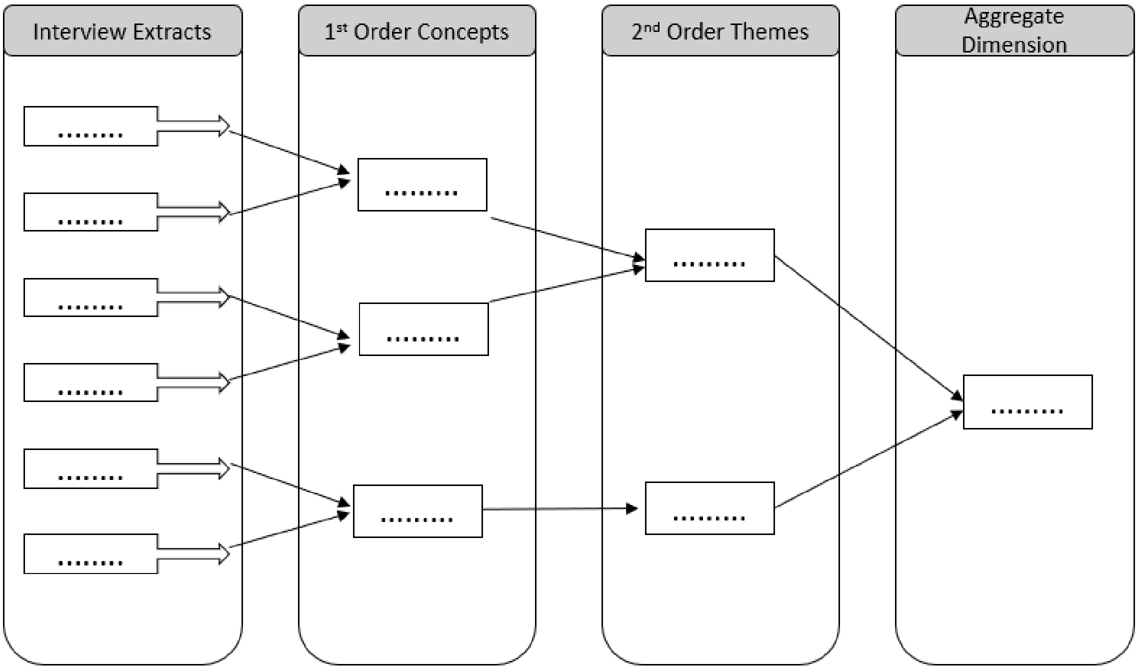

Figure 4: Data Structure (Own Illustration based on Gioia et al. 2013)

4. Results

Through a thorough analysis of the qualitative data, four aggregated dimensions have emerged for early-stage VC decision-making within the German entrepreneurial ecosystem. The findings aim to highlight the role that the entrepreneur's prior experience plays and how it intertwines with other relevant decision-making criteria. These dimensions represent key themes and concepts that have been identified through the Gioia method, as described in the previous section. The dimensions provide a comprehensive overview of the findings and enable the researcher to draw conclusions and a grounded theory model on VC decision-making and subsequently the role of the previous experience of the founding team within Germany, based on the qualitative data. As illustrated in the following data structures according to Gioia (2013) depicted in figures 5-8, four different aggregate dimensions in VC decision-making have been identified through thoroughly scanning through the interview transcripts. In the following, these dimensions and its role and interconnections with each other will be explained and consequently the grounded theory model will be presented.

4.1 Assessment of Macroenvironment / Alignment with VC Interests

Based on the qualitative data collected, the primary dimension that emerged was the evaluation of the macroenvironment and alignment of the VC's interests. All interviewees indicated that the initial step in making an investment decision is to determine whether the venture is a suitable fit for their portfolio. In Germany, VCs typically consider four key factors to assess alignment:

timing, trend alignment, traction/expectation alignment, and fund portfolio strategy. If these factors align with the VC's interests, then the founding team will undergo more thorough evaluation.

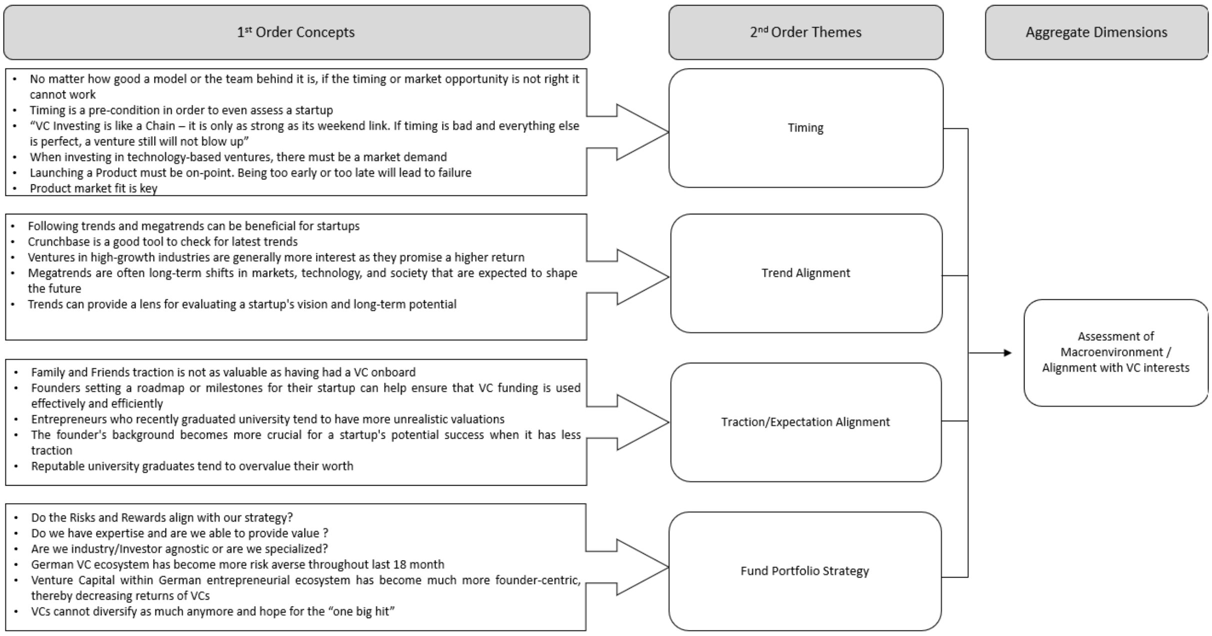

Figure 5: First Aggregate Dimension of Grounded Theory Model (Own Illustration)

4.1.1 Timing

The interviewees agreed that without having the right, no venture can be successful, no matter how good the product or the founding team is. Thus, the timing factor has been identified as major prerequisites in the investment decision-making process, which is in line with Gompers et al.'s (2016) findings. Their study shows that 67% of VCs rank timing as important factor in their decision-making. It is worth mentioning, that there was no opposing viewpoint found in the data in terms of the importance of timing.

"When we look at a startup, we consider around 11-12 different buckets, including finances, product, sales, deal dynamics, and valuation. We put all of these factors in an investment memo, and the metaphor I like to use is that it's like a chain - it's only as strong as its weakest link. So, if you have a good team, but the timing is just bad, it won't help you and vice versa." (Interviewee 6)

"sometimes we invest in a startup solely based on our gut feeling about the founding team, or because we believe it's the right time to enter a particular market, even if the product or service isn't fully developed yet. But at the same time, if the market opportunity or timing isn't good, no matter how great the founding team is, we still wouldn't invest. So, although we place a lot of value on human capital, we also consider other factors when making investment decisions." (Interviewee 7)

4.1.2 Trend Alignment

It has become apparent from the data that trend alignment is an important factor for many VC funds operating in Germany. These funds aim to invest in emerging, high-growth industries to increase their chances of investing in a unicorn and offset the high risk involved. While this factor is not widely discussed in the literature, this thesis found it to be a prominent consideration for VC decision-making. In fact, some funds only invest in ventures that align with current trends, making it significantly harder for ventures that do not meet this criteria to secure funding.

"When it comes to seed investments, we are first time investors. We have an investment theses which used to be called the consumer 2.0 and now it is called the selective consumer. We think there are three big trends that we believe help entrepreneurs to make startups successful. The first one is Data AI and Tech integration, the second is pro planet and environmental authenticity and the third is generational shift and niche becoming mainstream. So we check whether the business model actually fits this investment thesis." (Interviewee 1)

Additionally, it has to be noted, that funds do prefer investing in ventures aiming to solve a problem in a high-growth industry but this alone is not a sole driver of success as competition in these industries is significantly higher as well, but it can be considered an initial checkmark during the decision-making process.

"We invest in growth-heavy industries, but just blindly following trends on platforms like Crunchbase doesn't necessarily make for a successful investment. We look for startups that have a differentiating factor and stand out from the crowd. Of course, we do prefer to invest in industries where there is projected growth in the coming years, but again it is crucial to make an own assessment." (Interviewee 3)

4.1.3 Traction/Expectation Alignment

The data has shown that traction is a crucial evaluation for VCs because when venture targets demonstrate traction, it provides validation that the startups business model and value proposition are resonating with customers. This is important for VCs because it reduces the risk associated with investing in an unproven business concept. It is particularly important for early-stage VCs as they take on a high level of risk and are looking for startups that have the potential to generate a high return. Traction metrics such as customer acquisition, revenue growth, and user engagement provide important indicators of a startup's potential to achieve these goals.

"We have a framework which is called Team, Vision, Traction and that is really how you can divide it. We attribute 1/3 of importance to each of the three components." (Interviewee 12)

In addition to its importance in evaluating potential investments, traction can also play a role in justifying valuations and the amount of funding requested by a startup from a VC. The research indicates that VCs are looking for realistic assumptions when assessing a startup's traction and its potential for growth. The analysis also found that younger entrepreneurs may tend to overestimate their abilities and the potential of their startup. By providing evidence of traction, startups can help to ground their valuations in reality and demonstrate that they are making realistic assumptions about their future growth prospects. This can help to build trust and a relationship with VCs and subsequently increases the chances of securing VC funding.

