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FACE-TO-FACE - HOW EARLY-STAGE INVESTORS EVALUATE FOUNDING TEAM CHARACTERISTICS

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Abstract

Venture capital investors (VCIs) have been recognized as drivers of innovation for their commitment to risky private-market investments. To mitigate risk, VCIs enrich their assessment of potential investments by drawing conclusions on the founding team characteristics (FTCs). Through assessing FTCs, the investor can approximate a team's ability to tackle future challenges. Characteristics of founders are widely researched and may, for instance, reflect passion or industry experience. However, less is known about *how* seed or early-stage (SES) VCIs perceive and assess FTCs. The study at hand embraces this research gap and examines the process structures of FTC evaluation of SES VCIs. To do so, a qualitative study with 19 participants is conducted. With the support of Signaling Theory (ST), Behavioral Decision Theory (BDT), and Fuzzy Logic, results are analyzed abductively and a process structure is derived. The analysis supports the idea that SES VCIs collect observable signals emitted by founders that are representative of unobservable qualities. Perceived FTCs are labeled with the type of respective signals, venture context, and recurring patterns. The subsequent evaluation of labeled FTCs follows a sequential, dual-processing structure. This employs heuristics and rule-based approaches, influenced by multiple factors such as fund policies, personal affinity, or perceived trust levels. By mapping the process of FTC evaluation, this study not only contributes to the research gap, but effectively provides investment professionals with a concrete reflection of largely implicit structures. It further grants founders a deeper understanding of how their character is analyzed throughout the investment phases of SES funds.

Keywords: Venture Capital, Decision-Making, Founding Team Characteristics, Signaling Theory, Behavioral Decision Theory, Fuzzy Logic

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List of Abbreviations

BDT	- Behavioral Decision Theory
BR	- Bounded Rationality
DD	- Due Diligence
DPM	- Dual Process Model
FTC	- Founding Team Characteristic
GP	- General Partner
LP	- Limited Partner
SES	- Seed or Early-Stage
ST	- Signaling Theory
VC	- Venture Capital
VCI	- Venture Capital Investor

1 Introduction

1.1 Background

The venture capital (VC) transformation in the US during the early 1980s moved it from a minor sector into a significant industry (Gompers, 1994; Kenney & Patton, 2011). The following decade marked a substantial influx of capital, positioning VC as an enabler for technology and service entrepreneurs seeking external funding to finance the initial stages of their firms (Gompers & Lerner, 2001; Kortum & Lerner, 2000). Contemporaneously with the rise in the US, the VC practice diffused across Europe and Asia (Jeng & Wells, 2000). As a result, VC has become a global instrument for cultivating entrepreneurship by providing financial, network, and industry support (Burström et al., 2023). Moreover, Gornall and Strebulaev (2021) found that among companies founded after 1968 that went public in 1978 or later, the overwhelming majority of market value and R&D spending was from VC-backed firms.

VC funding occurs at different stages of a firm's development. At the seed or early-stage (SES) (Tian, 2011), investments are allocated to developing core internal structures and products (González et al., 2024). VCIs with high exposure to these stages generally invest in smaller ticket sizes across a high volume of start-ups and often strategize for the majority to fail, while the successful ones produce adequate exit returns to generate profit (Ewens et al., 2018; Kerr et al., 2014). SES VCIs appraise the financial, business, and management aspects of the start-up to gauge its potential to considerably scale its valuation (Blume & Hsueh, 2024; Gompers et al., 2020; Kaplan & Strömberg, 2004). The size and growth of the target market, customer adoption rate, and product value proposition, are analyzed to provide insights to investors (Alemany & Villanueva, 2014; Kaplan & Strömberg, 2004). Yet, SES VCIs rate the founding team characteristics (FTCs) as stronger indicators of the ability to successfully execute and scale (Esen et al., 2023; Franke et al., 2006; Gompers et al., 2020; Macmillan et al., 1985). Consequently, FTCs significantly influence the investment decisions of SES VCIs (Gompers et al., 2020; Kaplan et al., 2009). Numerous researchers have dedicated attention to which FTCs interest investors (Blume & Hsueh, 2024; Colombo, 2021; Esen et al., 2023; Gompers et al., 2020; Klonowski, 2010; Macmillan et al., 1985).

Alongside investors' preference for the FTCs, scholars have also demonstrated a significant interest in factors influencing the FTC's evaluation. Findings show SES VCIs lack introspection with respect to the investment process, which affects their understanding of their decision-making (Zacharakis & Meyer, 1998). Furthermore, SES VCIs' dependency on intuition (Blume & Hsueh, 2024; Fisher & Neubert, 2023; Gompers et al., 2020) risks the FTCs being delusive. While intuition is partly

explained by the scarcity of information in the SES phase (Blume & Hsueh, 2024; Fisher & Neubert, 2023; Gompers et al., 2020), understanding how desired FTCs are interpreted and appraised would lead to less opaque investment processes (Colombo, 2021). Simultaneously, it could remove ambiguity on heuristics and biases as an unconscious basis in the decision-making process, which may cause systematic errors (Zacharakis & Meyer, 1998). But, scholars have scarcely expanded on VCIs' evaluation process of FTCs, creating an underresearched area of VC.

In a rare attempt, Blume and Hsueh (2024) shed light on this existing gap in literature by outlining the incomplete understanding of *how* VCIs make decisions. The authors demonstrate that previous research has overlooked the actual evaluation of FTCs by VCIs in their decision-making processes, which has led to a black box in a pivotal phase of start-up funding. Blume and Hsueh (2024) categorize five general evaluation approaches that VCIs adopt. These draw from either intuitive or rational decision-making behavior, and whether the decisions rest on a subjective or objective basis. Their research serves as an important step towards disclosing the decision-making black box of SES VCIs. While insightful, their categorization raises unanswered questions regarding the process structure of VCIs with respect to FTCs.

1.2 Purpose and Research Question

While previous research on understanding the VC phenomenon must not be understated, it has mainly focused on the "what" with respect to FTCs. Consequently, *how* FTCs are evaluated by SES VCIs is an underexplored setting. To this end, the research purpose is two-fold: (1) it is to define how SES VCIs translate founders' attributes and actions into representative FTCs and (2) assess how SES VCIs use both intuition and deliberate analysis when evaluating the FTCs. In doing so, it indirectly sheds light on the impact of high uncertainty and information asymmetry characterizing the SES phase. Drawing on the purpose, the research question is as follows:

How do SES VCIs process and evaluate cues representing start-ups' FTCs during their decision-making processes?

The aim is to achieve this by adopting signaling theory (ST) (Spence, 1973) to examine how SES VCIs *interpret* signals in founding teams. Subsequently, behavioral decision theory (BDT) (Simon, 1955; Tversky and Kahneman, 1974) is used to understand the *evaluation* of identified signals. While ST (Colombo, 2021; Svetek, 2022) and BDT (Petty et al., 2023; Tian et al., 2018) have previously been applied in research on private market investing, they are combined here to extend findings from

signal interpretation to decision influence. This will be evaluated through collecting empirical data from SES VCIs through semi-structured interviews.

Adding to Blume and Hsueh's (2024) findings, it shifts the attention from overarching evaluation patterns SES VCIs employ to crystallizing relationships between founders' behaviors or backgrounds and the FTC quality perceived by SES VCIs.

1.3 Delimitations

This study includes several limitations. It explicitly examines VCIs who invest in SES ventures which have yet to mature operationally (Invest Europe, 2018) and often fail to produce adequate returns, thereby creating a high-risk environment (Ewens et al., 2018; Kerr et al., 2014). Furthermore, the decision scope is limited to the FTCs and does not incorporate how financial or market data shape SES VCIs' investments. Motivating these decisions are the great dependency on intuition and subjectivity in the evaluation of FTCs in the SES phase (Gompers et al., 2020) and scarcity of research on it (Blume & Hsueh, 2024). Additionally, market and financial data are inherently quantitative attributes which make them less affected by intuition and subjectivity.

The geographical scope is limited to SES VCIs based or active in Sweden. The country's market has experienced one of the highest proportional increases in VC investment throughout the previous ten years in the EU (Atomico, 2024) and holds the highest position in the European Innovation Scoreboard (European Commission, 2025). Hence, Sweden provides an active SES VC market as a research setting. However, the geographical limitation restricts this study from shedding light on cultural differences with respect to SES VCIs.

1.4 Expected Contribution

By answering the stated research question, this study contributes to two principal dimensions: how FTCs (1) are identified, characterized and processed and (2) the interplay of decision-making modes to assess their influence on SES VCIs investment process. It thereby narrows the research gap by conferring structure to a quite intangible phenomenon (i.e., internal processes of SES VCIs).

The authors aim that the findings culminate in several contributions. First, SES VCIs are researched in a market that has undergone significant growth. Hence, the aim is to obtain contemporary data on the SES VCIs' FTC assessment. It thereby contributes empirically to a scarcely researched field while providing insight into ST and BDT in a dimension often driven by intuition. Second, by synthesizing ST and BDT, it associates FTCs with observable signals and connects them to decision-making modes. Holistic end-to-end observations may reveal novel patterns. Lastly, SES VCIs can find support

when introspecting their own processes, whereas entrepreneurs can strategize to improve their chances of raising capital.

2 Literature Review

2.1 Venture Capital - Nature, Organization and Impact

VC is commonly used to describe funds that are professionally managed in order to invest in high-growth ventures. These ventures are privately held, and capital investments by VC funds are mostly structured through equity instruments with the aim of achieving high capital gains (Cressy, 2009; Da Rin et al., 2013; Gompers & Lerner, 2001). Realization of such capital gains occurs during liquidity events, such as initial public offerings, where a VC fund can exit by selling its stake in a firm (Jeng & Wells, 2000). VC funds serve as financiers of innovation, operating under significant uncertainty and information asymmetry (Hall & Lerner, 2010; Hellmann & Puri, 2000). To counteract these special circumstances, funds investigate potential investments more intensely and subsequently monitor them. This process builds a dynamic relationship between the entrepreneur and a VC fund, where the level of intervention and control exercised by the investor often depends on the company's performance (Hall & Lerner, 2010). Besides this notion of control, which may admittedly have a negative connotation to a company's founders, VC investments allow firms to derive value beyond capital from investors who bring the right expertise or experience (Bottazzi et al., 2008; Sørensen, 2007). While experienced VCIs can contribute to the venture, their success largely depends on their ability to pursue investment leads in the market that are inherently better than others (Sørensen, 2007). Yet, from an external perspective, it is tricky to see exactly how seasoned professionals filter out these better prospects, further underlining the value of the research at hand.

To provide risk capital, VC funds are often characterized by two core aspects. First, they commonly structure funds according to the limited partnership model. Within the scope of this model, the limited partners (LPs) represent the external capital providers of the fund (Gompers & Lerner, 1999), while the so-called general partners (GPs) are the fund's management and investors (Jia & Wang, 2017). The specific contractual nature between GPs and LPs (see Appendix A) mitigates risks, supports the parties' battle against agency costs, and incentivizes the selection of the best investment opportunities (Sahlman, 1990). Second, VC funds benefit from social interactions. Investors often identify leads by being active in their professional networks, scouting co-investments (Bygrave, 1988). Co-investing in a single financing round of a specific firm is often referred to as syndication. This type of co-investing has been proven to effectively enhance returns and share risks, painting broad networks favorable to VCIs (Brander et al., 2002; Hochberg et al., 2007).

In a competitive, free-market economy, it is challenging to efficiently allocate funds to basic scientific research, largely because of the uncertainty associated with innovative endeavours and the often low private payoff to firms (Arrow, 1962; Nelson, 1959). Therefore, the risk-tolerant investment behavior exhibited by VC funds serves a critical need in the market. Along with measures and support from

governments, VC funds provide essential funding for R&D-intensive innovations that have the potential to drive macroeconomic growth (Hall & Lerner, 2010). Kortum and Lerner (2000) demonstrate, through an elaborate quantitative study on patenting patterns, that VC's effect on technological innovation is positive and significant. Similarly, Florida and Kenney (1988) explain how VC funds can emerge and evolve alongside high-technology enterprises, accelerate business progress, and ultimately become indispensable to the "social structure of innovation" (p. 131). Thus, the importance of VC funds is clearly underscored by their macroeconomic impact, and improving the understanding of industry dynamics is not only valuable to individual founders but to the economy at large.

2.2 Founding Team Characteristics and the Investment Process

As this paper's research concerns an in-depth process perspective on investors' decision-making, it is essential to gain a clear understanding of the general process structure of VC investing, how team characteristics fit into this process, and which factors may affect the evaluation.

2.2.1 5 Sequential Steps of the Investment Process

To secure external funding, young firms must often endure an extensive evaluation process imposed by potential investors, which involves multiple stages. The pre-investment stage of this process begins with the investor becoming aware of the company, often called deal generation or origination from an investor's perspective (Fried & Hisrich, 1994; Klonowski, 2010; Tyebjee & Bruno, 1984). Investors are known to obtain such leads by being active in their professional networks (Bygrave, 1988) or by proactively engaging with companies in the market (Gompers et al., 2016). Shortly after generating an investment lead and establishing first contact, the investor usually conducts an initial screening, which can then lead to further due diligence (DD) in later steps, during which the start-up is investigated in more detail. During screening and due diligence, investors focus on the attractiveness of the start-up's team, idea, deal, market, future exit opportunities, and the like (Gompers et al., 2016; Klonowski, 2010). Beyond the evaluation of the start-up, parties involved in the process must come to an agreement on contractual terms before the investment can be executed (Sahlman, 1990), upon which the investor can start supporting the growth of the firm through strategic interventions (Hellmann & Puri, 2002; Tyebjee & Bruno, 1984). Feedback on the success or failure of the final investment decision lies far in the future, with portfolio winners often crystallizing after 7 and losers around 3 years (Zacharakis & Meyer, 2000). Figure 1 offers a simplified categorization and sequence of the investment steps.

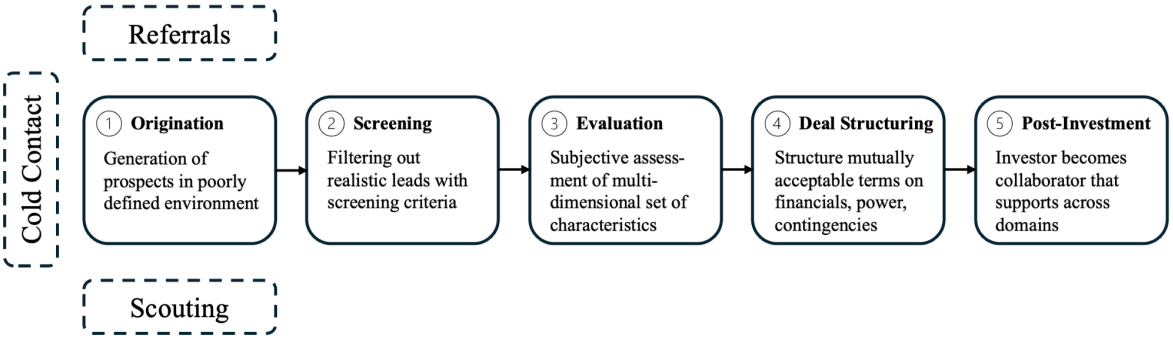


Figure 1: The VC Investment Process.