"Traction is super important to us, and it's becoming even more important over the years. We don't wanna see someone who just graduated from university and thinks they know everything." (Interviewee 2)

"But apart from that on the quantitative basis, we look at the total addressable market and try to understand the obtainable market. So, we are trying to get a feeling how realistic are their estimations compared to the total addressable market that we see. So, for us it is a huge red flag if founding teams just dream about huge market sizes and just give unrealistic estimates. From my experience these are usually younger founders such as university graduates that overvalue their worth." (Interviewee 10)

4.1.4 Fund Portfolio Strategy

The Interviews revealed that before evaluating a founding team or business model, VCs ensure that the target venture fits their fund investment portfolio strategy. Typically, larger VCs have a separate fund for each sector, managed by experts in that field. These funds may differ in evaluation criteria and ticket size. If a venture does not fit a fund's portfolio strategy, it may not be applicable for further due diligence, as funds strictly adhere to their investment criteria.

"the general investment decision process is quite complex and depends on the specific investment funds we have. Each fund usually corresponds to a certain industry such as cleantech. We are early stage investors and invest around 1-10 million as an initial ticket size. We also don't want to be the first people investing, so we prefer to invest in the late seed or series A stage. We have basic criteria that the investment has to fit the sector and phase where we invest. After that, we have a due diligence process, and the investment criteria can vary between the different funds. It can be hard criteria such as revenue growth or different KPIs, or soft factors such as the motivation and passion of the founding team." (Interviewee 1)

"So, the entire support that we provide is about the roadmap about the next 18-24. So we want that the company is aligned with our equity story that we wanna reach for the next seed or series A rounds. So, we are in exchange almost on a daily basis at least during the initial phase either via WhatsApp, slack or through our weekly or bi-weekly meetings." (Interviewee 3)

"As our strategy is to be a lead investor, we are really close with our companies and provide them with hands on support especially for pre-seed and seed portfolio companies. Our investment strategy involves making 30 investments for each fund, with each fund corresponding to a specific industry and having its own investment strategy. This allows us to provide targeted support and expertise to our portfolio companies in their respective fields." (Interviewee 3)

It's worth noting that in the current German VC ecosystem, it is important to stick to the fund portfolio strategy due to the fact that investors have become more risk-averse over the past 18 months which could largely be driven by economic uncertainty. Despite, one interviewee mentioned that the entrepreneurial ecosystem has become more founder-centric, which has led to a more competitive environment for VCs in Germany. As a result, VCs have to be more strategic in their investment decisions and focus on diversification within their portfolio to ensure long-term success. The traditional strategy of speculating for the "one big hit" may no longer be as viable due to the increased competition and decreasing return.

"What I noticed is that the risk aversion for VC funds at least in Germany has becoming increasingly higher during the last 18 month and obviously we then try to eliminate unnecessary risks such as single founders or in general personal risks." (Interviewee 6)

"Venture capital, especially in Germany has changed over time and has become much more founder centric, so the amount of money the vc gets before founders get their money back is decreasing." (Interviewee 1)

4.2 Individual Approach to Venture Target

The second aggregate dimension is the individualized approach to evaluating specific target ventures, indicating that each deal is unique. From the data, four primary criteria have been identified for evaluating potential investments in Germany: assessment of development stage, deal origination, and co-investor assessment/fit, size of investment.

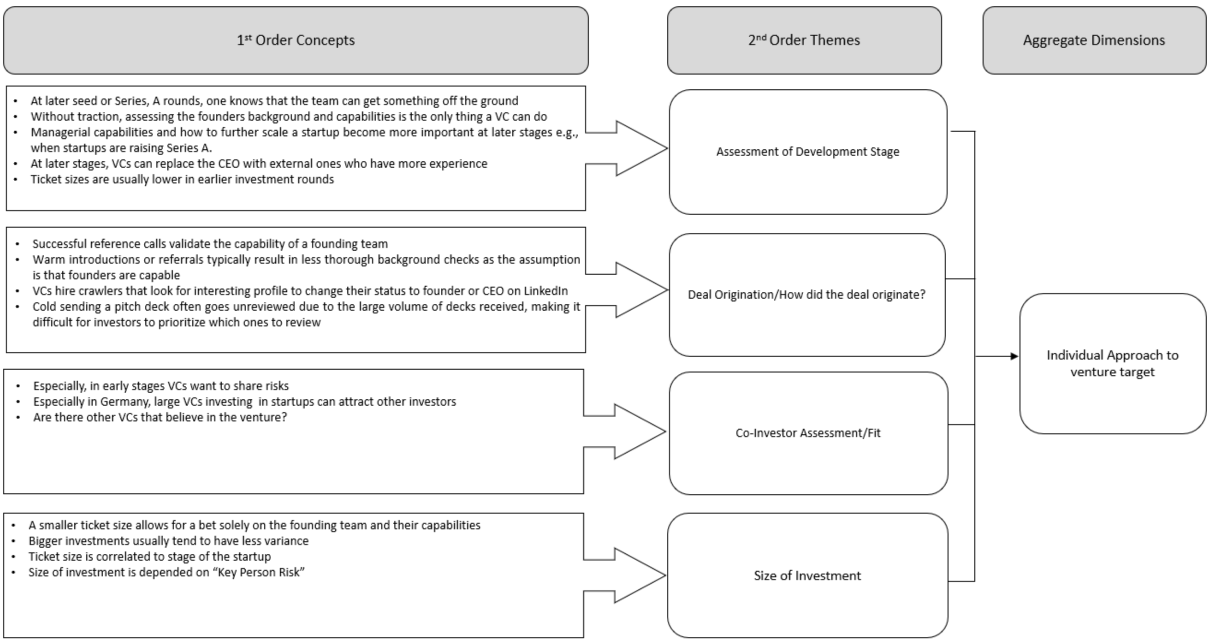

Figure 6: Second Aggregate Dimension of Grounded Theory Model (Own Illustration)

4.2.1 Assessment of Development Stage

In line with the theory already outlined in the literature review, VCs investment criteria differ according to the stage a startups development stage it finds itself in. As already outlined in 4.1.3 traction is really important and the earlier it is, evaluation metrics focus more on soft factors such as the founding team. At later financing rounds, such as late seed or series A, other hard facts become more important as the abilities of the founding team already got validated.

"Also keep in mind, when you are looking at late seed, series A financing, the founding team matters a little bit less. Because at this stage you already know that the founders are able to get something off the ground because they are trying to raise a series A." (Interviewee 9)

"Especially during early stage investing, it always ends up like an instinct kind of decision, of course based on a couple of pillars that everybody who is in the industry for a bit can quickly assess. One of these pillars would be market sizing, related to it there has to be an actually existing product. Especially important during the early stage is to invest in founders who have segmented a large problem down in digestible chunks." (Interviewee 9)

When a startup has not yet achieved product-market fit, early-stage VCs may need to use shortcuts in their decision-making. This means that the startup's development stage has a significant impact on whether the investment decision is based on soft or hard criteria. The qualitative data suggests that this shift in their decision-making occurs once startups begin raising a Series A.

"And especially in early stage VC, we have to actually shortcut our way to make decisions. So, we have thousands of people approaching us with potentially good Ideas and decent profiles but how can we judge. So at a later stage ventures are already validated which is not the case at our stage. So, at our stage we definitely have to segment and this is where background really comes into play. I personally think University matters less. Yes, it is a pro if someone comes from a good university but it is not crucial. We really look for some hand on work experience." (Interviewee 9)

"we have hard and soft criteria. Startups cannot be older than 3 years, that's how we define our stage. This is our seed stage and we only invest in Germany."(Interviewee 8)

"I mean honestly in the initial stages you mostly have the team which makes it so important and then later on, the more traction a startup gets in terms of co-investors or revenue streams the more quantitative it will be. I mean in later funding rounds we basically only look at the KPIs but during the seed-phases it is a bet that we do on the founding team and whether we believe that they are capable of being successful."(Interviewee 12)

4.2.2 Deal Origination

The data suggests that the form of origination can also impact the decision-making process of VCs. In particular, the overall thoroughness of the process tends to decline when ventures are introduced warmly or through a referral. As noted in 4.2.1, VCs often rely on shortcuts to streamline their decision-making process, and startups that come through the VCs' network or are referred to them have a higher chance of being considered.

"Depending on the origination, the capabilities are going to be checked less or more. If a deal originated through a warm introduction or referral, it is assumed that founders are capable and we are not checking their background as thoroughly." (Interviewee 3)

"It can matter, but it really depends on the situation. For example, if the deal originated from a referral from a trusted source, that can give us more confidence in the founding team because someone we trust has already vouched for them. On the other hand, if the deal originated from a cold outreach, we may need to do more due diligence on the founding team to ensure that they are a good fit for us." (Interviewee 7)

Additionally, the interviews indicated that VC funds also proactively approach entrepreneurs who have an interesting or suitable background for their portfolio strategy. This form of origination obviously allows for a more lean decision-making.

“When it comes to the origination, there are two processes for us. They either come through our network or we do a form of "headhunting" where we focus on the background of the founding team.” (Interviewee 6)

4.2.3 Co-Investor Assessment/Fit

Another important criteria VCs in Germany looks at their co-investors. Every fund has its own strategy such as being lead investor. Having reputable co-investors can help VCs share the risk burden and increase the chances of success for the startup. Additionally, co-investors can provide access to their own networks, resources, and expertise, which can help the startup grow and achieve synergy effects by combining their resources and expertise.

“Additionally, we look at co-investors. Are there other investors who believe in them? So, personally in the first assessment I focus on the actual product or service and then as a second step I assess the team during the first call and then go deeper into the different attributes of the founders and try to understand whether their storytelling actually makes sense.” (Interviewee 2)

In addition to finding valuable co-investors, it is crucial for VCs to share a common goal and work well together in order to achieve success. This is particularly important in Germany, where ventures that are able to secure a reputable VC as an investor can benefit from a network effect. The presence of a respected VC on board can attract other VCs, solely based on the fact that the first VC has already invested.

“We want to know our co-investors and obviously having a good relationship with other invested VCs facilitates the process. First it already shows that other investors already believe in the venture but more importantly synergies can be achieved in terms of network, knowledge and support.”(Interviewee 8)

“I feel like in Germany it’s that once a bigger VC is onboard, all the other VCs will try to jump onboard and get a piece of the Pie as well but obviously the real challenge is to get there.” (Interviewee 8)

4.2.4 Size of Investment

According to the qualitative data, the size of the investment is the fourth criterion that early-stage venture capitalists consider when attributing weight of importance to different criteria in their decision-making process. This research suggests that if the ticket size of an investment is relatively low, VCs may be more willing to invest in high variance startups, betting on the founding team, for example. However, when startups demand larger amounts of investment, VCs usually require some sort of quantitative criteria, such as traction or revenue, to justify the investment.

“For us the ticket size is around up to 5 million for equity deals but for token deals we do 50k-100k investments. Also, maybe interesting for you is that we categorize our investments and the higher the risk, the smaller the ticket size as this investment comes close to a “bet.” (Interviewee 12)

In addition, it should be noted that the ticket size of an investment may also depend on factors such as "key person risk”. If a startup heavily relies on a single individual such as the CTO it might be greater risk associated with the investment. As a result, VCs are more cautious and invest a smaller amount of capital to mitigate this risk.

“If somehow we see there is some “key person risk” involved the amount of money we are willing to invest usually goes down.” (Interviewee 2)

Despite this, some VCs invest from different investment vehicles, which can significantly differ in size. Investment vehicles that focus on seed investments and/or high-risk industries tend to have lower ticket sizes, as they may need to diversify their portfolio more and take on more risk. This allows them to invest in a larger number of startups and spread their risk across different investments.

“The ticket size is depending on the investment vehicle but usually in my fund the ticket size is a little bit smaller and as it is during the early stage we really just look for a great team, check whether our vision is aligned with their values and if that’s given and there is some sort of traction we are basically ready to invest.” (Interviewee 7)

4.3 Know-How of Founding Team

As per the existing literature on VC decision-making outlined in Chapter 2, the expertise and knowledge of the founding team is a major driver of startup success and is a crucial factor that VCs consider when making investment decisions. Based on the data, this third aggregate dimension can be broken down into specific criteria that VCs in Germany focus on when evaluating the capabilities and know-how the founding team. Five unique criteria are included in the third aggregate dimension.

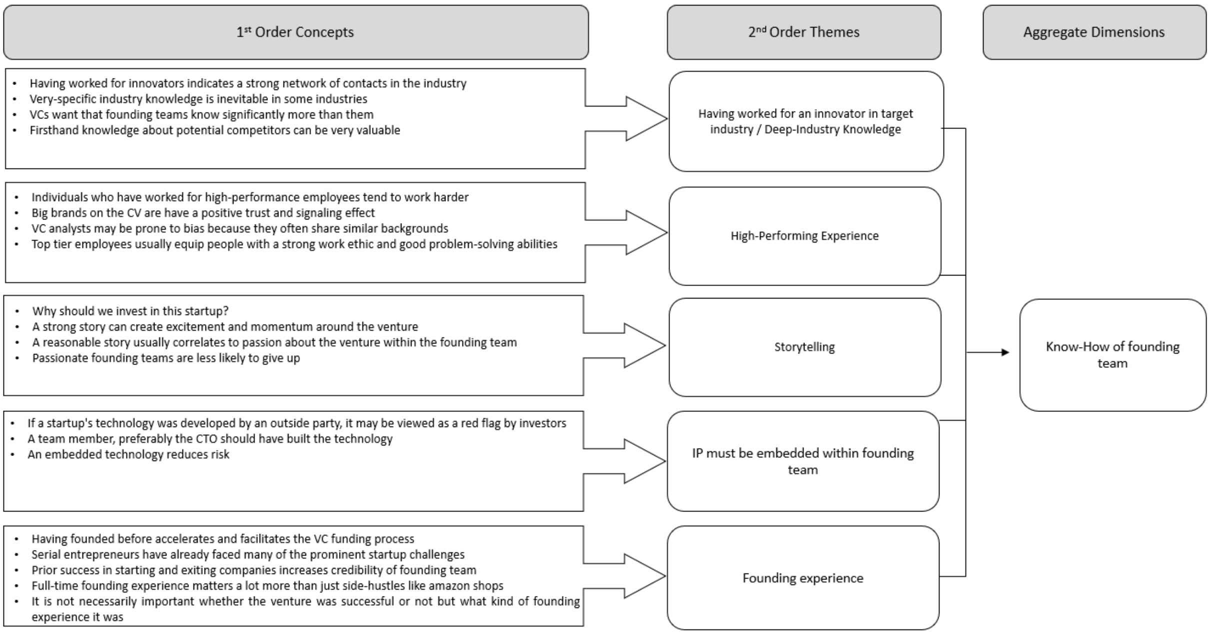

Figure 7: Third Aggregate Dimension of Grounded Theory Model (Own Illustration)

4.3.1 Having Worked for an Innovator in the Industry/ Deep-Industry Knowledge

This thesis has found that VCs in Germany tend to look beyond just the experience of the founding team. The data suggests that VCs place a high value on deep industry knowledge, and specifically, on founders who possess more knowledge about the market than the VCs themselves. Moreover, founders who have worked for innovators are particularly attractive to VCs, as they are more likely to have a deep understanding of the market and its unique dynamics that others may not.

"The best founders are these that know 10x more about their product than you do. So we want to leave the call, we didn't understand anything. That is very good." (Interviewee 5)

Especially founders who have expertise by having worked for reputable innovators in rather niche industries are particularly interesting due to their specific knowledge.

"We had one project in the agri-food sector where the founder came from Rügenwalder which is a leading innovator in this sector. If they can reasonable argue why their service or product is demanded and what problem it solve and very importantly how they came up with it, this really is a game changer for us and definitely enhances their chances of getting backed by us." (Interviewee 4)

"We actually invest in people, so we look for people who have worked for innovators in a specific industry or for well-known German startups in this space and then try to build a company with them in this industry." (Interviewee 9)

Additionally, VCs within the German ecosystem look for complementary skill sets among the team members based on their prior experiences. The interviews conducted for this thesis suggest that VCs want to see that the founders possess diverse backgrounds and skillsets that complement each other. This allows the founding team to achieve synergies, with each member bringing unique perspectives and expertise to the table. By having a diverse team with complementary skills and experiences, the startup is better equipped to handle the challenges and complexities of building a successful venture.

"So, we recently did an investment in an education mobile app where one co-founder had years of education background for Khan Academy and Google and then the other two co-founders were building apps there whole life and have already exited successfully twice." (Interviewee 3)

Entrepreneurs who have worked for an innovator or a reputable startup in their industry can offer valuable insights into the challenges that a startup must overcome to succeed. They have likely encountered first-hand the barriers to entry and obstacles that startups face and can apply this knowledge to navigate challenges more effectively.

"For example our investment in FY!, a home deco platform with a lot of tech, these founders have worked many many years together at fab.com, which was a unicorn at one point in time however failed later. And these founders knew exactly why fab.com was failed, and then together founded a startup that is addressing the issues that let fab.com fail."(Interviewee 1)

4.3.2 High-Performance Experience

Despite the fact that there is no agreement among scholars on the importance of previous high-performing jobs of entrepreneurs as VC investment criterion, the qualitative data from this study indicates a clear trend of positive signaling. It should be noted that this trend may be driven by biases, as a substantial number of the interviewees themselves had a high-performing background. Despite this potential for bias, the interviewees who reported this criterion as positive signaling recognized the potential for bias in their views. The reason why VCs tend to value entrepreneurs with previous high-performing jobs is because they are perceived to possess valuable skills and traits that are essential for startup success, such as a strong work ethic and good problem-solving abilities.

"Apart from that, I am going to be honest the classic consultants who have worked 5 years for MBB, we think they are interesting. This is solely due to the fact that we know that they can work and they know the hustle. I feel like it is just less likely for these people to say :"Oh today it is not going well, I will go home". So these people are less likely to give up and consequently more likely to work hard towards their goal."(Interviewee 11)

"I do believe, and I think everyone else who says something else is lying, that people who worked in reputable consultancies before have an edge of building a generalist venture compared to people who have not. This can be a bias as I have worked for BCG myself; however I strongly believe it's true. So, to start a venture in some very specific industries there are just a few things that you need to have in your background in order to be able to start a successful venture and solve a real problem. For those kind of scenarios, background and expertise matters the most." (Interviewee 9)

"I really think that people in both funds I worked for could have been a little bit biased because it really brings a certain level of seniority if people have already working experience in reputable firms for example. So we believe that high performance tier one consultants or bankers have better negotiation skills as well as a deeper understanding of business models and financials. So, I feel like in the German

ecosystem many VCs like to invest in similar profiles like their own ones. This is just something that I noticed." (Interviewee 5)

The importance of having worked for a reputable employer can vary fund to fund, but all interviewees in this study reported it as a positive factor in the decision-making process. However, none of the interviewees reported it as the decisive factor leading to an investment decision.

"I have to say for us these tier level consultancies and banking experience are a plus but are of rather marginal importance." (Interviewee 4)

"You basically have to look at their background and someone who has worked for tier 1 or reputable firms in general has already succeeded in some way as this is also a good achievement not everybody can achieve. So, being at McKinsey or other firms is a huge achievement in my perspective and I have mad respect for everyone and therefore do value these firms on a founders CV." (Interviewee 1)

4.3.3 Story & Motivation

The alignment of the founding story is one of the most prominent codes mentioned by every interviewee in this study and is considered crucial by VCs in their decision-making process. This factor allows VCs to understand why they should invest in a particular team, and what makes their idea unique and compelling. A strong story can help a startup stand out from competitors and can create a sense of excitement and momentum around the venture. Furthermore, interviewees reported that it can also help to build trust and credibility, as it demonstrates that the founders have a clear understanding of the market opportunity and how to capture it.