Drawn from (Tyebjee & Bruno, 1984).

2.2.2 The Process Value of FTCs - Mitigating Risks

Appraising FTCs throughout stages appears crucial for VC funds to mitigate market conditions. As noted previously, the VC industry is characterized by high uncertainty (Hellmann & Puri, 2000) and respective investment activities are therefore connected to large risks. Uncertainty in this context can come from various potential sources. Two of these sources are especially notable in this context: (1) information inaccessibility and (2) new market ambiguity.

(1) In previous research, multiple databases for private market investors have been assessed, and all exhibit their own strengths, weaknesses, and biases (Kaplan & Lerner, 2016; Retterath & Braun, 2020; Weibl & Hess, 2019). Despite these data sources, it is highlighted that it is inherently difficult to publicly attain accurate deal terms, valuations, and other verified start-up data due to the private nature of the market, which also pushes firms and academics alike to find alternative data sources (Rasivisuth, 2025). This inaccessibility can make it hard for VCIs to attain sufficient information to support decision-making, creating unknowns that are hard to avoid.

(2) To move into a specified future market, ventures must make predictions on these and evaluate their potential (Alvarez & Barney, 2007). However, even if many individuals share optimistic forecasts about markets, it is not guaranteed that they follow predicted paths. They can deviate and negate initial predictions, prompting start-ups to consider market-related pivots (Bajwa et al., 2017; McGrath, 1999). The unpredictability of markets can directly affect the assessment of start-ups' opportunities and future performance (Eckhardt et al., 2006). Consequently, market dynamics can significantly contribute to the uncertainty VCIs face when evaluating investment leads.

Based on these two sources, scrutinizing FTCs adds value to VCIs. First, in the context of information accessibility, observable character traits enable investors to access valuable input (Franke et al., 2008;

Gompers et al., 2020) by simply meeting with founders or team members. Second, to counter uncertainty created by market dynamics, it makes sense for VCIs to look for FTCs that convey resilience. Entrepreneur(s) characteristics often assume center stage during the appraisal as indicative of the likelihood that the entrepreneur(s) successfully proliferate their vision, scale the firm, and produce adequate returns (Gompers et al., 2016). It is particularly exigent for early-stage firms seeking capital within unproven markets or prior to stable revenue streams and mature product offerings (Huang & Pearce, 2015). In such uncertain contexts, investors frequently probe for the ability to learn and iterate effectively (Kerr et al., 2014), as the operating environment often evolves. Such dynamic capabilities of start-ups are praised as highly relevant in unpredictable markets (Sun et al., 2025). A strong relationship between the quality of the FTCs and the perceived risk levels of early-stage investors' deals shines through in the results presented by Tyebjee and Bruno (1984). Their study outlines that low managerial abilities exhibited by the target greatly increase perceived risk.

2.2.3 Context and Cognition - Potential Influences in the Evaluation Process of FTCs

Throughout the investment process, investors' evaluation of FTCs may be influenced by various factors that can be decisive for the final decision. Three of which may have a considerable impact on the study at hand.

Psychological/Cognitive Influences. First, VCIs may experience cognitive constraints, such as a large variety of biases (Sachs & Unbescheiden, 2024). Matusik et al. (2008) found that investors often appraise founders based on how their beliefs and values reflect their own. Literature highlights that investors with educational or professional backgrounds similar to founders tend to rate team characteristics more favourably than those with fewer commonalities (Franke et al., 2006). As investment decisions are partially derived from subjective impressions (Blume & Hsueh, 2024), the assessment stage is influenced by factors beyond the founders' control. In another instance, Zacharakis and Meyer (1998) challenge VCIs' understanding of decision-making processes by demonstrating that, although decisions are consistent, gaps exist between how they communicate and act, due to information overload and a lack of introspection. This insight aligns with psychological research on how cognitive constraints and individuals' nescience of response stimuli limit introspection, leading to the rationalization of decisions (Nisbett & Wilson, 1977). Relevant insights into cognitive influences on VCIs' decision-making have also been provided by Zacharakis and Shepherd (2001). Their study identified that an overwhelming majority (96%) of VCIs exhibit overconfidence in their investment decisions, leading to poorer decision quality.

External Context. Second, environmental factors appear to affect certain investor perceptions. The evaluation of a team characteristic can therefore be dynamic and often changes based on its contributions in a new venture's context. For instance, managerial experience and academic education are shown to hold relative value contingent on product novelty and market uncertainty (Kim & Lee,

2022). Additionally, given that investors rely on intuition, Fisher and Neubert (2023) problematize complete rationality in early-stage investments by arguing that uncertainty and information asymmetry create an environment unsuitable for purely deliberative, analytical decision-making.

Internal Context. Third, internal dynamics of funds may change behavior. Petty et al. (2023) studied how the decision-making process of a European VC alters throughout the lifetime of a fund by examining 2383 investment proposals. The authors found that the acceptance criteria expand and, in turn, become more rigorous as the portfolio of companies grows to be consistent with the investment strategy, leading to reduced time spent on each proposal. Furthermore, proposals sourced from agents affiliated with the VC industry are given greater consideration and have a considerably higher likelihood of receiving investment (Petty et al., 2023). Accordingly, the changing dynamic of investors' decision-making due to the internal fund environment influences the evaluation and assessment of founding teams, which are meaningful considerations for this empirical study.

2.3 Team Characteristics - A Closer Look at the Jockey

Founding team characteristics have been extensively researched and can be differentiated from business factors related to the start-up itself (e.g., product). Kaplan et al. (2009) conceptualize investment decisions as belonging to either the *jockey* (attributes of the management team), or the horse (representing the business's potential). Furthermore, Esen et al. (2023) explicitly label desired jockey elements (e.g., "commitment from the founders") as principal factors influencing investors' decision-making. This notion is greatly supported with the survey conducted by Gompers et al. (2020), which highlights that the team appears as a make-or-break factor for investments. In the survey, VCIs (across all stages) see it as the most important aspect of their successful and failed investments. Important characteristics that underpin a great management team can, for instance, include individuals' ability, passion, entrepreneurial experience, or industry reputation (Esen et al., 2023; Gompers et al., 2016). A more narrow perspective on team characteristics is observed by Zhou et al. (2015), who focus on categorizing traits of the researched Big Five model of personality and discuss them in the context of new venture growth. They purposefully allocate these traits to either a founding team's task-oriented or relationship-oriented personality composition. Further in-depth studies have also led researchers to cluster founders' personalities with respect to the start-up's success. McCarthy et al. (2023) dubbed six of such founder clusters (e.g., Fighter, Operator, Accomplisher). Table 1 provides an overview of several extensive studies on the identification of start-up jockeys.

Authors	Method	Highlighted Jockey
Bahlmann (2023)	Secondary Data Collection on 231 IT-ventures	- Physical attractiveness, ethnicity
Freiberg & Matz (2023)	Observation of 10541 founder-start-up dyads for the evaluation of Big 5 personalities	- Positive Relationship to Funding: Openness, Agreeableness - Positive Relationship to Funding with Boundary Condition: Conscientiousness - Negative Relationship to Funding: Neuroticism - No Relationship: Extraversion
Franke et al. (2008)	Conjoint experiment with 51 VC professionals	- Industrial experience, educational background, leadership experience
Gompers et al. (2016)	Large scale survey of 885 institutional VCIs	- Entrepreneurial experience, ability, teamwork, passion, industry experience
Macmillan et al. (1985)	Questionnaire Results of 102 VC investors	- Risk evaluation, ability to sustain effort, articulate in venture discussion, attention to detail, relevant track record, leadership ability, market familiarity
Kim & Lee (2022)	Conjoint Analysis with 263 VC survey responses to investigate trait importance change in face of uncertainty increases	- (Partial) increase in trait importance: managerial experience, educational background - No increase: Industry experience

Table 1: Overview of literature on FTCs

Reflecting critically on these varying research designs and outputs reveals that studies on such factors are located at the intersection of psychology and strategic management, as they examine individual investors' preferences that support their portfolio management. The large amount of research shown here supplies an extensive knowledge base for founders to draw from and provides a strong contrast to the existing research gap on the jockey's appraisal process.

2.4 Research Gap

Considering that nearly half of the early-stage investors in Gompers et al.'s (2020) study frequently based decisions on intuition and 17% ignored financial metrics and analyses, it prompts the need to investigate how decisions are made in practice. While scholars have thoroughly examined which management characteristics are of value to investors (see Chapter 2.3) and identified further influences that could affect decision-making (see Chapter 2.2), the structure of FTCs' assessment by VCIs remains intangible after reviewing the literature. To the authors' best knowledge, very few have begun to investigate this area. Here, an important work to highlight is Blume and Hsueh (2024). Their study specifically examined how team characteristics are evaluated by conducting 15 case studies at VC firms. Subsequently, they identified five approaches that VCIs use when evaluating teams: intuitive, extended intuitive, systematic intuitive, physiological rational, and scientific rational. Besides contributing unique insights to a pivotal yet less explored area in the VC investment process, it informs the data collection methodology of this research with an understanding of the mental strategies investors subconsciously or consciously use when appraising founding teams.

Despite these first advances in research, there is low granularity with respect to the cognitive process describing how an investor perceives signals of founding teams to derive FTCs for subsequent assessment. While Blume and Hsueh's (2024) study categorizes and describes different modes of an investor's FTC evaluation, the present study aims to describe the internal process structures that interpret and decide on the impact an FTC may have on the overall investment decision. A qualitative study comprising a high-quality sample of early-stage investors can help close the identified research gap and serve as a basis for future research.

2.5 Summary

Investigating the nature of VC contextualizes the industry's importance to the broader economy. The overarching investment process can be divided into five main steps that ultimately lead not only to an investment but also to a partnership between founders and investors. This process includes the scrutinization of FTCs. Involving character traits in the investment process allows investors to navigate the market's uncertainty, as they can assess the team's ability to adapt and build for success. While potential influences on this evaluation and prominent FTCs are well researched, mapping and explaining the FTC evaluation structure by VCIs has hardly been done. This study aims to bridge this gap.

3 Theory

The primary purpose of the theoretical foundation for this research is to shed light on *how* early-stage venture investors interpret and assess FTCs. To this end, ST and BDT are chosen as core theories that are to be investigated. Furthermore, fuzzy logic is examined as a complementary concept to potentially describe investors' thought processes more accurately.

3.1 Signaling Theory

3.1.1 Theoretical Foundation

ST is an analytical framework introduced by Spence (1973) in his seminal paper, "Job Market Signaling," that explains how observable attributes signal underlying or unobservable qualities in information-asymmetry contexts within the job market. It outlines how the informed actor (signaler) emits cues that are received by less-informed actors (receivers), influencing their decision-making in situations where access to comprehensive information is limited and uncertainty is high. The theory was later expanded to a broader domain of markets by generalizing how signaling creates an alignment equilibrium in multi-party interactions characterized by information asymmetry (Spence, 2002). After four decades of growing interest, Connelly et al. (2011) published an extensive literature review on the application of ST in management research. It clarifies inconsistencies in core components (see Figure 2), explicates foundational elements, and serves as a guideline for future research.

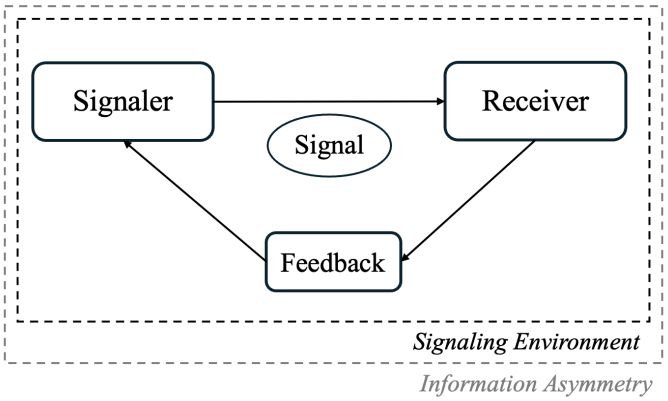


Figure 2: Relationship of Core Elements in Signaling.
Drawn from Connelly et al. (2011).

While research is available on signaler, feedback, and signaling environment, it is logical to emphasize the signal and receiver in the context of this study. For the signal itself, there are multiple factors, each with various specifications to be considered. Bafera and Kleinert's (2023) large systematic review returns a structured overview of such factors, which are presented as signal

characteristics (message, cost, intentionality), signal effectiveness (strength, quantity, timing), and signal portfolios (amplification, complementarity, conflict). The “signal fit” refers to the degree of correlation between the signal and the unobservable quality, describing how well the public signal matches the signaler's private unobservable quality (Connelly et al., 2011). Furthermore, there are special patterns in signaling that are expressed as follows in Connelly et al. (2011):

(1) Pointing Signals: Hint at points that distinguish yourself from competition
(2) Activating Signals: Essential points of difference that underscore the quality in a signaler
(3) Intent Signals: Indicative of the signalers’ future activities
(4) Camouflage Signals: attempting to move the focus away from a potential liability
(5) Need Signals: Convey needs of the signaler to the receiver

Signals entail a cost representing invested capital, such as social capital (networks), embodied capital (capabilities), or monetary resources to produce them, which varies greatly depending on the signaller's context (Barker et al., 2019). For instance, Bafera and Kleinert (2023) describe how new ventures can make efforts to obtain certifications, thereby emitting costly signals on product quality. Consequently, such costly signals stand out by requiring resources, which, in the context of VC, can increase the likelihood that firms attain external private funding (Svetek, 2022). The receiver of signals is also heavily scrutinized in literature. For instance, Ciuchta et al. (2018) indicate that the reception of signals with respect to an entrepreneur’s (signaler’s) coachability is correlated to an investor’s (receiver’s) prior coaching experience, thereby indicating the impact of receivers’ capability on signaling. Bafera and Kleinert (2023) further argue that institutional logic or commonalities with the signaler may influence the interpretation.

3.1.2 Application in VC

In the field of early private-market investments, ST has previously been investigated by treating the investor as the receiver and the entrepreneur as the signaler. Through an extensive systematic review, Colombo (2021) synthesized that many previous authors have investigated effective information (e.g., human capital, technological competence, third-party affiliations) and interpersonal signals (e.g., commitment, coachability, passion) that firms and founders convey to VCIs. Similarly, Svetek’s (2022) review concluded that ST provides a useful framework for explaining why entrepreneurs raise funds successfully. Furthermore, she raises awareness that, despite the growing academic interest in applying signaling to this field, further research is needed.

Adopting signaling in this research is relevant for numerous reasons. First, given the uncertainty surrounding SES investments, ST becomes pertinent to understanding how investors harvest information to counteract the limited access to it in the SES context. Second, because investors rely on intuition (Gompers et al., 2020), this may lead them to use FTCs’ observable signals to judge their ability to scale. Third, in the context of ST, recent empirical research has examined the influence of

asymmetrical information settings on investors' decision-making processes within market conditions (Kleinert & Hildebrand, 2025), patents, alliances, team experience (Hoenig & Henkel, 2015), and third-party affiliation (Plummer et al., 2016). However, less is understood about how investors would interpret potential FTC signals from founders. It is particularly important, since the signals serve as a first step in analyzing the evaluation process.

Finally, Spence (2002) refers to the equilibrium created in job markets by expanding on education as a signal of unobserved qualities that affect an individual's productivity. In his work, the equilibrium has a considerable impact on outcomes such as wage determination and investment in education. One of the central requirements for such an equilibrium to form is the existence of employers' indisputable beliefs on the relation between education and productivity. Transferring this to the VC context, it would be valuable to understand whether signals sent by founders reflect decision-making outcomes, such as venture success or, at least, the selection of objectively effective founders, thereby supporting equilibrium conditions by allowing investors' indisputable beliefs.

3.1.3 Limitations of Signaling

The use of ST imposes certain boundaries that limit the possibilities in this study. Such limits may, for instance, occur due to the subjectivity of unobservable qualities or the theory's insufficient coverage of the intended research. First, signaling is built on the premise that signals are interpreted to reveal the underlying qualities of the signaler (Colombo, 2021). While this dynamic is generalized, the desired unobservable quality can vary across receivers (Connelly et al., 2011), with implications for how well signaling functions in different settings. If you take two VCIs, one may look for cues on unobservable qualities that are easier to find in a meeting (e.g., passion), while the other focuses on qualities that are inherently difficult to evaluate with just a few interactions (e.g., integrity). Second, the theory can be applied to explain how investors observe cues and may interpret them as a certain characteristic, but it does not elaborate on how these individuals subsequently assess them. Hence, further theory is required to extend the descriptive power of the conceptual framework that the authors intend to build (see Chapter 3.4).

3.2 Behavioral Decision Theory

BDT is a framework that has been iteratively developed throughout the past decades. Simon (1955) laid the first cornerstone by introducing his novel views on the economic man who encounters bounded rationality (BR) through practical constraints. In the years after, Tversky and Kahneman (1974) as well as Slovic et al. (1977) further elaborated on how an individual's values and assessment of probabilities in uncertain events shape decision-making processes. Therefore, BDT is a great addition to the theories this thesis intends to leverage. Constraints faced by early-stage investors and heuristics that lead to biases, as described by Tversky and Kahneman (1974), may very well affect

investors' assessment of a start-up's success potential. To purposefully structure research efforts and the multitude of BDT's sub-theories, two explicit elements connected to BDT are considered more carefully in the following: (1) BR and (2) the dual process model (DPM).

3.2.1 Element 1 - Bounded Rationality

3.2.1.1 Foundation and Prior Application

BR was originally developed by Simon (1955) and revised the traditional notion of the economic man, who acts rationally while having access to most contextual knowledge. The author explains that this is not very realistic, given that modern man must often act under significant constraints on cognitive capacity or available information. In more recent works, Simon (1978) expands on his concept by shifting the audience's focus from substantive rationalities, which focus on an outcome and assume the process of the traditional economic man, to procedural rationalities. The latter look at processes of reasoning and inherent constraints that make an economic actor's attention a scarce resource. In the face of constraints, BR also stipulates that individuals shift from maximizing utility to satisficing (Kahneman, 2003; Simon, 1955).

BR has previously found applications in various industrial settings that inherently pose restrictions on actors (Cassidey et al., 2025; Morales Burgos et al., 2020; Wu & Chen, 2014; Yang et al., 2020). In the financial services industry, the theory has repeatedly been leveraged to explain impactful behavior of investors in large public markets, such as individuals' biases (Mushinada, 2020), or herding effects (Lan & Fang, 2024).

3.2.1.2 Application in VC

The investment in new ventures requires a skillful approach, as professionals are bound by changing conditions and ambiguous information throughout their workflow (Petty et al., 2023; Tian et al., 2018). Recognizing circumstances such as time pressures induced by internal fund environments, which create boundaries to an actor's decision-making, Petty et al. (2023) conducted an in-depth study of a VC firm, revealing the impact personal relationships have on funding. Tian et al. (2018) highlight that many established psychological phenomena of VCIs (e.g., regret or overconfidence) find their origin in BR. Aside from the perspective of the investor, the founder's view has also been assumed by authors. Here, the effectiveness of start-ups' choice of VCIs and partners in information-sparse contexts (Hallen & Pahnke, 2016), or actions that support young firms in attaining and processing external information better (Cohen et al., 2019), are investigated. The prevalent investigation of BR in venture capital contexts makes the theory a strong candidate for examining venture capitalists' evaluation process of a firm's FTCs. Potential time constraints in the initial contact stages between investor and start-up, as well as strong information asymmetries, raise the question of how FTCs may be evaluated to mitigate such limits.

3.2.2 Element 2 - Dual Processing

3.2.2.1 Foundation and Prior Application

Building on years of research on reasoning and decision-making, Stanovich and West (2000) coin the terms *System 1* and *System 2* thinking, which constitute the core of the DPM. System 1 describes cognitive processes that are rather automatic, requiring very little computational effort. This system's main purpose is to model the intentions of others and efficiently generate reactions to them. While System 1 describes the interactional intelligence of an individual, System 2 represents analytic intelligence, which deploys a rule-based system making thorough but comparatively slower decisions (Levinson, 1995; Stanovich & West, 2000). Notions on System 1 draw clear parallels to heuristics that Tversky and Kahneman (1974) have previously described as judgments based on representativeness (i.e., how closely instance Y resembles instance Z), availability (i.e., how easily an instance of an event or class is brought to mind), or anchoring (i.e., initial values that are given by formulation or incomplete computation). Such heuristics are closely linked to the creation of cognitive biases identified by Tversky and Kahneman (1974). Similarly, the so-called type 1 and 2 processes, as expanded by Evans (1984), depict early iterations of the presented system 1 and 2 recognized in more recent literature (Kahneman, 2011).

DPM has been investigated by authors across various domains, including consumer psychology (Samson & Voyer, 2012), strategic management (Luoma & Martela, 2021), supply chains (Narayanan & Moritz, 2015), and legal analysis (Hillman, 2000).

3.2.2.2 Application in VC

In the context of risky private-market investments, DPM can offer sensible input. Although risky situations should be approached with a System 2 lens, it is not always certain that this holds true. It is possible that one falls back into attribute substitution and assumes faster System 1 thinking, which is evaluated as "cheaper" in terms of mental effort, even though it may lead to an error in assessment (Evans & Stanovich, 2013; Sirota et al., 2023). Hence, it is intriguing which types of risks an investor deems worth the cognitive effort applied to System 2 thinking and overrides System 1. Furthermore, it is good to understand how well heuristics actually perform with respect to expected value when compared to deliberate thought processes. In this regard, Voudouri et al. (2024) show across multiple studies that system 2 thinking is not the principal path to maximize expected value.

Analyzing DPM in the context of this research adds value as separating the processes of early-stage investors appears difficult from an external viewpoint. For an investor, meeting founders to recognize and subsequently evaluate their character may neither be a purely personal and socialized task setting that triggers fast, associative responses (system 1) nor solely represent an asocial and decontextualized environment that allows for slow, rule-based decision-making (system 2).

3.2.3 Limitations of BDT

While BDT mitigates one of ST's limitations by providing adequate coverage for this thesis's intended research, it also has its own limitations. For one, BDT emphasizes the strong connection between biases and heuristics. This connection hints at the error-proneness and underlying irrationality of heuristics (Tversky & Kahneman, 1974). However, in real-world environments, rational inference need not outperform "satisficing algorithms" that individuals employ cognitively under constraints, as simple psychological mechanisms can be powerful (Gigerenzer & Goldstein, 1996). Hence, a neutral stance towards any SES VCI heuristic should be maintained, as they may not depict an exclusively negative process and may challenge rule-based analyses. For another, it is worth mentioning that BR, as described by Simon (1955), has descriptive power for decision-making processes when combined with DPM (Kahneman, 2003). However, BR as a standalone concept may be too vague at times to expand on certain behavior (Camerer & Loewenstein, 2004). Consequently, BR shall drive insights into SES VCIs' decision-making through the purposeful combination with other empirically derived concepts, in a way that avoids vagueness or low explanatory power.

3.3 Fuzzy Logic – A Potential Tool to Verbalize Investors' Cognitive Appraisal

3.3.1 The Idea Behind Fuzzy Sets

The notion of fuzzy sets is distinguished from traditional sets by its ability to encapsulate ambiguity in the membership function (Zadeh, 1965). Fuzzy logic is built on fuzzy sets and serves as a framework for sensemaking of linguistic values that mirrors humans' approximative reasoning and interpretation of phenomena (Zadeh, 1975). Approximate reasoning is often conducted using inexact, non-quantifiable measurements (Zadeh, 1975). To provide an example, reasoning about whether a student is likely to achieve an excellent score on an exam is intrinsically done through classifying outcomes into a set containing the values very high, high, medium, low, and very low. As such, fuzzy logic captures the continuous space between yes and no, with the fuzzy membership function representing the degree of belonging (Klir & Yuan, 1995). Building on fuzzy sets, Zadeh (1978) introduced the notion of possibility theory to represent the distribution of outcomes due to the imprecision and vagueness inherent in natural language and linguistic variables.

According to Zadeh (1965), a fuzzy set membership function is designed by first describing a linguistic variable statement using a linguistic value. Subsequently, a set of continuous values is specified, characterising an approximate truth of membership to the linguistic value. Finally, a mathematical function underpinning the membership function is constructed that assigns a continuous value within [0,1] representing a degree of membership. To illustrate, the linguistic variable statement *"fast 10000-meter runners"* carries the linguistic value *fast*. With pace defined as average minutes per

kilometer and the valid input dimension set to [4,8] minutes, the membership function can be constructed as *Fx = ((8-x) / 4)*.

3.3.2 Purpose of Investigation

Considering the dynamic nature of early-stage start-up founders' profiles and the accumulative character of FTCs (e.g., domain experience gained over time), it seems unlikely that investors apply binary reasoning when evaluating these traits. Furthermore, as intuition is a frequent basis for investment decisions (Gompers et al., 2020), it is reasonable to assume that FTC assessments share several features with Zadeh's (1965) framework (e.g., approximative reasoning and labeling). To this end, fuzzy set membership can connect linguistic variable statements (e.g., *passionate about the industry*) with linguistic values (e.g., *passionate*) to examine how these are appraised and subsequently influence investors' decision-making.

3.4 Theoretical Application and Framework

The extensive studies on the above-mentioned theories provide a framework for further analyzing the topic and addressing the research question. In this section, the authors have deliberately combined ST and BDT to examine the structure of SES VCIs' evaluation processes regarding FTCs. This process can lead to impressions that either negatively or positively affect investment outcomes. The developed framework is designed to support the analysis of empirical data and to serve as a starting point for future research.

As ST is highly applicable to the topic at hand (Svetek, 2022), it lays the first cornerstone of the framework. Investors garner observable cues from founding teams to infer desired characteristics. As such, ST provides an understanding of the investor's interpretive process of signals emitted during interactions with entrepreneurs. The dynamics mapped out in Figure 3 are based on essential notions presented by influential authors such as Connelly et al. (2011) and Svetek (2022). Here, the focus is on investors' cue observation and the preliminary consideration of common signal patterns (Connelly et al., 2011). Despite BDT having the greatest descriptive power within the framework for assessing FTCs, it would be premature to disregard the impact that knowledge of preliminary signal patterns may have on the later evaluation of a characteristic. Moreover, the theoretical framework is enriched with the potential influence that the investment environment may exert on the perception of FTCs (see Chapter 2.2.3)

BDT is integrated into the framework to better describe how FTCs are evaluated after they are deduced from observable cues and categorized with potential signal patterns. First, given the current information asymmetry and uncertainty in VC (Hall & Lerner, 2010), the constraints imposed by contextual factors on the investor are considered. These constraints are prompting BR, as described by

Simon (1955), thereby delimiting the investor's decision-making possibilities. Sequentially, the consideration of such constraints by the investor should precede the decision on System 1 or 2 thinking (Stanovich & West, 2000), since it may influence the system choice. This is reflected in the presented framework (see Figure 3).

Lastly, fuzzy logic (Zadeh, 1965) provides a "language" to capture the complex, often inherently imprecise approximations, rankings, and assessments of FTCs made by investors.

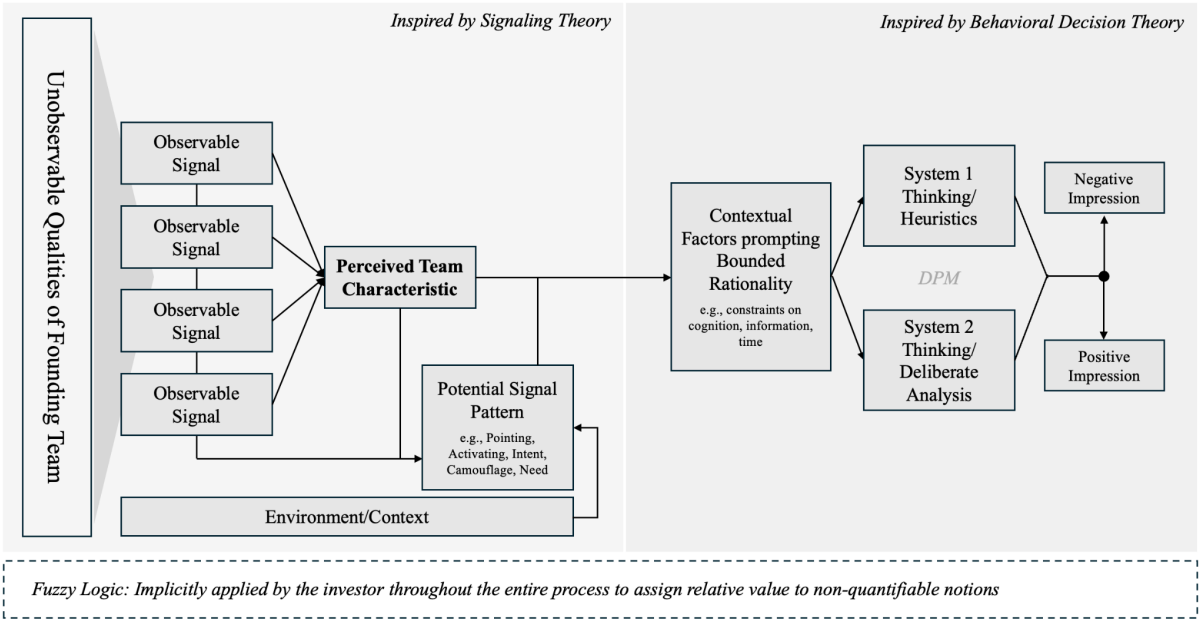


Figure 3: Analytical Framework derived from ST and BDT.