"Of course, the founding team is important; however, it is very subjective. We basically look for founders who have an amazing story that basically adds up and allows us to understand why exactly and how they came up with this exact solution for a problem. The team is a core criterion for our decision; however, there is no right or wrong and no ticking the box." (Interviewee 9)

"We want to understand the story behind the founding team. Were they together at some firm and encountered a problem together which they are now trying to solve? So, we need to understand why it makes sense why they are doing exactly what they are doing now." (Interviewee 1)

In addition to the importance of a compelling founding story, VCs also value the passion and motivation of the founding team. Investing in a team that is passionate about their product or service can reduce the risk of investing in founders who are solely motivated by making quick money. The data shows that VCs think that founders who are passionate about their project are more likely to succeed than those who are solely motivated by monetary reasons.

"You will only notice whether one is really passionate about the project once time passes but by then you are already invested. But again, you can assume and if the storytelling makes sense and they have a background that corresponds to it, it can be a strong indicator for passion." (Interviewee 2)

“What we don’t wanna hear if someone just wants to found something because they want to.” (Interviewee 11)

“At a certain period in the due diligence process, basically when we have assessed the founding team and figured out that their story and motivation add up we go over to so-called “subject matter experts” to have a deeper look at the market.”(Interviewee 4)

“So, we always want to see at least someone in the founding team who has worked in this industry for quite a while and best case encountered the problem that they are trying to solve know during their time in the industry.” (Interviewee 10)

4.3.4 Intellectual Property must be embedded within Founding Team

VCs that mainly focus on technology ventures place a lot of emphasis on the intellectual property of the technology itself. While this factor may not be a major criterion for every fund, VCs who invest in sectors such as clean tech, deep tech, or other technology-driven sectors tend to place a high value on the security of the technology. The study suggests that it is even more important for the IP to be embedded in the founding team, meaning that it was not built or developed by an external party. By having a founding member who has built the technology, the VC can reduce the earlier mentioned "key person risk" and consequently the success of the investment is less reliant on any individual.

“The IP of the startup has to be embedded in the founding team. I was looking at a startup a couple of weeks ago and I was really impressed by their technology but I was a little bit curious because based on their background it couldn’t be assumed that they were building the software. So after I asked them, they told me that two other external guys just build that technology, meaning that they had the idea but were not capable of bringing it to reality. This is a redflag for us as we always want the technology embedded in the founding team, meaning that the CTO developed the entire software and is able to react and adapt to potential changes that have to be made in real time.” (Interviewee 12)

Furthermore, when a technology was developed by an outside party, the venture is dependent on them if any kind of maintenance problems occur, nor will the founding team be able to develop the technology further. Therefore, this criterion is a decisive factor for VCs in Germany when investing in technology-based ventures.

“Okay so for us it might be a bit different as we are a fund focusing on high tech. But we specifically have the criteria that the technology is embedded and then upon receiving funding founders can get other co-founders that might be better with financials or in general with building a startup from scratch.” (Interviewee 8)

4.3.5 Founding Experience

The findings of this study agree with Santamaria & Bulchand-Gidumal (2021), who provided evidence that teams consisting of individuals who have founded an entrepreneurial project have increased chances of getting backed by a venture capital fund. This statement can be supported for early-stage VCs operating in Germany; however, the qualitative data suggests that not every entrepreneurial experience is equally valued.

“What really excites me is if someone has been through all the ups and downs of building a company already, and even better if they have already been backed by other VC or successfully exited as this kind of validates what they have done. So someone who for example has started a successful amazon shop for example is good but it is just not a massive enabler of conviction.” (Interviewee 9)

“So often, they have no entrepreneurial mindset. So, it is crucial that each founder can individually contribute and add value to the startup and we do not want to see someone who just founds because he wants to found a startup.” (Interviewee 5)

When evaluating the entrepreneurial experience of the founding team, the decisive part in VC decision-making is not necessarily whether the venture was successful or not. VCs place more value on the fact that the founders have worked full-time on a project for a longer period of time and have gained some sort of traction. VCs are aware that a large percentage of startups fail, and therefore place more importance on the experience and skills that are gained through the process of building a company. The data indicates that entrepreneurs who have already founded have likely gained valuable experience and knowledge about potential challenges along the startup journey and therefore have an advantage in obtaining equity capital.

“Right now, we are looking at a case where both of the founders have founded something together and exited several ventures successfully. This is obviously very rare but an extremely positive sign in terms of what they are capable of as entrepreneurs. I remember when we were looking at their vita and my colleague was saying that he knows their previous venture, that it was almost like we already decided to give them money just based off their previous venture because it validates their capabilities. Obviously, we are doing a through due diligence but it is definitely biased due to them being serial entrepreneurs. So, It is a trust and signaling thing.” (Interviewee 4)

Several interviewees in this study mentioned that founding teams with at least one member who has previously successfully exited a venture are highly sought after by VCs. This is because serial entrepreneurs bring valuable experience and knowledge to the table, which can increase the chances of start. In addition to that, they are often more familiar with the fundraising process and have established networks within the startup community, which can certainly facilitate the fundraising process.

“So, we just did a deal where the founder is a serial entrepreneur who has already raised and exited successfully but he is already a bit older. But there are big differences, so if you have just founded many companies which ended up not being successful it does not really help. So, obviously startups can fail and that is totally fine but if you fail over and over again I think it might even be an indicator for us to not work together with you. But it is a very subjective manner.” (Interviewee 2)

“This just simplifies the entire process as serial entrepreneurs just know what not to do and generally they know how the entire funding process works and what we as VC want to see.” (Interviewee 10)

4.4 Financial Viability and Venture Potential

The fourth and final dimension that early-stage VCs in Germany consider in their decision-making process is the financial viability and overall potential of the startup. This dimension involves assessing whether the venture has a viable business model that can generate profits and grow over the long-term. In addition, factors such as the uniqueness of the product and the scalability of the business model are also important considerations. The interviewees referred to factors related to this dimension as "hard criteria," which are critical factors that are objectively measurable. There are three major factors that VCs consider when evaluating hard criteria in the early stage, although these may vary based on the previously de scribed dimensions.

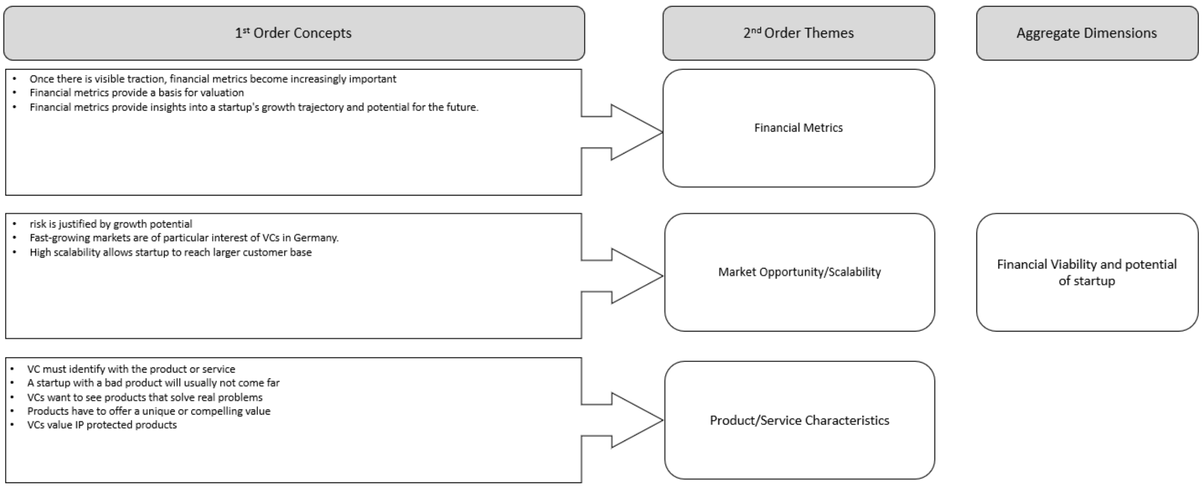

Figure 8: Fourth Aggregate Dimension of Grounded Theory Model (Own Illustration)

4.4.1 Financial Metrics

If already applicable, financial metrics are important for VCs in their decision-making as it helps them to assess the potential of a startup. Additionally, the interviewees reported that it helps to identify room for improvement as well as potential risks and challenges that might be faced in the future. This criterion becomes more important at later stages of the fundraising process.

"When a startup has already gained traction and has a proof of concept along with first revenue streams, the significance of the founding team's previous experience can diminish somewhat. This is because the startup has already validated its business idea, and investors can evaluate its potential based on its performance metrics and growth potential rather than solely relying on the team's expertise." (Interviewee 7)

"The ticket size usually differs according to the risk we attribute to the investment. Usually, we have smaller tickets when there is no proof of concept and therefore a high risk associated. We have basic criteria that the investment has to fit the sector and phase where we invest. After that, we have a due diligence process, and the investment criteria can vary between the different funds. It can be hard

criteria such as revenue growth or different KPIs, or soft factors such as the motivation and passion of the founding team." (Interviewee 6)

4.4.2 Market Opportunity/Scalability

VCs have reported that their average duration of holding an investment is between 5-7 years; however, this can vary depending on the respective industry. One interviewee has reported that life science investment requires patient capital and can be in a VCs portfolio for 15 years or more. Regardless of such industry-specific factors, a portfolio startup's business model should be highly scalable to achieve significant returns on investment within the relatively short investment period. Despite, the data suggests that a startup's business model should have the potential to scale not only domestically but also across borders or even other markets.