Own illustration.

4 Method

4.1 Methodological Approach

This research adopted an abductive approach by utilizing the theoretical lenses of ST and BDT. The empirical basis consists of semi-structured interviews with SES VCIs. It thereby follows a qualitative data collection and analysis design.

4.1.1 Reasoning Approach

As the notion of *how* SES VCIs make decisions is a largely opaque dimension of VC (Blume & Hsueh, 2024), this research adopts an exploratory perspective. The theoretical framework (Figure 3) emerged throughout the review of existing literature, during which the authors became cognizant of the research gap. Hence, an abductive reasoning approach was befitting during the theory building, data gathering, and subsequent analysis (Bell et al., 2022). It involved continuously revisiting literature and theory throughout the data analysis process to bring clarity in VCIs' evaluation of FTCs and signal relationships, and start-up success (Dubois & Gadde, 2002; Mantere & Ketokivi, 2013).

4.1.2 Ontological and Epistemological Positions

The processing and evaluation of FTCs are inherently social phenomena, as SES VCIs aspire to form opinions of entrepreneurs' capabilities. Prior research demonstrates the subjective nature of judgment processes (Gompers et al., 2020), which generate a state contrived by the interaction among social actors (Bell et al., 2022). Hence, a constructivist ontological position (Bell et al., 2022) is adopted to examine how SES VCIs process signals and value them as indicators of start-up success. As *"how"* becomes the integral element of the knowledge contributed, the study assumed an interpretivist epistemological position (Bell et al., 2022).

4.1.3 Methodological Orientation

A qualitative orientation was adopted by examining data from SES VCIs to understand their beliefs and procedures. The limited attention this area has received, as presented in both Blume and Hsueh (2024) and the research gap (see Chapter 2.4), supports the suitability of an exploratory method to study these informalized and emerging phenomena (Edmondson & McManus, 2007).

4.2 Research Design

4.2.1 Sampling Process

Empirical data were collected through purposive sampling, including criterion and snowball sampling, to obtain a niche participant set (Bell et al., 2022). The criteria are illustrated in Table 2.

Sampling criteria
1. Participants must be active investment professionals employed by or partners of a VC firm.
2. Participants must make investments in SES startups (see Appendix A).
3. Participants must be based in Sweden or make investments in the Swedish market.
4. Participants must have influence on investment decisions.

Table 2: Sampling criteria.

Given the private nature of VC funds and variability in investment size, a ticket interval was excluded from the criteria. Furthermore, inclusion is limited to two participants from the same firm to ensure variety in the dataset (Bell et al., 2022). To promote decision-making influence, senior VCIs were given preference in the sampling process.

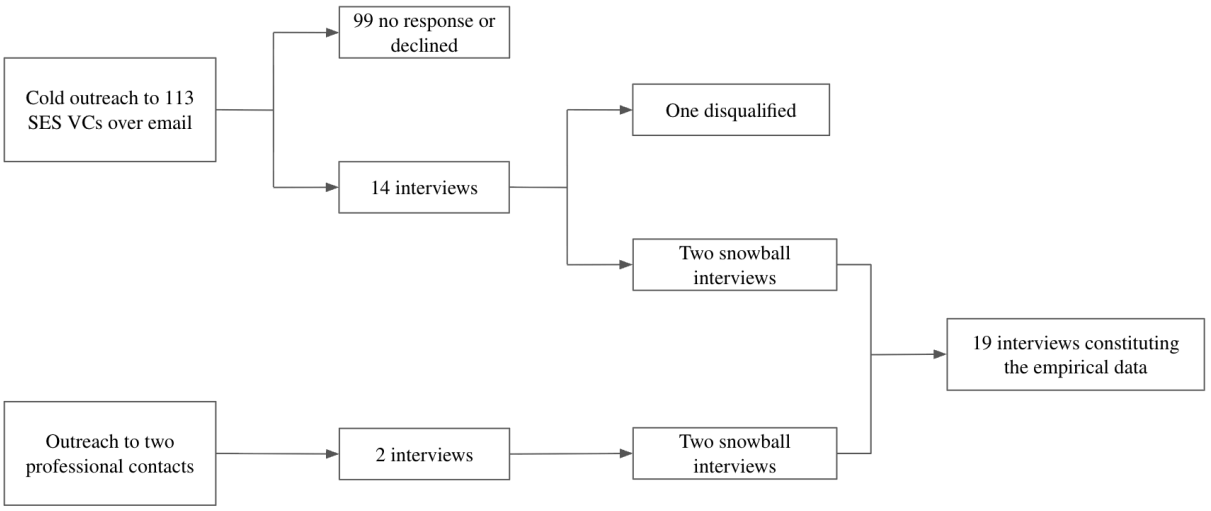


Figure 4: Overview of the Outreach.
Own illustration.

113 potential participants were identified by browsing VC firms' websites. DD was conducted by examining recent firm investments and LinkedIn profiles to ensure alignment with the criteria. The pool of potential participants was subsequently contacted via email, which was found on their websites, or other media. 14 respondents agreed to participate. One interview from the set was discarded due to failure to meet the sampling criteria. To obtain a larger set, snowball sampling was used by contacting early participants, yielding two additional interviews. Notably, the private market interest demonstrates attention to the research question. Alongside cold outreach, two professional VCIs with prior relationships to the authors were contacted and agreed to participate. In turn, these generated two additional interviews through snowball sampling. In total 19 SES VCIs constitute the empirical data set, consisting of 16 males and three females. See Figure 4 for an overview of the outreach and Table 3 for a list of participants.

VC Number	VC Firm Number	Role	Focus Sector	Research Name	Years of Experience
1	1	Venture Partner	Sustainability Technology	SES VCI 1	30+
2	2	Venture Partner	Software Technology (AI & SaaS)	SES VCI 2	10+
3	3	Venture Partner	Technology (AI & SaaS & Energy)	SES VCI 3	2–5
4	4	Venture Partner	Deep Tech and Software Technology (SaaS & AI)	SES VCI 4	20+
5	5	Investment Director	Technology Innovation	SES VCI 5	7–10
6	6	Investment Analyst	Fintech, Cyber Security, Enterprise AI,	SES VCI 6	2–5
7	7	Managing Partner	Technology, Retail	SES VCI 7	7–10
8	8	Co-founder & CEO	Science Driven University Spinouts	SES VCI 8	25+
9	9	Managing Partner (GP)	Hardware & Software driven Technology	SES VCI 9	7–10
10	10	CEO & Venture Partner	SaaS (sector agnostic), Energy, Retail	SES VCI 10	20+
11	11	Investment Manager	Green Tech (sector agnostic), hardware leaning	SES VCI 11	5–7
12	12	Founding Partner (GP)	AI (Software Development & Vertical Applications)	SES VCI 12	20+
13	13	Investment Manager	B2B Software	SES VCI 13	2–5
14	3	Investment Associate	Technology (AI & SaaS & Energy)	SES VCI 14	2–5
15	14	Partner	eCommerce, Retail	SES VCI 15	5–7
16	15	Founding Partner (GP)	B2B Software	SES VCI 16	25+
17	16	Investment Manager	Sector agnostic	SES VCI 17	2–5
18	17	Investment Associate	Sustainability Technology	SES VCI 18	2–5
19	11	Investment Manager	Green Tech (sector agnostic), hardware leaning	SES VCI 19	10+
20	18	Investment Manager	eCommerce, Retail, Software	SES VCI 20	7-10

Table 3: Overview of the Empirical Sample.

4.2.2 Data Collection Process

The choice of interviews was grounded in the limited research on how SES VCIs make decisions (Edmondson & McManus, 2007) and in the secrecy of VCIs' internal investment processes (Blume & Hsueh, 2024). Coupled with the social nature of decisions in this context (see Chapter 4.1.2), this prompted a semi-structured, open-ended format to enable introspection into the processing and evaluation of FTCs.

A small set of open-ended questions was prepared in advance to instigate introspection of the interviewees. These concerned signal-FTC relationships and dynamics between heuristics and deliberate analysis judgment. It formed an open climate for extensive elaboration and probing questions. These preemptive arrangements mitigated the authors' potential biases and ensured compliance with the research scope (Roulston et al., 2003).

Interviews ranged from 30 to 60 minutes, and all but one were conducted in English. A single Swedish interview was translated using DeepL and audited rigorously by relistening to ensure correct wording and sentiment. All via Microsoft's video meeting and recording software, Teams. The final interview guide is found in Appendix B.

4.2.3 Data Processing and Analysis

Microsoft's CoPilot transcribed the meetings. To mitigate incorrect notes and other risks (Bell et al., 2022), the authors independently verified the correctness of the transcription and discrepancies were resolved by revisiting recordings. This validation process was convened at the earliest opportunity following an interview.

The encoding is drawn from Gioia et al. (2013) which systematically leads to first-, second-, and third-order concepts. Intercoder reliability was used by independently identifying concepts and agreeing on findings (Saldaña, 2013). By applying systematic combining (Dubois & Gadde, 2002), the analysis co-evolved abductively by iteratively moving between the empirical data, literature, and theory, deriving inferences to mature the theoretical framework (see Chapter 6.1).

SES VCIs' processing of FTCs and decision-making patterns were first categorized according to the initial theoretical framework (see Chapter 3.4). The theoretical literature was then revisited to inform the categories' relationship with ST and BDT. The synthesis revealed new insights that led to the aggregation of categories into second-order concepts. It prompted a refinement of the interview guide to address the relation between signaling types and FTCs, and the interplay between heuristics and deliberate analysis in signal evaluation. New empirical data were juxtaposed with prior findings and the theoretical framework to challenge them with detailed perspectives. Subsequently, literature,

evolved theory, and empirics were placed jointly at the center of the analysis. It revealed structural knowledge on the phenomena of how SES VCIs interpret and assess signals representing FTCs. Three additional interviews were held to expose assumptions and test dimensionality of concepts. It led to a saturation point (Gioia et al., 2013) concluding the data collection process.

4.2.4 Ethical Considerations

To ensure that the study complies with ethical standards, it was guided by the principles of autonomy, beneficence, and justice (Orb et al., 2001). To address autonomy, the authors informed each participant of the research's purpose and obtained their consent to record and transcribe the interview. Each participant was given the possibility to withdraw their consent at any point and have the recordings and transcriptions deleted. With respect to beneficence and syndication in the VC industry (Brander et al., 2002; Hochberg et al., 2007), fund size, ticket size range, and any additional information that could reveal investors' identity were anonymized. Furthermore, each recording was deleted within days after the associated transcription was validated. Justice was upheld by striving to create a heterogeneous dataset that reflects market conditions. And each participant was made aware of how their comments could be used. Furthermore, variety was promoted by limiting per firm participation to two.

4.2.5 Use of Artificial Intelligence

The researchers utilized artificial intelligence for three separate purposes. Microsoft CoPilot was used to transcribe the interviews, DeepL to translate one interview from Swedish to English, and Grammarly to assist with grammar and phrasing. See Appendix C for a full disclosure on artificial intelligence usage.

4.2.6 Qualitative Rigor

To ensure trustworthiness as presented in Lincoln and Guba (1985), the rigor of this study was guided by Tracy (2010) to embody high-quality standards. The author's eight criteria (see Table 4) have each been accounted for in the development of this work.

The influence of the VC industry on innovation (Gornall & Strebulaev, 2021) and the literature review have revealed a significant gap. Consequently, it prompts the act for further attention. The empirical dataset was obtained through broad sampling (see Chapter 4.2.1), and the interview procedure followed Roulston et al. (2003) to address potential biases. Transcribing raw data followed a rigorous process (see Chapter 4.2.3) to ensure an exact encapsulation of empirical data. The encoding was adopted from Gioia et al. (2013), and the iterative evolution of inferences is illustrated (Chapter 4.2.3; Dubois & Gadde, 2002). Hence, an informative process was undertaken to ensure richness, sincerity,

and credibility, to facilitate future usability by transparently acknowledging the research process (Tracy, 2010). The findings of this study aim to conceptualize how signals are interpreted as FTCs and evaluated, thereby resonating with SES VCIs, entrepreneurs, and scholars alike. The contributions and ethical considerations have been addressed in detail in previous chapters.

Criteria for quality (end goal)	Various means, practices, and methods through which to achieve
Worthy topic	The topic of the research is • Relevant • Timely • Significant • Interesting
Rich rigor	The study uses sufficient, abundant, appropriate, and complex • Theoretical constructs • Data and time in the field • Sample(s) • Context(s) • Data collection and analysis processes
Sincerity	The study is characterized by • Self-reflexivity about subjective values, biases, and inclinations of the researcher(s) • Transparency about the methods and challenges
Credibility	The research is marked by • Thick description, concrete detail, explication of tacit (nontextual) knowledge, and showing rather than telling • Triangulation or crystallization • Multivocality • Member reflections
Resonance	The research influences, affects, or moves particular readers or a variety of audiences through • Aesthetic, evocative representation • Naturalistic generalizations • Transferable findings
Significant contribution	The research provides a significant contribution • Conceptually/theoretically • Practically • Morally • Methodologically • Heuristically
Ethical	The research considers • Procedural ethics (such as human subjects) • Situational and culturally specific ethics • Relational ethics • Exiting ethics (leaving the scene and sharing the research)
Meaningful coherence	The study • Achieves what it purports to be about • Uses methods and procedures that fit its stated goals • Meaningfully interconnects literature, research questions/foci, findings, and interpretations with each other

Table 4: Eight “Big-Tent” Criteria for Excellent Qualitative Research.

adopted from (Tracy, 2010).

4.3 Method Criticism

Certain aspects of the chosen method are subject to debate. Digital interviews may have neglected visual cues, leading to overlooked follow-up questions (Bell et al., 2022). Furthermore, despite measures to ensure interviewees' anonymity, awareness that answers are recorded and transcribed may have influenced their inclination to speak freely (Bell et al., 2022).

The semi-structured interview approach required SES VCIs to reflect on their experiences retrospectively. Observing the event from which an investor interacts with founders until an

investment decision is made might provide different or richer data (Bell et al., 2022). Nonetheless, the stated lack of introspection amongst VC professionals (Zacharakis & Meyer, 1998) prompted the researchers to explore a setting in which SES VCIs analyzed their ex ante behavior.

5 Results

The first part of the results section introduces interviewees' views on the SES VC environment. Later, insights into how investors characterize FTCs and judge their quality are presented. The chapter concludes with further observations on factors indirectly affecting how SES VCIs make decisions. For a selection of additional quotes supporting findings, see Appendix D.