"We have an average hold duration of 7 years but in the life sciences area it is more 15-20. We really have patient capital." (Interviewee 8)

"Our goal is to invest in companies that have the potential to grow over the next years and generate a good return for us and our investors. This is important because we need to justify the high risk we take and investing in a scalable model can help to mitigate that risk. Usually we would not consider ventures that for example cannot be scaled across regions or markets." (Interviewee 1)

"We also look for promising markets that have been growing throughout the last years and have the potential for sustained growth in the future. This allows us to invest in companies that have the potential to grow alongside the market and capture a larger share of the opportunity." (Interviewee 5)

4.4.3 Product/Service Characteristics

The interviewees reported that the product itself and its characteristics have to be unique and exciting for the VC to invest. This finding aligns with the longitudinal study of Petty & Gruber (2011) which that criteria related to product/service characteristics in the first 6 month of the evaluation process are main reasons for a startup's denial of venture capital.

"Obviously, we have to get excited about the product itself. If it is something we do not care about we usually do not go deeper." (Interviewee 6)

"As a matter of fact, a really good founder on a bad model won't go anywhere. That's the hard truth."(Interviewee 9)

The data also shows that VCs want to see a product-market fit, meaning that the product or service meets the needs of the market. This indicates that there is a viable customer base for the product or service in the future. (Dennehy et al., 2016). According to Dennehy et al. (2016), more than 98% of new product ideas fail. This emphasizes the importance of a product-market fit, as reported by the respondents.

"The product was still quite early, and in my opinion, there was no product-market fit yet which together with the fact that they were really arrogant lead to a rejection of investment." (Interviewee 7)

"One of these pillars would be market sizing, related to it there has to be an actually existing product." (Interviewee 9)

4.5 Grounded Theory Model on Early-Stage VC Decision-Making in Germany

Due to the existing gap in literature regarding research on early-stage venture capital decision-making from the investors' perspective, this qualitative research study provides a refined assessment of the drivers that influence VC decision-making. After analyzing and discussing the results of the interviews and considering the current academic perspectives, a grounded theory model for early-stage VC decision-making in Germany has been developed to build up on the theory described in section 2. This model takes into account the various factors that early-stage VCs in Germany consider when evaluating potential investment opportunities.

By developing this grounded theory model, this study contributes to the understanding of early-stage VC decision-making in Germany and provides valuable insights for both investors and startups seeking funding. In addition, the grounded theory model aims to answer the given research questions of this master thesis and subsequently to shed light on the role that the prior experience of entrepreneurs plays in the VC decision-making process.

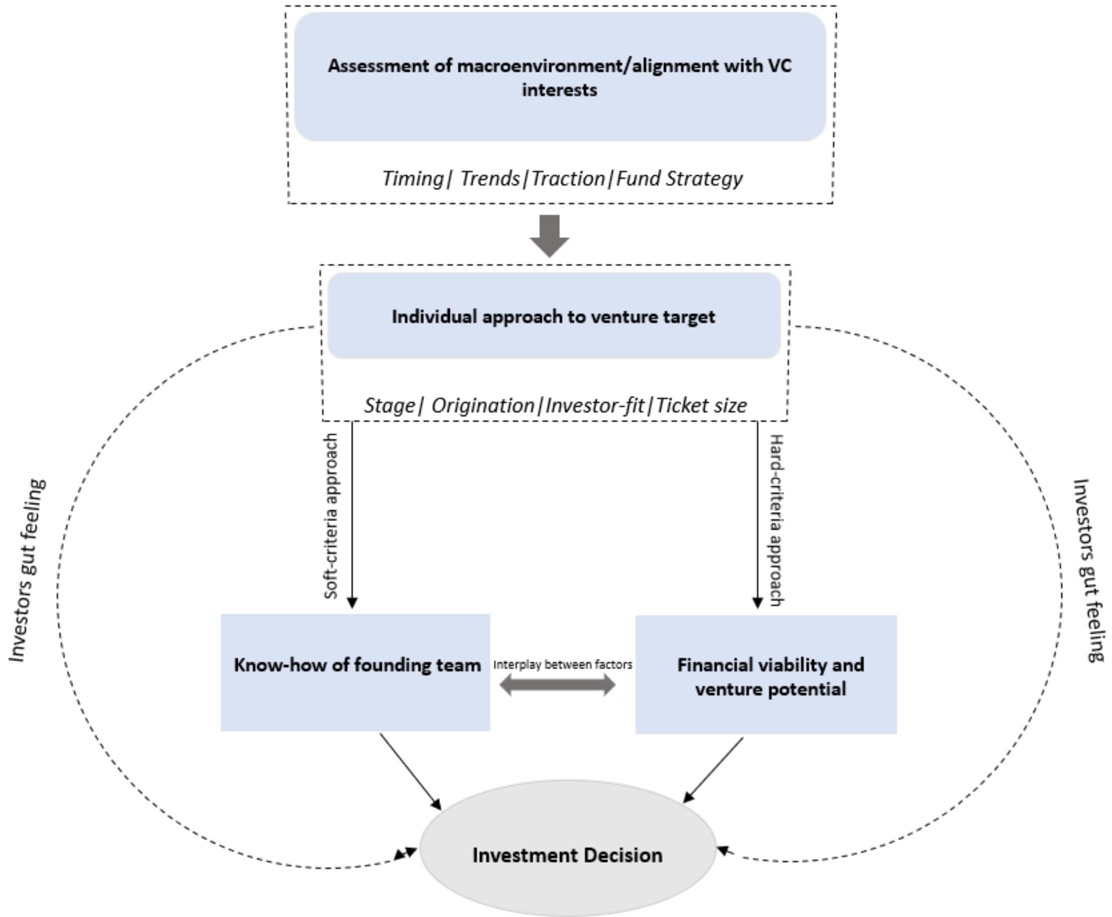

Figure 9: Proposed Grounded Theory Model on Early-Stage VC Decision-Making in Germany (Own Illustration)

4.5.1 Explanation of Model and Proposed Relations between Dimensions

The research and the derived model on early-stage VC decision-making in Germany illustrates the degree of subjectivity included in the decision-making process.

"Especially during early stage investing, it always ends up like an instinct kind of decision, of course based on a couple of pillars that everybody who is in the industry for a bit can quickly assess." (Interviewee 9)

VC funds typically begin by assessing the macro-environment and determining whether a potential venture aligns with their interests and fund strategy. This is considered the first essential step that cannot be skipped, even if relying on intuition or gut feeling. As previously discussed in section 4.1, if the venture does not align with the first aggregate dimension, VCs will typically not proceed further in the due diligence process.

After passing the initial dimension, early-stage VCs then determine how to evaluate the venture target based on the "individual approach to venture target" dimension. The research data showed that factors such as stage, ticket size, type of origination, and co-investor fit significantly influence the decision-making process.

The study also revealed that venture targets associated with higher risk, such as those in the seed-stages, without any form of traction, correspond to a lower initial ticket size. In such cases, VCs tend to rely on a "soft-criteria approach," where the founding team and their individual backgrounds and compositions matter more than "hard criteria" that may not yet exist. The type of experience that holds the most value for VCs when assessing the founding team varies depending on the first two dimensions. The background that is most useful differs from case to case. The "Assessment of macro-environment/Alignment with VC interests" and "Individual approach to venture target" dimensions influence the key metrics that are most valuable in the chosen approach. Therefore, the weight attributed to each 2nd order dimension depends on various factors, such as industry, ticket size, stage, and so on.

Furthermore, the model indicates a direct link between the "Individual approach to venture target" dimension and the VC's decision-making process. This study found that the gut feeling of investors can be a powerful factor, particularly in early-stage VC investments. The line is represented as dotted, because the qualitative data suggests that gut feeling can be a decisive factor, though it is not the sole driver of a VC's decision. The gut feeling line does not begin at the first aggregate dimension because if it does not align with VC interests, they will not consider investing in the venture target. It's important to note that a gut feeling decision is typically rooted in the VC's connection to the founding team and their belief that the team has the specific capabilities needed to build the startup.

"Sometimes we even invest in a startup solely based on our gut feeling about the founding team or because we believe it is the right time to enter a particular market, even if the product or service is not fully developed yet but if the market opportunity or timing is not good, no matter how great the founding team is, we still would not invest. "(Interviewee 7)

"The past has shown that our initial gut feeling is often accurate. So, even if we're not fully convinced about a potential investment opportunity, we tend to discuss and ultimately rely on our intuition when it is on the fence."(Interviewee 11)

The qualitative data suggests that there is no one-size-fits-all decision-making process for VCs, as it depends on a variety of factors included in the model. As depicted in the grounded theory model, VCs typically choose either the "soft-criteria" or "hard criteria" approach, but they also consider important criteria from the other approach. Therefore, it can be concluded that VCs tend to choose one approach, but they are guided by relevant criteria from the other approach as well if they are applicable.

4.6 Additional Findings

It should be noted that there were additional findings from the research that were not incorporated into the grounded theory model, but they may still be of interest. For instance, the study revealed that there are numerous undervalued entrepreneurial ecosystems in Germany, as it is currently too focused on Berlin. According to one interviewee, the region around Osnabrueck might be an interesting ecosystem due to its thriving entrepreneurial hubs and many hidden champions in the area. Given the intense competition for good ventures in the VC industry, it may be advantageous for VCs to explore investment opportunities in other areas beyond the typical venture hotspots, as previously discussed in section 3.3.1.

"So what we do currently, we believe that Osnabruck is an underrated ecosystem because many people don't have it on the radar. So, I recently did a list with all cities with more than 100.000 inhabitants and a university and now we are going through that list and we are trying to evaluate each of these ecosystems as we believe that within Germany there are many and I really mean many still undervalued ecosystems as basically everything concentrates in Berlin." (Interviewee 4)

The qualitative data indicates that VCs in Germany tend not to provide equity financing to single founders. This is because VCs perceive single founders as carrying an unacceptable level of risk, and they believe that no individual entrepreneur can handle all the challenges that a startup may encounter. Moreover, different skillsets and expertise are required, which cannot be covered by a single founder, according to the data. In rare cases where VCs are impressed by a single founder, they may offer advice or assistance in finding suitable co-founders to return at a later stage.