5.1 FTCs in a Subjective and Intangible Process

Investors almost unequivocally refer to the product, market, and team as the dimensions evaluated in investment decisions. However, the market and product are noted as very susceptible to variation. Hence, they are viewed as interest-generating triggers for the potential, whereas the team represents the venture's ability to thrive in a constantly changing environment:

> *What catches your eye, of course, is that you sort of like the business concept, the product, the service. [...] that's perhaps what passes you through the needle in getting a meeting. [...] but then it's very much about the people and the team and getting… You know, convinced that this team can actually pull it off. - VCI 10*

Hence, the empirical findings support previous research on FTCs by highlighting their importance to investors and their role as anchor points in the final investment decision. Some participants stated it more abundantly than others:

> *I have a mantra, you know, if the team is right, then the product and the market doesn't really matter. The team is number one, founders are number one. - VCI 9*

Many of the interviewees painted the appraisal of FTCs as foundational for shaping first impressions during the initial interaction. However, investors iteratively scrutinize and compare their opinion on them with previous sentiments throughout the evaluation:

> *I really try to both remember and then critically observe from outside what my first impression was and the next and the 3rd and the 4th encounter. Is it consistent with that first impression? Because VC investors are sometimes good actors, but so are some founders. - VCI 8*

While some interviewees were deeply engaged with their thought processes, with their self-awareness reflected in concise interview answers, many seemed affected by the intangible nature of their gut

feelings. Introspection-reliant questions were often followed by longer breaks of self-reflection or explicit statements on the difficulty of such questions:

> *Uhm..yeah, it's.. it's really hard to articulate it, that's for sure. - VCI 13*

5.2 Insights on the "How" - Decision-Making Aspects of SES investors

This section covers the identification process of FTCs and cognitive evaluation factors. The interviewees' comments are clustered and denoted as (1) catching of cues, (2) interpretation of cues and derivation of team character, (3) decision-making, and (4) framing mechanisms.

5.2.1 Catching Cues on FTCs

5.2.1.1 Observability of Cues

Given the importance of cue observability in this study, it was valuable to gauge how interviewees expressed certain observation-FTC relationships. While qualities of a person were denoted as unobservable and cues as observable prior to the interviews, results indicate that one must also watch out for the distinction between observable and unobservable cues (i.e., signals representing an underlying quality that cannot be observed or proven):

> *The most important [characteristic] is obsession. That's a clear number one to me. [...] You can think of it like you can't sleep at night because you think of a certain problem and you want to spend your life solving this sort of problem. - VCI 3*

When asked about observable cues that may indicate a characteristic is present in a founding team, investors describe how they can be inferred:

> *So basically seeing that they have this, it's like they need to understand their own limitations and be able to prove that they can complement those with other people. So the capacity to attract talent, I think it's very… you can kind of see that in the larger team to see like, OK. How is the competition here with competences, advisory board, the board, etcetera? What kind of talents are they attracting? - VCI 11*

5.2.1.2 Cues' Plurality

The plurality of cues required to deduce a certain founding team characteristic varies. Some characteristics that investors ruminate on appear to instigate a list of multiple signals that need to be observed in combination for a characteristic to be deemed present. Other characteristics, however, are only described by having a few cues that substantiate their existence:

> *[On complementarity] One is actually hard called skill based complementarity [...]. Then we have the second category of team complementarity, which concerns personalities. - VCI 14*

5.2.2 Processing Collected Cues

Processing cues after observing them and drawing preliminary conclusions about the existence of FTCs appeared to carry great weight for the investors. They seem to mentally contextualize identified characteristics with further aspects determined by external factors, type of cues, and previous experience with observed cues. The vertical and competition that the start-up finds itself in may lessen or strengthen the impact of certain team characteristics, according to our interviewees:

> *You know, sometimes if it's a really high tech, deep tech product, I mean then you're really looking for the majority of the team being very, very nerdy and geeky about what they do. [...] If you have this type of business, you know, business to consumer cases. It could be a completely different skill set that is required. People that are very extroverted, they are marketeers, evangelists, etcetera instead. - VCI 10*

Investors often commented on the importance of tangible aspects or behaviors from founders to deduce proof, and avoid convincing themselves of the presence and quality of an FTC solely from presentation performance:

> *[...] You can lead passion into proof. You can see that they're not just talking about it. They've been eating, you know, pasta with ketchup for five years here and just kept on digging until they found the solution. So you can also look for, you know, tangible things which convince you that they are not playing theatre, they know what they're talking about and they know they have motivation. - VCI 10*

Investors elaborated on certain cues that may raise immediate negative or positive connotations due to investors' prior experience with these cues. Hence, a characteristic that may sound positive to some, can evoke negative response from others due to past observations:

And I think we have a little bit too much experience of the nerds [...] [they think]: 'Well, we have now developed this, this is the coolest thing ever. Everybody would just stand in line outside here and just buy from us.' But that's… we all know that that's not the fact. So, we sort of see the maturity of the people - VCI 1

Every FTC was not deemed equally important to every team member; instead, it related to specific roles within the firm. One investor described how vision is mainly connected to the CEO:

[On vision] we want to assess the CEO more here because they are driving the company forward now in the beginning, so we usually do not tend to assess everyone's vision about the company. - VCI 18

It is worthwhile to highlight investors' interest in how founders interact with and fit to one another. Many investors drew connections between individuals' cues showcasing these capabilities and their roles in the broader team assessment:

Of course the most important is that there is not a person, an entrepreneur, that has too strong a need to be in control of all the details. [...] So I look very much at the interaction that happens between the pitching team, do they look at each other? Do they ask each other? Do they respect the different fields that they represent or is one person in the room just taking all air and bandwidth. So the ability to grow the team beyond the CEO [...] - VCI 8

5.2.3 Decision-Making - Evaluating FTCs

5.2.3.1 Constraints Faced by SES Investors

Participants were asked to reflect on potential constraints that dictate how decisions are formed. They were confirmed to be mostly of a temporal or informational nature. Investors' frequent first meetings and large deal pipelines make it hard at times to go into significant depth on the characteristics of every founding team they meet. Furthermore, the results show that such constraints are omnipresent throughout the investment process, as investors are experiencing continuous limitations that have a direct impact on how they make a decision:

People act on imperfect information and sometimes you are time-constraint and then you have to make a more like gut-based decision on [the FTCs]. - VCI 6

And of course they also know more about the market, which you could see as information [...]. So, you need to pick up on a lot of things quickly, to also hold valuable conversations.
- VCI 13

5.2.3.2 Immediate Processing of Cues

When participants observed certain signals, often described as "red flags," they quickly showed strong negative reactions to specific FTCs. These cues seemed to automatically discourage interest in further meetings:

A real red flag for me is like spending a lot of time making sure you're completely clean and that you meet all the legal requirements from day one, and you focus incredibly hard on that. [...] then I'm not going to invest. It's just completely uninteresting. - VCI 12

While negative traits often triggered automatic rejection, first impressions could also have a strong, lasting positive impact:

If you're blown away by the vision [...] it definitely colors your opinion a bit. And from that point on, if you have something, you'll defend it [...] And you might be a bit more blind to certain yellow flags that you see along the way, which I think is also a very hard part of the job to let go of that feeling of falling in love with some people for the sake of it - VCI 13

It was observed that this influence exerted by certain characteristics may find its origin in the preferences of the investors, which may be derived from personal perspectives:

There's so many entrepreneurs with a McKinsey or Goldman Sachs background who like, you know, wave their hand and build the big story who absolutely don't care about the product. And personally, I'm just allergic to that. [...] there's a lot of people who think they're entrepreneurs that like try to build things top down rather from the bottom up. - VCI 16

When asked how often bias inducing impressions shifted sentiment throughout the investment process, responses were heterogeneous. Some were resolute in their opinions, whereas others conscientiously discounted them:

I mean, clearly a lot, but you're very open the first 3-4 meetings. So a very good first meeting, you know, wow, what a team, that would wear off quite rapidly. [...] The first impressions are important to get to the next meeting, but you answer the next meeting totally open and blank anyway. - VCI 15

5.2.3.3 Mentally Drawing Connections between Individuals

When exploring where first impressions originate from, participants explained how they draw connections to other people they have interacted with before:

I think I have certain founder profiles in my head which I can kind of, or like boxes, where I put certain people in once I meet them for the first 30 minutes or hour and some of them are, yeah, really good at making you go around the problems that they have, right, and not really facing them. - VCI 13

5.2.3.4 Mixed Feelings on the Automatic Response - the Struggle for Deliberate Evaluation

Investors referred to the influence of first impressions as consequences of human nature, thereby implying that it is inherently hard to forego them without active resistance:

We are biological beings and you have to know what your brain does. The human brain makes a decision before you are aware of this. - VCI 9

Investors often noted the risk that decisions are heavily coloured by first impressions. It was argued for in the context of maintaining an open mind to make rational investments and avoid the potential error of their initial feelings regarding FTCs:

So subconscious decisions are in the making. And you have to be really, really disciplined because you know that you can be wrong, right? And the first impressions obviously have the strongest signals in our brains [...]. They can have had a bad moment and what you found is a snapshot of this [...] I wish I had 10 first impressions. then I could have a more accurate weight on the impression, but I only have a set of one which, you know, can be very wrong. - VCI 9

A common denominator that permeated discussions was concrete measures to validate FTC by incorporating external insights from a wide range of sources. These include subjective opinions from references and co-investors, and data-driven inputs from having founders take standardized tests:

But if they have time, they also let the founders take a test called [test name]. Where they score them based on questions evaluating traits[...] and then benchmarking towards other people [...] to find the top 1%. - VCI 14

I would say usually as a VC, once you're interested, you get into a longer conversation, usually with other investors. - VCI 11

I think that the references, coupled with the dynamics of the meetings with these individuals and how they play out, also say a lot about how they function internally as individuals. - VCI 12

However, some accounts accepts the pitfalls of gut-feeling assessments and instead embrace it as a firm basis for being opinionated and efficient:

[...] I'd probably say I stick to my first impression 75% and I'm convinced the other way 25%, but that's a rough estimate.[...] So I'm extremely confident in identifying the right prerequisites, and it doesn't stop with the personality of the founder and entrepreneur and the founding team, right. - VCI 16

This insight may potentially be derived from the inherent uncertainty of the outcome in any venture investment and the multitude of external factors that ultimately lead to success:

I've been in super cases, super people, super crowds, but the timing was wrong when you were supposed to be refinancing. And so the overall timing is maybe like 50% of the whole thing. And is totally undervaluated in in these types of discussions and evaluations. - VCI 15

5.2.3.5 Probing for Integrity

A homogenetic view on credibility was identified where investors' neglected cues carried value unless ex ante actions or inferences during the investment process establish trust and transparency. Hence, validating cues' integrity is critical:

So I try to be very personal with the projects I like and try to give them all opportunities there ever are to level with me. But if I feel that they still don't, there's still something that they hide. They are still viewing me as a customer or someone that could be sold to or manipulated, then there will be no further process because if they cannot see me as, or at least pretend that they see me as a friend they just made. - VCI 8

5.2.3.6 Supporting Intuition through Standardized Formats

Most deals have to pass an investment committee before they materialize. It often includes presenting the skills and weaknesses of FTCs in a tangible format, substantiated by data from the evaluation:

> *So we have the scorecard. [...] we go into a meeting and you come and say like, oh, this was a great pitch and then you give the scorecard points. [...] Now I go through the scorecard, have given my points and I have to acknowledge maybe some points they have to work on. - VCI 7*

5.2.4 Framing FTCs - Results on Cognitive Scales and Models

To clarify how investors grade observations on FTCs, their reasoning was probed by asking whether they view the presence of a characteristic as binary or as situated on a scale. While a few hinted at using a binary approach, the majority expressed that they reason in terms of degrees when assessing FTCs:

> *I don't think it's binary. I think it's more scale, yeah. - VCI 2*

The question prompted some interviewees who reasoned by scale to expand on what experiences and insights they draw from when building a contemporary model to assess FTCs:

> *[...] You are trying to position that team plus their idea [...] within the market [...] and then you have to assess. I think that's what I found also [...] people are always like, you know, he is the Steve Jobs of, you know, last mile delivery. It's like, what the…? That's not helpful. - VCI 9*

5.3 Further Insights

An interesting parallel was drawn between hiring and investing. The comparison was grounded in the fact that both aim to allocate funds to human resources, implying that recruiters and investors face similar process aspects:

> *[...] investing is almost like recruiting in a way. You know, you can look at it from that lens, definitely, because what you do is actually hire people in a way to make use of your money and build something. So what I tend to look at is really what recruiters look at. - VCI 10*

Participants at times underscored the possibility to address functional gaps in founding teams through the respective fund's resources post-investment:

> *We work from the board, but we are happy to help to recruit when we see that they're missing some functions in the team. We can help to recruit from our network or through headhunters that we know and so on that we put the companies in touch with and so forth. - VCI 4*

Some participants expanded on the formal structures of funds, questioning whether ventures are evaluated purely for their success potential. One interviewee contextualized this by highlighting that early-stage funds have to market themselves to their LPs:

> *The core competency is to sell the investment product to external investors like insurance companies that become LPs. [...] So it's very much a game of appearances where communication skills become very important. - VCI 8*

Lastly, investors often mentioned the importance of being opinionated. However, when inquired about their confidence in selecting successful founding teams, several postulated that uncertainty and risk often cause self-doubt. They framed it as a part of the job. Interestingly, more experienced investors showed higher levels of doubt than less experienced participants.

6 Analysis

This chapter presents the revision of the theoretical framework (see Figure 6) combining ST and BDT. Underpinning the revisions are observations derived from empirical data analyzed through Gioia et al. (2013) and aggregated into dimensions (see Figure 5). The framework evolved iteratively alongside the analysis (see Chapter 4.2.3).