“It is also close to impossible for a single founder to cope with all the challenges when growing a venture and we believe that it is crucial to have different perspectives on every decision which is again, why we don’t invest in single founders. If however, single founders pitch to us, usually we advise them to either look for a good co-founder or we already had the situation where we knew someone from our network who we then connected to the person.” (Interviewee 5)

“If somehow, a single founder pitches us an amazing idea and we are impressed by the entrepreneur, then we will help them to find co-founders or advise them to find them on their own and then come back to us for further discussions but until that point we will not invest.” (Interviewee 2)

Additionally, an opposing viewpoint among interviewees was observed regarding founding team creation programs such as Entrepreneur First or Techstars. While one interviewee reported that VCs prefer founding teams that have formed naturally over a longer period of time, another interviewee reported positive experiences and stated that they source deals through such programs.

“Our observation is that when founders who have no prior relationship or experience working together are quickly formed into a team during a one-month program, they are more likely to fail than teams who have had more time to build and develop their relationship. In our experience, it is more successful when team members meet earlier and have already built something together.” (Interviewee 8)

“And then there are very interesting programs that we work closely together, such as entrepreneur first.” (Interviewee 3)

5. Discussion and Implications

This final chapter provides a comprehensive summary of the key findings of the study and highlights their academic and practical implications. The section starts by elaborating on the propositions in the model. It then compares the results with the existing literature, and outlines the main contributions of the study to the academic and practical fields.

5.1 Propositions in the Grounded Theory Model

In developing the grounded theory model on early-stage VC decision-making, the following seven propositions with regards to relationships within this model could be drawn.

Proposition 1: Given the highly subjective nature of the VC decision-making process, it is proposed that the investor's gut feeling can override minor imperfections in both "soft" and "hard" criteria.

Proposition 2: The type of experience that VCs value depends on the respective industry and development stage. In technology driven industries, relevant industry experience or having worked for an innovative firm is most relevant. On the other hand, in customer-centric ventures, having worked for top-tier employers seems to have the strongest signaling effect.

Proposition 3: It is proposed that managerial experience of the founding team is of little relevance for the VCs decision-making during the early-stage as it only becomes more sought after at later fund raising stages.

Proposition 4: It is proposed that not all entrepreneurial experiences are equally valued in the decision-making process of VCs. The type of experience is a crucial factor in determining whether it will facilitates the decision or not.

Proposition 5: The proposed grounded theory model suggests that the macroeconomic environment and individual decision-making approach dimensions play a critical role in VCs' decision-making process in Germany. These factors act as prerequisites that guide VCs before they delve deeper into one of the two proposed approaches.

Proposition 6: This master thesis proposes a connection between the "hard" and "soft" criteria approaches, suggesting that the investment decision is often driven by a combination of both types of criteria. The weighting of each approach may vary depending on other dimensions, such as the stage of the investment and the availability of traction. It is proposed that the later the stage and the more traction available the more important are "hard criteria" and vice versa.

Proposition 7: Lastly, it is proposed that the model mirrors the decision-making of early-stage VCs in Germany, however a high subjectivity is always included. Even within the same entrepreneurial ecosystem, VCs may have opposing views or approaches, resulting in differences in their decision-making.

5.2 Key Findings

The following section will analyze the results presented earlier and address the research question of how VCs in Germany make investment decisions and the role of entrepreneurs' experience in this decision-making process.

The grounded theory model presented in this study comprises four aggregate dimensions that are the primary drivers influencing VC decision-making in Germany. These dimensions have subcategories that VCs consider when assessing venture targets. The categories identified as the key drivers include assessment of macroenvironment/alignment with VC interests, individual approach to venture target, know-how of founding team, financial viability, and venture potential.

The first dimension serves more as a prerequisite and determines whether a venture target could be of interest to the VC firm. The other three dimensions, along with the gut feeling of investors, are interconnected and can all play critical roles, depending on the individual investment opportunity. The qualitative data confirms literature in the fact that the decision-making process is highly subjective, and each VC firm handles each venture target differently based on their interests. Nonetheless, the grounded model covers all relevant aspects mentioned by the interviewees.

Additionally, the expert interviews revealed a new classification of evaluation approaches, which distinguishes between a "soft" or "hard" criteria approach to decision-making. The results indicate that the other two dimensions, namely the assessment of macroenvironment/alignment with VC interests and the individual approach to venture target, influence how VCs arrive at their decision. However, the stage and ticket size of the venture target appear to be the most significant drivers in determining which approach is chosen by VCs participating in this study.

The most prominent finding that emerges from the study is the importance of the founding team, being mentioned by all twelve interviewees. When looking at founding team, the outcome of this master thesis cannot confirm the findings of Ratzinger et al. (2018) which provided evidence for an enhancing probability of receiving equity financing through university education.

This master thesis reveals that the VCs who participated in the research do not place a significant emphasis on universities or degrees when evaluating entrepreneurs, but instead prioritize the relevant experience of the founders and how they complement each other within a founding team. It should be noted that the previous experience of entrepreneurs was identified as a strong supportive factor and positive signaling. However, the data indicates that an entrepreneur's experience alone cannot be the sole factor driving a VC's investment decision. Nonetheless, the interviewees reported that an entrepreneur's experience can strongly influence a VCs gut feeling and therefore impact the subsequent investment decision.

The study has also shown that venture capital in Germany has changed over time and has become much more founder centric making it more difficult for VCs to get satisfying returns. Additionally, there is an increasing amount of aspiring entrepreneurs demanding Venture Capital, requiring VCs to shortcut in their decision-making which is the main reason why gut feeling is of such high importance in the early-stage.

The data from the study confirmed the findings of Gompers et al. (2016) already outlined in section 2, regarding the most important human capital factors, as passion, industry-relevant experience, and entrepreneurial experience were frequently mentioned codes in the third aggregate dimension. It is important to note that passion is considered a prerequisite, while the other dimensions in the grounded model determine whether industry-relevant experience or entrepreneurial experience is of greater importance in the VCs decision-making process.

Furthermore, the findings and proposed model of this master's thesis complement the results of Eisele's (2004) study on VC decision-making in Germany. Both studies emphasize the importance of the founding team, especially in the early stages of a venture. Despite, we find product and market characteristics to be more important once traction is visible which is also in line with Eisele (2004). Interestingly, while their study identified "Familiarity of Management with target market" as important factor in the early-stage, it is stated that it becomes more important at later stages. Contrary, the interviewees of this study reported that industry experience is more relevant during the early-stage to achieve a product-market fit from the outset.

This research shows that when the first two dimensions in the grounded model have been identified and it comes to the assessment of the founding team, VCs tend to most value founding experience and industry-relevant experience. With regards to previous founding experience, the interviewees agreed that neither success nor failure are decisive for the weight attributed to this criterion, but rather the type of venture founded, and the effort put into it. The data suggests that previous serial entrepreneurs have better chances of getting backed as their capabilities have already been validated.

Furthermore, VCs seek team members with industry-relevant experience, particularly those who have worked for innovators in the relevant industry, as it provides founders with a competitive advantage due to their specific in-depth knowledge.

Surprisingly, this study shows that even though mentioned as highly relevant by Naiki & Ogane (2022) for an entrepreneur’s success, managerial experience of founders is not a critical driver in the decision-making process of early-stage VCs in Germany as this aspect becomes only more relevant at later investment rounds where VCs usually have the possibility to help their portfolio startups by for example appointing an external CEO. Furthermore, in technology-driven sectors one of the most prominent decision-making factors is that the IP of the technology is embedded within the founding team.

Furthermore, this thesis reveals evidence of biases in VC decision-making, where VCs have a tendency to favor founders with backgrounds similar to their own. The data showed that interviewees with a "high-performing" background reported stronger signaling effects for entrepreneurs who have worked for top-tier employers compared to interviewees who do not share such a background. The strategy and success of a VC and startup partnership results of a combination of factors which each VC uses differently and to their advantage. Lastly, the interviewees confirmed that having a well-balanced skillset and diversity within the founding team is critical during the early stages of a startup. These findings are consistent with the research of Stuetzer et al., (2017).

Lastly, nine of the twelve respondents stated that their decisive argument whether or not to invest in a venture at the early-stage is whether the overall story of the founding team makes sense and whether the VC believes that this team is the right team to cope with the addressed problem.

The presented key findings, anchored in the grounded theory model, provide a comprehensive answer to the stated research question and contribute to the discussion on venture capital decision-making in Germany by offering a comprehensive overview of the main components of the decision-making and the corresponding role of the entrepreneur's experience.

5.3 Academic Implications

The study fills a research gap identified by previous scholars and explores the role of entrepreneurs' experience in the VC decision-making process. While human capital has been the focus of much research in the field, the specific role of experience has not been fully explored. Additionally, while most existing research on VC decision-making is quantitative in nature, this study offers an explanatory approach by proposing connections within the developed grounded theory model.

Furthermore, the study provides a unique perspective on the topic by examining it from the investors' viewpoint. Most previous research has been conducted from the startups' perspective, due to the challenges of interviewing a significant number of VC experts in a single entrepreneurial ecosystem. Therefore, this study offers a valuable contribution to the literature on VC decision-making, especially in the under-researched context of Germany.

The importance of startups in driving economic growth and fostering innovation is widely recognized in academia. VC backing is often crucial for the success of startups, as it provides significant financial resources to scale the business (Hechavarria et al., 2016; Ratzinger et al., 2017; Colombo & Grilli, 2010; Berger & Udell, 1998). Therefore, this thesis contributes to advancing the understanding of VC decision-making, providing valuable insights for entrepreneurs seeking capital.

5.4 Practical Implications

This master thesis provides practical implications for both VCs and aspiring entrepreneurs seeking investments. For entrepreneurs, it is suggested that they carefully consider the composition of their founding team and ensure that it includes individuals with complementary backgrounds and skillsets. Additionally, before seeking funding, founders should research the VC's investment strategy to ensure their startup aligns with the VC's interests.

The thesis demonstrates to aspiring entrepreneurs that previous founding experience, even if it includes failure, can be seen as positive signaling for VCs participating in this study. Therefore, entrepreneurs should not be discouraged from seeking funding due to past entrepreneurial failures. Instead, they should highlight their previous experiences and learn from them to improve their future ventures.