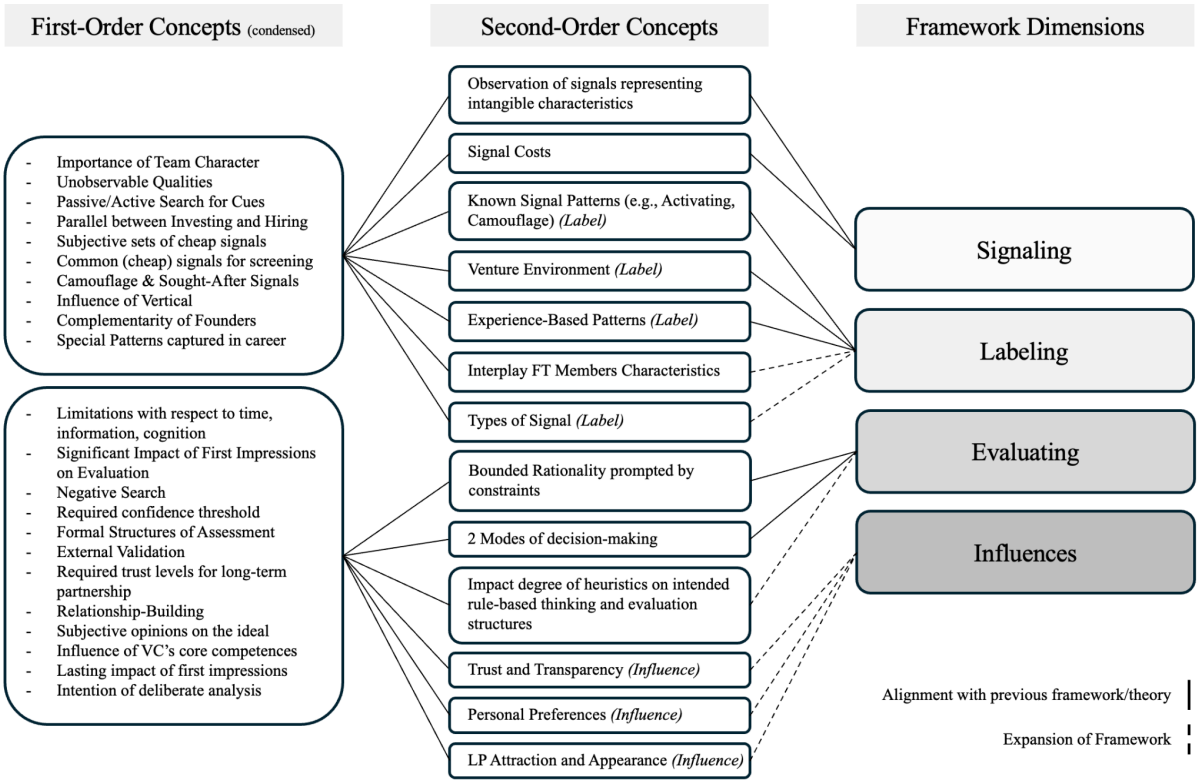


Figure 5: First-, Second-, and Third-Order Concepts.

Own illustration.

ST and BDT were validated as a functional combination that captures the decision-making processes of SES VCIs. The core concepts of both theories, such as the perception of observable signals representing unobservable qualities, BR affecting the investment process, and the existence of dual decision-making modes, can be argued for with the help of the study's empirics. Fuzzy Logic was not included in the revision, as results were inconclusive and failed to pinpoint investors' underlying grading mechanisms.

6.1 Processing - Labeling Characteristics after Observing Cues

6.1.1 Alignment with Prior Findings

ST, as developed by Spence (1973), is found to be applicable to the case of SES VCIs. Unobservable FTCs, such as obsession or grit, are represented by observable cues captured during interactions between investors and founders. Participants drawing parallels between hiring and investing in early-stage ventures further underscores the transferability of the theory from the original job market context of Spence (1973).

Signal Costs

Some signals, such as job experience in highly competitive positions that demonstrate ambition, require significant effort by founders for investors to recognize FTC quality. However, other FTCs, such as charisma shown during investor presentations, were generally accepted at face value. Hence, the cost-influence relationship described by Bafera and Kleinert (2023) is partially supported but pertains to certain FTCs in the evaluation process. The divergence is inferred from several factors implicated by the SES context. Investors apply filters throughout the deal-generation and early screening to preserve bandwidth and meet as many potential teams as possible. Hence, cheaper signals serve as important factors, reducing the set of companies to evaluate. Expensive signals carry higher weight in later stages, when investors want to iteratively explore traits that reveal deeper personality layers of founders, which demand more effort. However, investors are not oblivious to the risks accompanying cheap signals. Acceptance of it is based on a cost-benefit analysis, where limited time-frames mandate rapid action.

Signal Patterns

Patterns, similar to those listed by Connelly et al. (2011), were observed to be implicitly applied by participants when processing cues. FTCs that investors are actively searching for carry strong weight and representative signals can be deemed activating. For example, a participant who views the venture market as riddled with increasingly young founders, looks for more seasoned individuals that fully grasp required sacrifices. Interviews have also shown the general awareness of potential deception exercised by founders, hinting at camouflage signals. Hence, investors are observant of founders with low signal fit (Connelly et al., 2011). Furthermore, interviews have shown that investors form subjective patterns from their own professional experience or gradually by screening and evaluating founders.

Context Dependence

It is found that investors contextualize. Previously, it was mentioned that the external environment (Fisher & Neubert, 2023; Kim & Lee, 2022) can be derived from literature as a potentially relevant influence on the processing of FTCs. This was found to be correct, particularly for the venture's environment. Verticals influence the importance of team characteristics in investors' eyes, explaining why nerdiness better catches their attention in highly technological industries.

Unmet Precondition of Signal Equilibrium

Finally, conclusions can be drawn on the existence of indisputable investor beliefs that may serve a signal equilibrium in the SES market (Spence, 2002). Judging by the results, the uncertainty in the market makes it next to impossible to produce a definite and irrefutable claim connecting certain team signals to the success of a venture. However, participants hint that there may be hard-to-negate investor beliefs about signals (e.g., sacrifices) representing qualities (e.g., commitment) that inadvertently make a great founder thereby increasing the likelihood of venture success. This, however, is hard to confirm as the potential performance of a founder is highly subjective and open to debate.

6.1.2 Framework Expansion

Interplay of Individual Characteristics

While data supports the notion that investors examine the team constellation when assessing the FTCs, founding team members are individually examined. As such, the original framework is inadequate in capturing the interplay of qualities among team members, which is found to be a central aspect. The team's aggregated appeal stems from the breadth of complementary characteristics. While certain functional complements naturally align with each member's direct responsibilities, intangible characteristics are linked to domain qualities that investors deem essential for rapid growth. For example, passion is tied to proliferating a vision for future customers or partners and is often recognized as the CEO’s responsibility. Hence, several founding team members sharing strengths does not necessarily lead to a higher perceived value by investors. It acknowledges the need to add a holistic layer to the processing of team FTC signals. Notably, the interplay of team characteristics closely parallels Bafera and Kleinert’s (2023) signal portfolio, one of their study’s core concepts. Portfolios consider the complementarity, conflict, or amplification that can occur between multiple signals, which here would be emitted by the different team members.

Type of Signals in SES VC

Investors' processing of signals representing FTCs reveals a decomposition of the signal type, introducing an additional layer to Spence’s (1973) conceptualization of how unobservable qualities

are transmitted. Qualities are represented through *action*, *experience*, or *communication* signals emitted by the founders. The founding team's actions regarding the venture represent the value investors attribute to *action signals*. Execution ability and speed were often alluded to, with investors scrutinizing the release rate of services or product improvements, as well as the clout of advisory boards and angel investors. Furthermore, action signals are static variables, as they represent acts that precede the evaluation. *Experience signals* refer to prior engagements of the founding team members that are not related to the present venture. Earlier employment at renowned companies or education from competitive universities are interpreted as indicators of high aptitude or access to networks. As such, investors do not look for the brands or experience, but the unobservable qualities that otherwise are intangible and difficult to derive from a time-constrained investment window with founders. Lastly, investors attribute significant value to *communication signals* during pitches or meetings. For instance, a demarcation of responsibilities among individual members reflects the structure and distribution of control. Other notable communication signals include acknowledging existing problems in the venture, which convey integrity, and pitching performance to show how well the founders will win over future customers. Investors infer unobservable qualities by searching for each of the three different signal types in founders. Furthermore, a certain FTC is not approached exclusively by a single type; on the contrary, investors frequently combine them to broaden the nuance of their assessment. But the signal types differ in cost. While some experience and actions can be forged, investors look for costly signals tied to concrete events, which are scrutinized during DD. On the other hand, communication signals originate within the context of a social interaction. Hence, they are not subjected to a similar cost assessment.

6.2 Evaluation - Assigning Weights to Decision Modes Under Influences

6.2.1 Alignment with Prior Findings

Similar to signaling, BDT appeared to be a suitable theory for describing investors' decision-making, particularly for evaluating processed cues. As part of the original framework, it was theorized that BR sets the stage for SES VC evaluation by considering constraints impacting individuals' decision-making, as outlined by Simon (1955). BR found strong support in the results and may form under the lack of collectable information on FTCs, time constraints investors face in initial meetings, or learning constraints that lead to mis- or preconceptions about the founders' character. It is worth noting that time constraints may vary depending on the investment stage a SES fund focuses on (i.e., seed or Series A) or the role it assumes in funding rounds (i.e., lead or co-investor). Learning constraints often arise when founding teams are unable to effectively communicate a complex product or relationship within their business model. While BR is confirmed, the visualization of it within the

framework is slightly altered (see Figure 6). This follows the realization that constraints can occur and are considered at any stage throughout the FTC evaluation.

System 1 - Early Contact

The analysis shows that investors have two decision-making modes when faced with decisions regarding FTCs. Participants' recognition of the weight of first impressions and the ongoing influence during the evaluation of FTCs makes heuristics and biases apparent. As mentioned previously, during early meetings, investors rely mostly on cheap signals to filter start-ups in their high-frequency environment. These signals are impactful during later evaluations, with investors rarely deviating from their first impressions when digging deeper into the founders' personalities or defending their opinion against others. Furthermore, the impressions are often underpinned by relating the processed signals to founder stereotypes that investors find reflective of them (Stanovich & West, 2000; Tversky & Kahneman, 1974). Biases resulting from these impressions and the lack of rules when making decisions based on them point to a System 1 evaluation of observed FTCs (Stanovich & West, 2000). The degree of comfort investors have with their heuristics varies widely. Many participants voice concerns about biases as they work to improve their inferences and analytical cognition over the years.

System 2 - Evaluation and DD

Despite a strong system 1, driven by first impressions, SES VCIs have system 2 processes (Stanovich & West, 2000) in place to deliberately assess the founding team and form a more objective view of an investment lead. The processes appear as negative searches, seeking to find reasons not to invest in the founding team. With respect to the FTCs, it is important for investors to collect external validation on the respective individuals. Throughout the interviews, this has crystallized into four forms; cross-examination of founders through meetings with the investor's colleagues, investment committees, references from mutual contacts, and the commitment of renowned funds. Hence, validation can come from within or outside the fund, thereby capturing a broader perspective on the respective traits. The profile of the founding team is further complemented by personality tests or formal documents, such as long investment memos, that help investors articulate the team's strengths. Participants mention personality tests in connection with software or methods aimed at standardizing contemporary character evaluation. Notably, the mixed feelings towards these tests make it hard to determine whether standardization for the FTC evaluation will be accepted and taken into account by most professionals.

The results indicate that there are no concrete or generalizable thresholds that must be reached during the evaluation of FTCs before making an investment decision, making the effort put into this stage variable and dependent on the circumstances of the venture and fund involved.

6.2.2 Framework Expansion

Sequential DPM

The theoretical framework assumed that the heuristic-driven and deliberate analytical modes operated in tandem. However, observations indicate a sequentiality in which initial meetings or pitches form tentative convictions in investors based on intuition, which are later challenged in the deliberate analysis phase. Hence, relying on interactional intelligence (Levinson, 1995*)* to determine whether further meetings are of interest. Then, in later sessions, a rule-based system is applied in the form of an investment memorandum or scorecard to articulate the reasons an investment is attractive. Regarding signal types, communication signals were predominantly evaluated using heuristic-driven decision-making, whereas the two modes were combined to evaluate action and experience signals.

Personal Affinity and Lasting Impressions

Furthermore, a strong relationship between investors' personal affinity to the founding team and their intention to move the deal further is identified. Interviewees metaphorically expressed an investment as a marriage between the VC fund and the founders. An established personal connection leads heuristics to perceive the founders' capabilities in an optimistic light. It aligns with findings in the existing literature (Matusik et al., 2008) and is central to conceptualizing how SES VCIs make decisions. Consequently, personal affinity admittedly shapes their first impressions, leading investors to be precommitted and champion the start-up. It mandates revising the theoretical framework to accurately reflect how investors symmetrically use both heuristics and deliberate analysis, with influences that persist throughout the evaluation.

Core Hygiene Factors - Trust and Transparency

Trust and transparency are central aspects of SES VC investments, as they shape and inform the decision-making process under BR. It ties into the marriage metaphor and has to be asserted during the investment window, which imposes significant pressure on investors. Particularly as a "divorce" is cumbersome outside of liquidity events and deviates from the typical VC business model (Ewens et al., 2018). Heuristics continuously assess whether signals are truthful by investors drawing from their own experiences when observing the founders' signal transparency. Portraying an embellished image of the FTCs or a reluctance to share existing challenges unanimously triggers warning signs to SES VCIs and overrides the perceived value of any existing positive aspects. Apart from heuristics, investors take measures by adopting rule-based systems to validate trust and transparency, using the aforementioned external validation resources. These are probed extensively to gauge founders' reputations and ex ante behaviors in the industry. The process materializes into an approval checkpoint where investors look to affirm their beliefs. Thus, trust and transparency originate in

signals and increase gradually over time, where tangible contradictions unequivocally prompt deals to collapse. It is, therefore, situated in the revised framework as encompassing the heuristics and deliberate analysis to demonstrate its omnipresence throughout the evaluation process and the effect it has on both modes of analysis.

VC as a Product

Core capabilities are not limited to identifying high-growth potential ventures, but include raising capital from LPs (Gompers & Lerner, 1999; Sahlman, 1990) and creating an aura of uniqueness to attract competitive ventures to their portfolio. Interestingly, founders' appearance in funds' portfolio companies affects investors' ability to sell the investment product to LPs, and the exclusivity of being selected by a particular fund attracts future founders. Consequently, it provides an additional element investors draw on when assessing the FTCs of a potential investment. It is worth noting that this may create an asymmetrical incentive between investors and founders, which founders may be unaware of or have little concern about. Furthermore, it raises the question of whether FTCs are meritocratically assessed for their likelihood of producing a successful venture, and the extent to which other incentives affect the selection process.

6.3 Note on the Exclusion of Fuzzy Logic

The authors introduced fuzzy logic as a potential representation of SES VCIs' approximate grading of FTCs. It hinted at a potential non-binary approach, in which investors sought a certain level of FTCs to be present (e.g., a person exhibits leadership to 65%). While participants claimed to reason in fuzzy terms when explicitly asked, which supported its existence as presented in the literature (Zadeh, 1965, 1975), their demonstrated thought processes when discussing FTCs painted a contrasting picture. Instead, FTCs were generalized into definitive attributes that founders must possess. Hence, the application of approximate logic and the degree to which FTCs must be present were not identified and are discarded in the revised framework.

6.4 Summary of Process and Evaluation Dynamics

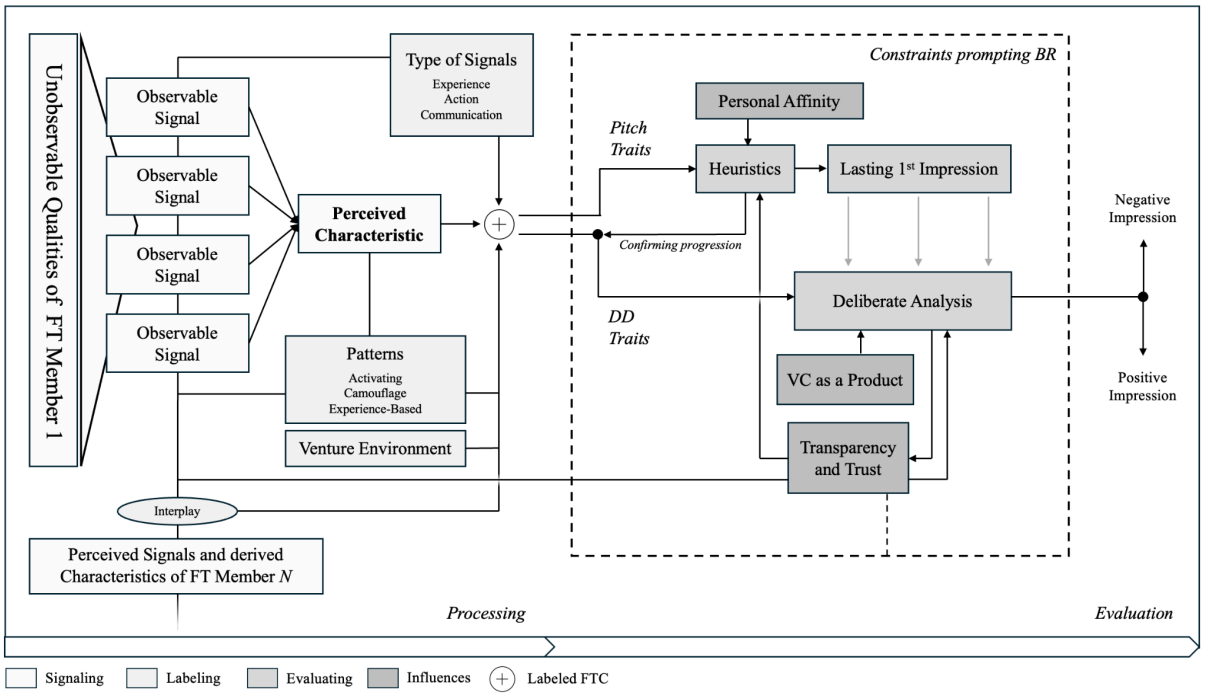


Figure 6: Revised FTC Decision-Making Framework.

Own illustration.

The revised framework can be condensed to a simplified stage view of the decision-making process. These stages are (1) the collection of observable signals, (2) the labeling of derived FTCs for effective evaluation, (3a) the evaluation of pitch traits through intuition, and (3b) the conscious evaluation of DD traits under the influence of various factors. The first two stages are the core of processing, while stage 3 represents the evaluation.

Observable signals are emitted by founders through verifiable experience, actions taken within the venture, or behavior demonstrated in meetings with investors. Cues are collected, and individuals' defining characteristics are derived. Before these characteristics are further evaluated, they receive *labels* in a second processing step. These may reflect the type of signals, the venture's context in which respective characteristics will have to be utilized, or notes made by the investor based on recognizable patterns in the characteristic's signals. Aside from these two processing steps, the collected signals are continuously assessed to build or erode trust between the investor and the founding team. Together with the interpretation of the interplay among team members' signals, trust becomes crucial in the subsequent evaluation stages. After labeling the character traits collected in initial meetings (Pitch Traits), they are assessed using intuition, in which the investor relies on personal beliefs or implicit gut-feelings. If this results in a positive impression, the investor will progress to the further evaluation of the venture and team. Here, more explicit structures aid a more

objective assessment of the FTCs (DD Traits). However, these can be influenced by external factors, such as the funds' focus on LP attractiveness or investment policies (see Figure 6).

These dynamics are a large part of the overall venture assessment. But, to come to a final investment decision, participants highlight the importance of evaluating not only the team but also the market, product, and business model. The importance of FTCs may vary across verticals; the weight assigned to the process structure in the revised framework can differ by fund focus.

6.5 Critical Reflection

ST is applied to capture how investors infer desirable team attributes that are unobservable from their superficial appearance. While interviewees engaged in introspection and articulated the process of connecting unobservable qualities to FTCs, ST provides a framework for explicating this process. But ST introduced certain limitations. It posits an incentive at the core of the framework (Spence, 1973), represented in this research by venture growth. Consequently, it frames observable signals as emblematic of FTCs that have a causal relationship with capabilities to scale a start-up and produce adequate returns for VC funds. Furthermore, Spence (2002) develops in detail the concept of equilibrium between two market actors. But to arrive at a conclusion about equilibrium in the context of SES VC and start-ups, the prevalence of symmetrical beliefs about the FTC among founding teams seeking SES VC funding must be studied.

With regard to BR, cognitive and information constraints are similar across SES. However, time constraints have been found to shift between the phases. While generally applicable by the notion in Simon (1955), Series A investors were found to typically operate within a larger investment window than seed investors. Furthermore, VC in general is largely unique in its approach to performance feedback. It is unfeasible for investors to adjust their decision-making processes based on data from successful investments, given the long time lag between action (i.e., investment) and outcome (i.e., return), often spanning several years (Zacharakis & Meyer, 2000). Hence, apart from validating the trustworthiness of founding teams, DPM is limited in its ability to provide insight into whether deliberate analyses reduce outcome risks with respect to FTCs. Especially considering the multitude of additional factors that can negatively affect a start-up post-investment.

7 Conclusion

7.1 SES VCI Decision-Making on FTCs

This study set out to explicate the core decision-making processes of SES VCIs on FTCs. After identifying the existing research gap on SES investors' evaluation behavior with respect to the characteristics observed in founding teams, the authors addressed the following research question:

How do SES VCIs process and evaluate cues representing start-ups' FTCs during their decision-making processes?

ST and BDT were theoretically combined, empirically derived, and subsequently expanded through an abductive approach to provide a comprehensive answer to the research question. With the support of ST, the findings highlight SES VCIs' focus on processing observable signals representative of FTCs, which are subsequently labeled based on typologies and context. BDT has provided an effective framework for further evaluating identified and categorized characteristics by classifying two decision-making approaches: heuristic-based and deliberate. These are leveraged by investors sequentially and to varying degrees. In addition, they influence each other through heuristic-based convictions, which affect the deliberate analysis of FTCs. The structure these theories lent to the study's empirical exploration further enabled the crystallization of main concepts, such as trust, the interplay of founders' characteristics, and the influence of the fund's agency, thereby creating more nuanced and realistic explanations of SES VCIs' decision-making.

Notably, fuzzy logic was discarded from the revised framework, as no substantial support was found for its inclusion in the evaluation of FTCs.

7.2 Empirical and Theoretical Contribution

This study has leveraged insights from 19 interviews with SES VCIs of varying genders, ages, and experience levels. The collected data is of value for a multitude of reasons, with three worth highlighting. First, by focusing on investors based in or active in the Swedish market, the sample amplifies input from one of Europe's most innovative geographies, which may otherwise get diluted in geographically diverse samples. Second, this study has empirically placed ST and BDT in new contexts and elaborated on their applicability. Third, the barriers to gaining insights into private market investing and internal thought and decision-making processes are high, making the collected data rare.

The research found support for ST's applicability in the SES VC domain by confirming the validity of unobservable cues as proxies for FTCs that investors seek to evaluate venture success. It thereby allows for comparative studies of ST application in neighboring contexts. Furthermore, an additional layer to ST is added by introducing three signal types: action, communication, and experience. It offers an evaluation approach that may be constructive when adopting ST to study the labour market or related fields. Lastly, trust and transparency are found to be omnipresent in both the theoretical frameworks underpinning the findings of this study. However, it mainly nuances the discussion of how signals are processed in the beholder's mind and lose their value if not considered authentic.

7.3 Practical Contribution

The findings in this research offer three principal contributions to practitioners. Former researchers have questioned the level of introspection (Zacharakis & Meyer, 1998), which is noted in this study as well. Consequently, the patterns and types by which signals are processed and subsequently evaluated articulate the procedure and may serve as input for improving investors' methods. Furthermore, founders looking to raise capital are given guidance on how to best present themselves to investors, though this may overly favour first-time entrepreneurs with limited experience. Finally, LPs may benefit from the findings by becoming aware of how investors decide which companies to allocate capital to.

7.4 Discussion

Unlike Blume and Hsueh's (2024) five categories of VCI team evaluation methods, the present study maps the FTC decision-making structure of VCIs by identifying commonalities across the SES phase. It reveals how VCIs identify signals representing FTCs and outlines a sequential evaluation process during investment decisions. The process shifts from intuitive judgment to rule-based systems. These evaluation approaches serve different functions and enable investors to operate efficiently and effectively within a socially-driven environment. While the evaluation processes identified here align with some of the subjective VCI activities found in Blume and Hsueh (2024), an entirely objectivized evaluation approach is not supported. But, findings do not directly challenge them as the studies adopt distinct scope limitations.

The purposeful combination of prior research has laid a cornerstone for this study's empirics and unveiled additional core findings such as the influence of trust or signal types. The FTCs identified in Gompers et al.'s (2020) comprehensive survey of VC decision-making were also found to be instrumental during the SES phase. In this context, the relationships between FTCs and founders' communication, actions, and experiences are examined more closely to clarify which specific founder

behaviors and interactions are being evaluated. On the notion of introspection, investors did find it difficult at times to articulate their thought processes, which supports Zacharakis and Meyer (1998). Mapping the evaluation of FTCs serves to explicitly describe how their decision-making unfolds.

Surprisingly, the study found no age or gender patterns among the investors. Given the low representation of females in the VC industry, which was discussed with participants in interviews, the sample (16 males, three females) appeared realistic and representative of the industry population. Having said that, it would add value to cross-compare an equally gender-divided dataset and juxtapose patterns. VCIs' experience has shown a correlation with the level of confidence an individual has in their ability to choose successful ventures. While overconfidence is mentioned in the heuristics literature and is linked to biases (Hillman, 2000; Kahneman, 2003; Tversky & Kahneman, 1974), the concept should be applied with care. It has been argued that this concept has inconclusive effects on cognitive abilities (Stanovich & West, 2000). Therefore, overconfidence was not included in the framework for this thesis, as it would require a more extensive investigation to draw strong conclusions.

7.5 Limitations and Future Research

Participation in this research was contingent on two prerequisites: VC professionals active within the Swedish market who invest in firms raising SES capital. Hence, findings are generalizable to a certain degree. First, the majority of SES VCIs emphasize the team aspect, as presented in Gompers et al. (2020) and confirmed in this research. However, specific verticals (e.g., life sciences) may present an alternative balance on firm attributes. Second, SES firms lack an extensive operational record and often pivot before maturing in a market. This may imply that founder signals and decisions are assessed differently at other investment stages. Third, other geographical contexts may operate with less inquisitive workflows. Hence, future research situated in distant cultures would provide a valuable comparison to the findings.

The identified signal types provide valuable insight into how VCIs disentangle their relationships with FTCs. Detailed studies focused on the signal types would further the understanding of distributed weight allocation and their individual contributions to trustworthiness and transparency. Furthermore, shifting the lens from SES VCIs to start-up founders by studying their perspective on the fundraising process would provide a holistic understanding of the social interactions at play. Additionally, their perspective would add to the topic of market equilibrium by comparing their beliefs about investing in signals to portray a venture in a more favorable light. Lastly, the research methodology is based on semi-structured interviews within a dimension suffering from long feedback cycles. It would be highly

valuable to compare the findings with practical case observations to clarify whether SES VCIs act as they say.

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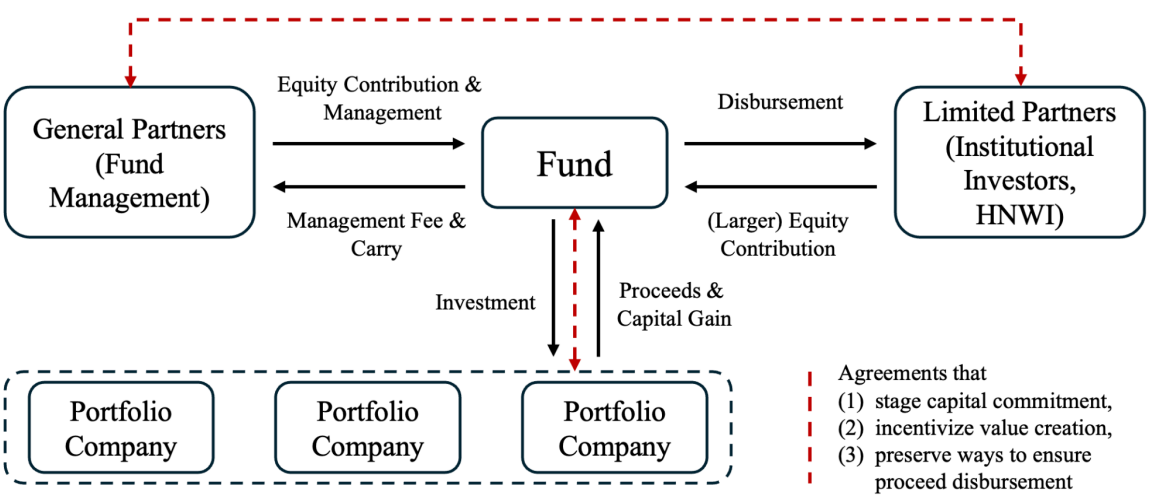
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Appendices

Appendix A - Standard Limited Partnership Model of VC funds

drawn from Da Rin et al. (2013) and Sahlman (1990)



Appendix B - Final Interview Guide

Intro:

- Please provide a bit of background on your experience, how long you have been working in venture capital, the specific stages and verticals that your firm invests in, and if you have a particular scope within your firm.
- Are there any particular aspects that you look at when assessing a potential deal?

FTC perception:

- How do you view the FTCs in the context of SES investments?
- Do you face any constraints with respect to the examination of FTCs?
- Are there any particular notions that may inform you on the existence of FTCs?
- Can you assess FTC quality?
- How do you reach a conclusion on FTCs quality?
- Are FTCs equally important for all founding members of a venture?
- Is it important to have established trust and transparency with founders?
- How do they earn your trust?

Heuristics:

- Do you form first impressions on FTCs?
- Do first impressions affect your assessment in later phases?
- Do you rely on intuition in your assessments?

Deliberate analysis:

- Are there any external influences involved in your assessment?
- How do you analyse FTCs?
- Do you have any formal procedures during the assessment?

FTC grading:

- Do you view FTCs as binary or situated on a scale?

Confidence:

- Are you confident in your ability to assess FTC quality?

Outro:

- Is there anything we have missed that you wish to add?

Appendix C - AI Disclosure

This Appendix presents how AI was used to produce the thesis, the actions the authors took to preserve credibility and integrity, and the efficiency gains it contributed.

All interviews were recorded on MS Teams and transcribed using Copilot. Both authors manually reviewed transcripts upon completion of each interview to ensure accuracy, correcting errors as they appeared. During analysis, the authors re-listened to interview segments to confirm participants' meanings. Copilot allowed both authors to fully engage in interviews without taking notes. In semi-structured interviews, responsible AI use can reduce human error and improve efficiency by allowing for focus on relevant content.