The results of this study reveal some tactics used by VCs in Germany to filter out startups seeking funding, such as through origination. The findings suggest that it is beneficial for entrepreneurs to reach out to VCs through warm introductions or referrals. Interviewees also mentioned that uploading pitch decks via the VC's website may lead to the startup being overlooked due to the overwhelming number of aspiring startups seeking VC capital and rather more personal methods of initiating contact should be used.

For VCs, this master thesis highlights the importance of considering a variety of factors beyond just the financial potential of the startup. The data reveals biases in early-stage VC decision-making in the German entrepreneurial ecosystem, where VCs tend to favor founders with similar backgrounds. To address this, VCs should strive to maintain an objective decision-making process. Overall, the findings of this study can assist both VCs and startups seeking investments to make informed decisions and improve their chances of success.

6. Conclusion

As significant contributors to economic growth, startups play a crucial role in the dynamic German entrepreneurial ecosystem. Although entrepreneurship studies have gained considerable attention throughout the last decades, there remains a lack of research on how VCs make their investment decisions, and specifically, what impact the founding team and their previous experience have.

This study makes a valuable contribution to academia by offering a comprehensive overview of factors that shape the investment decisions of early-stage VCs in Germany. The proposed grounded theory model makes a novel contribution to this topic by proposing four aggregate dimensions that high-level describe VC decision-making in German derived from the qualitative data through Gioia et al. (2013). These dimensions are 1) Assessment of macroenvironment/alignment with VC interests, 2) Individual approach to venture target, 3) Know-how of founding team, 4) Financial viability and venture potential.

We find that the entrepreneurs' previous experience can serve as strong positive signaling in a VCs decision-making process, however not as the sole driver of an investment decision. The industry-relevant experience and entrepreneurial experience of founders have most impact on a VCs decision-making. However, it has to be noted that not every entrepreneurial experience is equally valued by VCs. The findings of this master's thesis and the developed model underscore the subjectivity of the topic and emphasize the important role of the founding team in a VCs decision-making, particularly when no traction is available.

6.1 Future Research and Limitations

As with most studies, this master thesis has several limitations primarily emerging from its qualitative nature. In this final section, these limitations will be addressed, and recommendations for future research will be provided.

As described the Gioia method for qualitative research was used to analyze the data. Guba & Lincoln (1985) suggest using member checks to increase the trustworthiness of a research of qualitative nature. These "member checks" refer to the process of seeking feedback and validation of data and interpretations with members of the field under study, as a form of communicative validation (Guba & Lincoln, 1985). Due to the limitations of time and the independent nature of this master thesis, it was not feasible to collaborate with other researchers. It is important for readers and future researchers to keep in mind that this study was conducted by a single researcher, and any potential limitations or biases associated with this should be considered.

This study has provided valuable insights by developing a grounded theory model (Figure 9) that details the key factors that influence early-stage VC decision-making in Germany from an investor's perspective. Additionally, the study has proposed a set of propositions that outline the relationship between the four aggregate dimensions of factors. Future research studies can build on this foundation by conducting qualitative or quantitative research to test the proposed model and its propositions, thereby verifying its validity and relevance to the topic. While this thesis has shed light on the role of entrepreneurs' experience in the decision-making process, future studies could further explore other factors, such as the specific role of accelerators or incubators.

It is important to note that the findings of this study are specific to the German entrepreneurial ecosystem and may not necessarily be generalizable to other regions or countries. Future research can explore whether the proposed grounded theory model in this master thesis is applicable in other geographic regions outside of Germany and investigate potential differences among entrepreneurial ecosystems and potential adaptions that have to be made. Despite, scholars could elaborate on other factors that may influence the decision-making process, leading to a more comprehensive understanding of how early-stage VCs make their decisions. These efforts could help refine the proposed model and subsequently enhance its usefulness to the field of entrepreneurship studies.

Lastly, it is worth noting that future researchers can consider using a larger sample size or alternative research methods to provide additional insights. However, as outlined in section 3.3, the saturation point for qualitative data was achieved with the sample size of 12 interviewees.

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8. Appendices

8.1 (A) Interview Questionnaire

-Interview Guide-

Master Thesis

Student: Louis Tyralla
Supervisor: Rand Gerges-Yammine

Understanding Early-Stage VC Decision-Making: The Role of the Entrepreneurs Experience in Obtaining Equity Financing within the German Entrepreneurial Ecosystem

February 2023

ESCP BUSINESS SCHOOL

CATOLICA LISBON BUSINESS & ECONOMICS

Semi-Structured Interview Questions:

Section 1: Introduction of Interview partner

1. Could you kindly introduce yourself and the VC you work for, including the preferred industries, the size of the respective funds and your typical investment ticket?

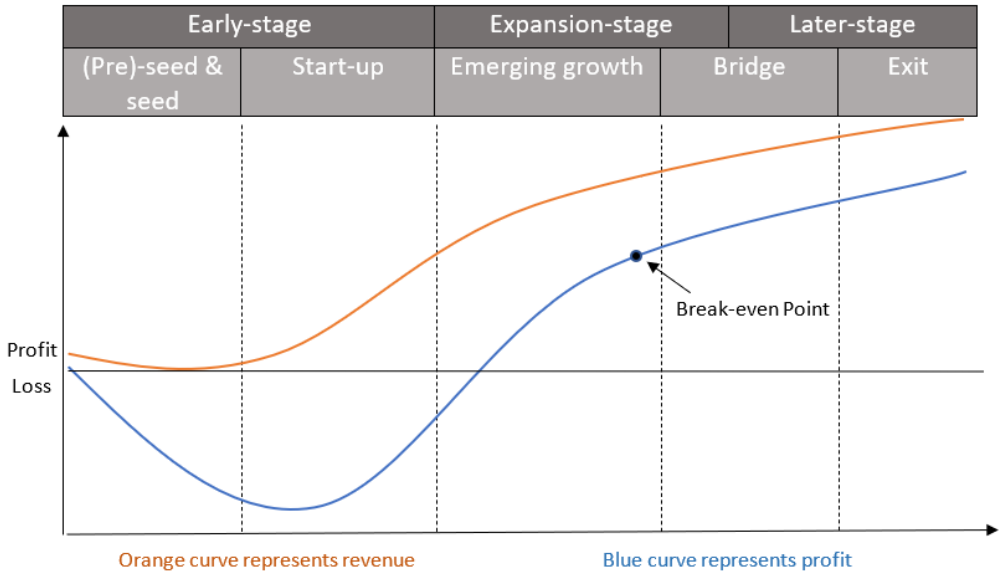
Section 2: VC decision-making

2. Please tell me about your experience in the VC industry and how you generally evaluate potential investments?
3. How do you typically structure deals in the early-stage and what factors influence those decisions?
4. How does your deal origination process work and what kind of origination is preferred?
5. Are there any prerequisites a startup must fulfill before going deeper in the evaluation process?
6. What are red flags you consider when assessing a venture target?
7. How does your decision-making process of VCs change as a startup progresses through different development phases and start to gain some traction?
8. Can you walk me through an early-stage investment decision you made, and the factors that ultimately led to your decision to invest or not invest?

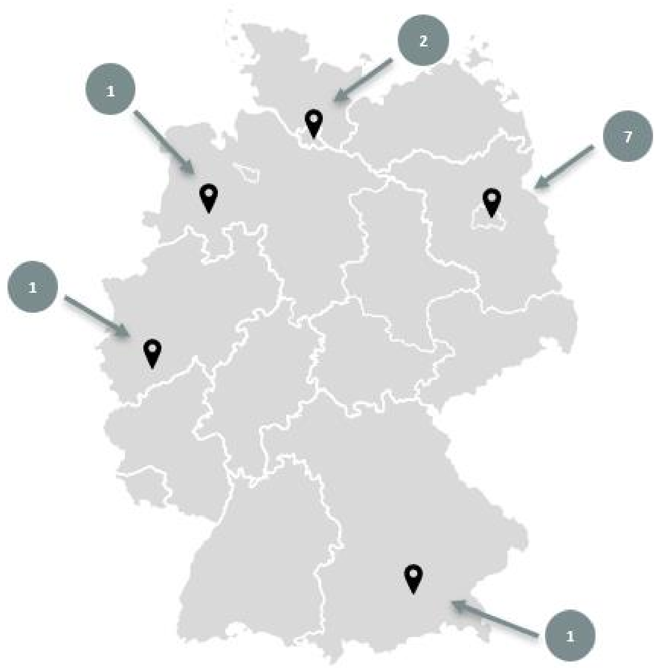
Section 3: The role of the founding team and specifically the previous experience

9. How much weight do you give to the founding team and its composition in your investment decision-making?
10. When it comes to human capital, which do you consider more important: education or experience of the entrepreneur?
11. What factors do you consider most important when assessing a startups founding team?
12. Of the three, which do you consider most important: managerial experience (C-Level background), Industry-specific experience and entrepreneurial experience and why?
13. Please provide an example where the entrepreneurs previous experience played a key role in your decision to invest?
14. How do you weigh the importance of the founding team, particularly their previous experience, against other factors such as market opportunities, timing or product innovation?