One interview was held in Swedish at the interviewee's request and translated into English with DeepL. An author then re-listened to the full recording while checking the transcript to confirm that wording, sentiment, and meaning were accurate. DeepL provides enterprise-grade data security and is used by over 200,000 businesses, including Boston Scientific, Alphabet, Nvidia, and Coursera. For more on DeepL, see: https://www.deepl.com/en/translator.

Grammarly supported grammar and phrasing through two approaches: (1) the authors wrote directly in Grammarly and made corrections instantly, or (2) they pasted paragraphs into Grammarly and revised afterward. To preserve style and meaning, the authors reviewed all suggestions before accepting changes. This approach lets them focus on content first and address errors later.

Appendix D - Selection of additional interview statements

FTCs in a Subjective and Intangible Process

(1) Product, Market, and Team

I think overall for a founder, I think it's very easy to say that they are mainly building a product. I would say they're mainly building an organization. - VCI 17

[...] It's not like there's a whole new team and the product and the market are exactly the same. It never happens and so. For that reason, we obsess about the founders and the founding teams and try to understand their motivations and their commitment. - VCI 9

[...] then we want to see that there is a large underlying market. You have to solve a real problem. It should also preferably be a problem that we ourselves understand. And it is difficult to assess or evaluate problems. Unless you have a fairly in-depth understanding of the situation of the people who are said to have this problem. And only then do we try to assess whether the people behind this company are worth investing in.- VCI 12

I mean we want to see some kind of proof points, but last week we invested in a company that literally incorporated the company at the same time as we signed the shareholder agreement. So we went in very early. And for us, the team is super important due to that. They will not do the same thing for 10 years. They will pivot a lot. - VCI 18

Then you look at the team, you look at the intellectual property, the kind of protection position that they have. You look at the technology, you look at the market, the top down, bottom down potential. - VCI 5

(2) Subjective Process

There is a lot of feelings and narratives and kind of personal opinions, not based in data or facts that are essentially supporting investment decisions on the one hand side. Then you also have decisions taken on investment decisions that's very much driven around what everyone else is doing. FOMO. Who's going to, who's going to invest how much and what's the brand of other investors joining that round? - VCI 14

As an investment manager it's very easy that you say oh he's such a nice guy and he would probably be able to do marbles or whatever and yeah. - VCI 19

In the encounter which conveys some information on the case, there are moments where I feel that…. I feel not the smell of blood, but it's a trail worth pursuing. I get energized to a level where I get very curious and I really feel that this is something that smells good, this has the right smell. And it's usually a combination of… It's a sensation of having understood something. - VCI 8

(3) Lack of Introspection

Good question. That's, I mean, generally. Generally, it's a little bit of a gut feel thing, right? To be honest, I mean, we don't have any particular process or special questions that we ask to find out if these are some, so it's more a judgment call, frankly speaking. - VCI 4

Yeah, I mean passion and drive, of course it's hard to say. How do you evaluate it? You kind of feel it. - VCI 11

[Investors] know too much about packaging and too little about being quiet for a while and actually reflect on what is being asked. Uh. So… And I don't quite know myself what I remember from moments where I feel that there kind of is a meeting or a pitch. - VCI 8

Catching Cues on Team Characteristics

(1) Observability of Cues

Yeah, I mean passion and drive, of course it's hard to say. How do you evaluate it? You kind of feel it but I would say that it's also like how eager they are, you know, it kind of comes back with you know how... It's kind of the fine line between nagging and being, um, ambitious, you know? - VCI 11

If they're willing to collaborate with say business developers who don't have any idea, you know that to complement the team to to collaborate with other skill sets and in that sense give up ownership and give up control to a certain degree. There has to be a willingness to be coached and to walk that path and you can see pretty quickly that, You know, who is suitable for that and who's not. - VCI 5

(2) Cue's Plurality

You can be street smart about running a fundraising process, right? We can more often than not tell, if somebody knows what they're doing raising funds so that, you know, they'll just mention that they have a, you know, a lot of interested investors and maybe they have a couple of term sheets on their own, needs to move quick. [...] it takes a certain type of creativity to come up with something novel. So do you have a really cool go to market motion that I haven't heard before? Those things, I like because if you can come up with one thing, you might be come up with other things that people haven't thought about. So yeah, it's not really, like I can ask for those things, but sometimes they just reveal something. Mm. Maybe they don't even do it on purpose to appear street-smart. - VCI 13

Processing collected cues

(1) Influence of Venture Environment

So I mean they need to have a deep industry knowledge because if I mean there's always this saying that that talent. Beats knowledge, you know, or sort of willpower beats knowledge. But if you enter a mature industry as a sort of a challenger, you will hit some walls and. You need to combine industry knowledge with this type of grit and attitude. So clearly some base in the industry. - VCI 15

(2) Searching for Tangible Character Proof beyond Experiences and Pitch Signals

I think, you know, it's very easy to say, you know, to better understand, like, are there any sacrifices that the teams are making in order to build this right? Are there any sort of sacrifices they're doing in order to bring this into the world? And I think you can sometimes tell, you know, there are people who've quit or left very well paid jobs or, you know, are bootstrapping inside of their own pocket for a very long time. - VCI 17

Heavy execution speed and how do I define it? Well, it's how fast you can take in feedback and actually iterate the product and deliver a better version. That's like my heuristic for that. [...]. So I ask what did you do this week? If we had a meeting on Monday and then I have a meeting with them on Friday, I will ask specifically for details about what they've done these past days. And if I realize that they are just like, we tried this and we sort of tried out a new form of database just to see if it works then it's not thoughtful enough. - VCI 3

(3) Signals derived from prior experiences and pitch performance

One is to ask about static factors, which is historical data, what you've done, where you've studied, what your vision is. How you think about different things and try to assess how that essentially benchmarks to previous data, both quantitative but also qualitative. - VCI 14

So your behavior will change or work is likely to change under stress and tension. So a lot of that goes… factors into whether we think this is a person who will be able to actually lead this organization and scale as a person and individual. Frequently they will be repeat entrepreneurs. They will be a bit more mature. So we rarely invest in 25 year olds out of college. These people will be in their mid 30s to early 50s with you know 2, 3, 4 start-ups under their belt. So there's a wealth of experience to like, talk to them about that and understand how they reacted in certain situations and what they learned from that and how they would do things differently. - VCI 16

Then obviously we, yes, we do look at you know their backgrounds as well like you know previous companies, universities that it might have gone to and obviously those are certain level signals and I think we're all very different as investors. - VCI 17

And you're interested in finding out more. That's harder for, I would say it's harder for a company that doesn't have that sort of background in the founding team. As soon as you have some background that comes from a reputational good company, that's an advantage because then you are assuming that they have the training. They have the networks and that of course helps you to build a company. - VCI 7

What we like to see with the CEO as well, and it kind of goes into sort of being in control over structure, is communication skills. We often see that being affiliated to someone that is able to run a good company because they're able to sort of attract investors and able to articulate the value position super good to the customers and they can attract talent to the company, because they communicate a vision that's appealing to a lot of people. So, it's a super important skill to be able to do that both verbally but also written and express your thoughts in an interesting way. - VCI 13

And then you're more like if you find a founder that answers questions really good, they are like… they have a good way of framing the problem. - VCI 6

(4) Recognizing recurring patterns

I mean, obviously someone that's like super charismatic [...] that could also kind of hide bad characteristics as well. Uh uh, that's yeah, kind of something I noticed also. - VCI 6

And you know, it's, I think the worst part we ever hear is, I don't know. [...] But it's… and I'm not looking for someone to, you know, gaslight me into thinking that they know what they're doing… But it's rather I don't like we're not certain about this, but you know we will. We're trying to figure that out by doing XY and Z. - VCI 17

I think that overall a cue trait that I most, I would say successful founders that I've seen exhibit like they're able to say this is how we're gonna [...] change the world and you know, this is what we're doing now and this is, you know, the steps in order to get there, as mentioned, versus someone who's just like, we're doing this and we're gonna do this really well, but then I'll never really get to the vision. - VCI 17

(5) Interaction between founding team members

If I were to talk with the entire team, I ask the CEO a bunch of questions about strategy and mission and leadership. And then I just ask everyone like, OK, so how is your database structured? And the CEO starts talking immediately. That's bad because the CTO should have the best answer to how their database is structured, obviously, because that person should have created it. - VCI 3

We always want to meet both of them together because that allows us to also evaluate them when they're in a different dynamic. And then you can also immediately tell how do they work together, how's the dynamic between them. And they can start figuring out, OK, they are not communicating very well. This person is very good, you know, how they speak towards

investors, but suddenly when they speak towards the founders or like the other founder or anyone else for that matter. - VCI 17

Decision-Making - Evaluating Team Characteristics

(1) Observed constraints

Can they explain the product, the product's benefits and advantages and its differentiation to someone who is not a specialist and hasn't been onboarded for hours and hours? - VCI 16

I need to say that I've been meeting a couple of hundreds of [founders]. So, so, so I'm saying my autopilot is there in in some way. - VCI 19

(2) Immediate Processing of Cues and Creation of Biases

[I am starting to feel like I want to proceed] when they are willing to follow my discussions and willing to try to answer my questions. They do not necessarily need to answer all questions, but they cannot take a defensive standpoint. So, that they must really show evidence that they want to be in the same boat as as myself. - VCI 19

There are showstoppers that we simply do not like and that have to do with the team. [...] I don't like founders and especially technical founders that do not respect competences in other fields [...]. So there are skills in various aspects of marketing, production, what have you… so that would be one thing, respect for the width of various competencies that need to to play. - VCI 8

I think that first impression can really speed up the process of investor feeling like, oh, this founder seems that they have something going on compared to like if you don't get give me a first good impression, well, maybe I'll not even pass you to the next meeting. So it's super important to to start with and to get along like to continue in the process. But I would not say that it's everything because if you mess up on the third meeting and like do not show at all good characteristics, well then it doesn't matter about the first impression. - VCI 18

(3) Mentally drawing connections between individuals

I think. What I do is I try to indexate on the people that I've talked to and of course I've done my research and studied the great founders of our lifetime and the great founders in the past and try to understand what are these like highly important factors and can I try to identify this in in these sort of individuals? - VCI 3

If this person sitting in front of me now would face the challenge that we had there. Back in 2015 with that company, how would he or she… Before, would they? Would they give up? Would they double down? Would they ask for advice or just be quiet and not say anything until it was almost too late, you know? All sorts of things you can work with here in trying to evaluate people. - VCI 10

I mean, people always tend to like, we are so quick to judge. It takes us like a few seconds. We're like, uh, there, I have you in that bucket in my life, you know? - VCI 18

(4) Lasting first impressions and attempted avoidance of human bias

I know that my first reaction will be a bit of a denial, but I can observe that from almost outside [...] and I can think that I can at least reasonably sought out if this is just that not everything will be positive in a case, "so are these the necessary compromises or drawbacks that will be in any case or is this so strong that my gut feeling was simply wrong?" - VCI 8

I've never seen that happen that we haven't invested in a company with some if you have some negative aspects in [the later] stage you would probably decide to excuse the founders because then you're so much into or so much in love with. - VCI 19

In all human interaction, it's impossible not to form some sort of first impression. - VCI 11

And there could be a billion reasons why someone is having a bad day. So I give almost everyone the benefit of the doubt so as not to come across as a complete idiot in the first meeting, because then, by definition, there won't be a second meeting, and that kind of thing happens. - VCI 12

But you have to be really aware that these first impressions can be completely wrong and the people who also come to you then put up the best impression because of this. - VCI 9

that's, you know, there's a lot of money at stake and it's the person's career and you know it's a big decision and so…If you're not able to kind of separate that personal relationship you're building to making the right decision, you might end up in in a sort of bad place and make a bad investment. - VCI 13

(5) External validation and more rational evaluation approaches

And also that there are independent consultants doing digital tests with the founders, having personalized interviews, someone chain cases, etcetera. But those interviews are mostly done late in the DD phase, which is a fault finding process. - VCI 19

Obviously it's also, you know, to figure it out and you know that whatever, whatever they're saying is somewhat trustworthy or not and what other people have to say about it. And typically we aim to include multiple people from the investment team, right? So it's. We typically then allow them to speak to another partner or anyone else for that matter, just to be able to [...] do we get a similar vibe? Do we get a similar read on this person? - VCI 17

Check the criminal records and social media posts and stuff like this. That's important. And often we also do some reference calls to people that know these people, maybe, preferably, even if it's someone we know who knows them and we can check behind the scenes, so to speak. - VCI 4

I do a lot. Then in the team we do a lot of analysis and we we ask for the founding teams help to answer our questions. We wonder about this. We are curious about that. We…have you thought of this? The devil's advocate phase is more if we feel that they have have unrealistic expectation on valuation or or on the speed of growth or whatever. So that's we need to hook them before we can start negotiating. And I can't hook them if I am too negative in the beginning. - VCI 8

(6) Unpredictability

However, that doesn't mean that this becomes a success because there are a million ways these companies can still fail. - VCI 16

(6) Trust and Transparency

If we receive bad references for someone, then by definition we cannot invest in them. It's not possible. Do they have a tendency to sugarcoat things? Do they lie? Are they part of that group of people who always bring only good news and never talk about the bad? I mean, then it doesn't work, it's not possible, and then it almost doesn't matter how good their idea is or how big the problems they are solving are. Then that's it, it's not possible. - VCI 12

I think a little bit like not everything is super rosy. They can actually tell us that we have a little bit of a problem here. We're working on it like this and so on. Basically giving, you know, a feeling that they tell us how it is. Of course everyone will make a little bit more beautiful picture than the reality, but some people are really, yeah, bullshitting and hopefully we will catch that before we put in our money. - VCI 4

It's a marriage and if you enter this marriage, you're stuck with each other for five to 10 years. [...] So that's a long winded way of saying that we take this very seriously. We wouldn't invest unless we get a chance to know someone properly. - VCI 16

Supporting intuition through schemas

And then we look at like a scorecard on motivation, like one to 10, like how motivated are they to actually build this company. And then the second thing we look at is the experience. Do they have relevant experience? - VCI 18

And secondly when we see that well the bits and pieces are probably there. Uh, we go for an investment we write to something like 20 page PM with all necessary big picture of the company. VCI 19

First you have the initial deal flow stuff and then basically very quickly we have a… We call it a short brief 2 pager which we take to the team and that is then bombarded by the investment team and if they still are alive then we take it further and then we write an investment memo which is like twenty or twenty-five pages. And then we take a team decision. If we want to do the investment, then we also have to get it through the IC. - VCI 11

Further Insights

We're looking at the case and then very often they drop out because they don't fit my portfolio. So I invest in retail and tech. So there was a point where I had done two retail investments and then also sometimes the question of timing for an investor. So I needed a tech investment as the next one and I had a few cases that were at that second fundraising and I had to drop them because I didn't want to have too many retail cases. I need to fundraise for my investors too. So you know, then that's mostly like why you reject after the hard stage. - VCI 7