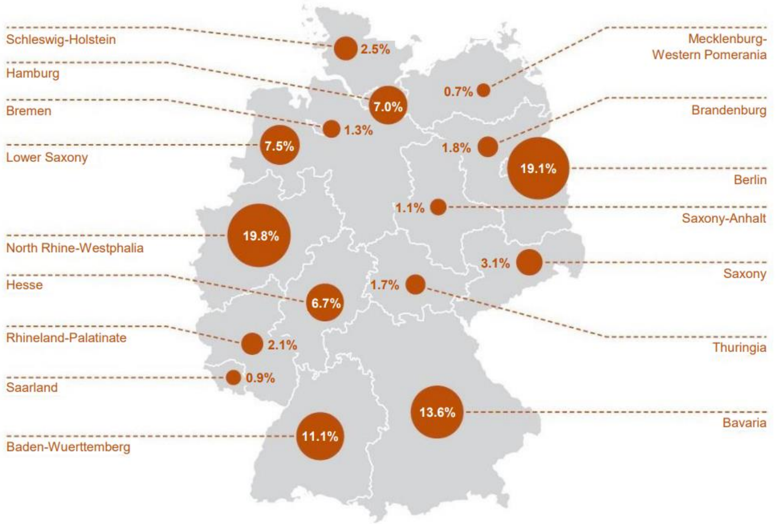
8.2 (B) VC Investment Stages



8.3 (C) Geographical Locations of Sample



8.4 (D) Startup Headquarters by Federal State in Germany



8.5 (E) Additional Interview Extracts Supporting Data Analysis

1st Aggregate Dimension (Assessment of Macroeconomic environment/Alignment with VC interests)	
Timing	*"Timing is also critical when launching a product. Being too early or too late can lead to the failure of a venture. Launching too early can mean that the product is not ready for the market, and customers may not yet be ready for it."*
	"We have basic criteria that the investment has to fit the sector and phase where we invest. After that, we have a due diligence process, and the investment criteria can vary between the different funds. It can be hard criteria such as revenue growth or different KPIs, or soft factors such as the motivation and passion of the founding team but also obviously factors such as timing or market opportunity are crucial."
	"Also nowadays it is way harder to get to these high valuations than just a few years ago."
Trend Alignment	*"So, we mainly use CrunchBase to check for the latest trends and to check where we want to head".*
	"We have someone who always checks for the latest trends to keep us updated."
Traction/Expectation Alignment	*"For traction it is important to look whether all the traction is only family and friends. So, you have to be careful with that. So traction is very important for us and we really wanna understand it to understand the scalability of the startup."*
	"Traction is super important to us, and it's becoming even more important over the years."
	"Honestly, I think the importance of the founding team and the degree of their background or previous experience is depending on the traction of the startup."
	"The less traction a venture has the more the previous experience accounts in the ventures decision making."
	"Traction could be anything from revenue or a certain amount of discord followers or investors who are already onboard and believe in the product."
	"If founders are surrounded by a good team, have a good product and some sort of traction we really do not care from what university they come or whether they even studied."
	"So someone who, I don't know, did McKinsey for 10 years but just wants to start up so they just want to work less. That's what we're trying to find out in these interviews. So, because of the early stage of our investment, the most important thing for us is the drive of the founder and their experience, which they can leverage if necessary."
Fund Portfolio Strategy	*"The general investment decision process is quite complex and depends on the specific investment funds we have."*

	"After that, we have a due diligence process, and the investment criteria can vary between the different funds."
	"We only invest if we have the feeling that we can significantly contribute to the venture and that our equity stake will have a certain leverage effect on the startups success."
	"In contrast to other funds we allow ourselves a certain flexibility as we invest the first time between 200k to 1million euro, depending on the demand etc. as lead, co-lead."
	"We see ourselves more as a financial service and we don't impose any actions at all on the team, which again explains why it is so important to thoroughly look at the team before investing because we will not have the chance to interfere in their decision-making."
2nd Aggregate Dimension (Individual Approach to Venture Target)	
Assessment of Development Stage	*"I mean honestly in the initial stages you mostly have the team which makes it so important and then later on, the more traction a startup gets in terms of co-investors or revenue streams the more quantitative it will be. I mean in later funding rounds we basically only look at the KPIs but during the seed-phases it is a bet that we do on the founding team and whether we believe that they are capable of being successful."*
	"So, the only reason why we did these investments was because they had co-founders in prospect and for us it is very important that each co-founder is incentivized by having a similar share count for example. From my experience, if this is not the case this can lead to conflicts at later stages."
	"We have basic criteria that the investment has to fit the sector and phase where we invest."
	"So, we are in exchange almost on a daily basis at least during the initial phase either via WhatsApp, slack or through our weekly or bi-weekly meetings."
	"The later the phase the more important it is for us that the team is getting complete and all necessary functions are taken and that there is a certain amount of seniority and completeness."
Deal origination	*"When it comes to the origination, there are two processes for us. They either come through our network or we do a form of "headhunting" where we focus on the background of the founding team."*
	"We are making reference calls, ideally someone that we know and that we can trust. By doing so we want to get insights about the founding team."
	"Additionally, we do reference calls where we try to talk to people who can give us insights about the team and their capabilities."
	"So, mainly deal originate inbound; however many through our network. Network is crucial in the origination process especially in such a small ecosystem like the German VC."
Co-Investor Assessment/Fit	*"As our strategy is to be a lead investor, we are really close with our companies and provide them with hands on support especially for pre-seed and seed portfolio companies."*

	"So, this was something that we really like to see and I have to say that the competition between VC funds to actually being the lead investor in this particular startup was extremely high just because auf the trust established through their background."
	"We want to know our co-investors and obviously having a good relationship with other invested VCs facilitates the process."
Size of Investment	*"The ticket size usually differs according to the risk we attribute to the investment. Usually, we have smaller tickets when there is no proof of concept and therefore a high risk associated."*
	"Our ticket size in Germany is 100k euro for exactly 11.5%. This can vary from country to country but it is usually in this range."
	"And I don't know if that's relevant for you but our ticket size is between 500k to 4 million euros as initial ticket as we are going in as lead investor."
3rd Aggregate Dimension (Know-How of Founding Team)	
Having worked for an innovator/Deep-Industry Knowledge	*"I think it is important to mentioned that not everyone has to have years of industry experience or experience at all that why it is so important to have a diverse team and not a single founder because then you can have one with the industry-relevant experience, one who has managerial experience and maybe even someone who has already founded."*
	"It is really all about the founder-topic fit, meaning that they have relevant industry experience that equipped them with the necessary skillset to cope with the addressed problem in the industry they want to enter."
	"When we for example evaluate startups aiming to solve issues for the German Mittelstand, we look for people with relevant industry experience."
	"As we are an early stage investor, look for someone who has worked in the industry for quite a while because we want that the founder knows more about the industry than we do."
	"So, when looking at the team, we do not invest in single founders at all. We want a diverse team and we love to see a CTO who has experience in building software and it is very good if someone on the operational side has industry relevant experience."
High-Performing Experience	*"Reputation of the previous employer is a huge plus and we definitely value if entrepreneurs have reputable consultancies or banks on their CV."*
	"I do believe, and I think everyone else who says something else is lying, that people who worked in reputable consultancies before have an edge of building a generalist venture compared to people who have not."
	"I believe that consulting does not make you a better entrepreneur. It is just a stamp on your CV, that signals us as a CV that in theory you are smart and you might have some decent contacts and knowledge to leverage."
	"This is something that we also really like to see and this is way more important than having a nice degree or having worked for a reputable consultancy before. But again, the mixture and diversity of the team is decisive. We want to see a team of 2-4 people, all having different

	backgrounds, personalities and skillsets that perfectly complement each other.”
	“Then there are factors when we screen them on LinkedIn: we check whether they have worked in a big consultancy or whether they have worked at big tech or at a good scientific hub. So, these are signals that they know what they are doing.”
Story & Motivation	*“I am somehow very skeptical because I know they don’t know how these firms work plus they did not really experience the problem first hand which is negative in terms of the overall story of the team.”*
	“So the founders have to showcase a credible story.”
	“We basically need to understand the story and it all has to make sense for us.”
	“We always ask founders about their motivation and let them explain in detail how and why they came up with this idea and what problem they want to solve. This really helps us to understand their motivation and passion for the venture.”
	“Then, passion and commitment are important, and leadership expertise is also very important. So, if one is passionate but cannot build a team, it doesn't work because you cannot scale the company.”
	“Obviously passion and motivation go strongly along with this but I really think there is no real way to test. You will only notice whether one is really passionate about the project once time passes but by then you are already invested.”
Intellectual Property must be Embedded within Founding Team	*“we want to minimize the “Key person risk.”*
	“With a couple of questions we always try to understand whether at least the CTO knows their technology and whether they have developed their technology alone.”
	“For us it is very important that, the team has a CTO onboard who can constantly work on bugs or adaptions or improvements on the technology.”
Founding Experience	*“Someone who is a serial entrepreneur definitely showcases passion not necessarily about the product itself but about building something useful for society and being passionate about the challenge of solving a problem.”*
	“However, it's important to note that the value of previous founding experience also depends on the nature of the venture. A full-time, dedicated venture is much more valuable than a side hustle or hobby project.”
	“But what really excites me is if someone has been through all the ups and downs of building a company already, and even better if they have already been backed by other VC or successfully exited as this kind of validates what they have done.”
	“So the last investment that we did, the founder was a serial entrepreneur and he has already exited multiple business successfully.”

	"I would say that serial entrepreneurship and industry relevant experience is something that is a huge bonus if present in the founding team."
	"Often, they have no entrepreneurial mindset."
4th Aggregate Dimension (Financial Viability and Potential of Startup)	
Financial Metrics	*"Later on the importance of the founding team decreases usually as mostly when we do growth investments we already know the founding team for many years and there are already other KPIs such as revenues or gross profit at this stage. So there are completely different metric to look at."*
	"The main thing is that we look for companies with a focus on revenue. We like to see some initial sales already, usually under $1 million, and our investment tickets can go up to $1 million per startup."
	"I mean in later funding rounds we basically only look at the KPIs."
Market Opportunity/Scalability	*"It is very important that the business model is not restricted that the highest returns can be achieved."*
	"There has to be a visible demand by the market and an identifiable opportunity."
	"I mean in later funding rounds we basically only look at the KPIs."
	"Meaning that they understand their product as well as the market and the corresponding market demand for their product."
Product/Service Characteristics	*"So, personally in the first assessment I focus on the actual product or service."*
	"See we have a team who has a great product and a mediocre team, this only works if there is a strong pull effect from the market
	"If founders are surrounded by a good team, have a good product and some sort of traction we really do not care from what university they come or whether they even studied."