How do venture capitalists assess teams?

The purpose of this document is to help startups understand how VCs (venture capitalists) assess founding teams. Everyone has their own point of view. I will share with you some research.

Research shows that the most important factor early-stage VC (venture capitalists) consider when it's time to make the investment decision is the team.

1) 53% of VCs believe the team is the most important factor.[1]
2) 64%% of VCs believe the team was the most important factor in their startups' success[2]
3) 60%% of VCs believe the team was the most important factor in their startups' failure[3]

An analysis of the personality traits of the founders of 500 startups revealed 4 key traits correlated with success or failure.[4]

1) Quick and decisive decision makers were the most negatively correlated with success. The most successful founders were calculated, deliberate, and focused.
2) Compassion, consideration, and concern for people were negatively correlated with success. The greatest degree of negative correlation with success was when the team thought the founders were people focused. A startup founder needs to make many difficult, unpopular decisions especially those regarding the exit of team members.
3) Self awareness is critical. The most successful companies had a very aligned understanding between the founders and the team members regarding each others traits. The smaller the discrepancy between the founder's self-awareness and the team's perception of the founder, the higher the startups performance. I read research that for large companies, there are huge differences between the CEO and C-suite perception of themselves vs the employee perception of the C-suite.
4) Women founded companies performed better than companies with only male founders.

Have a calm demeaner when pitching to VCs.[5]
An analysis of how VCs evaluated pitches revealed that the finalists tended to have a calm demeaner. Further study showed that VCs equate calmness with leadership strength.

California angel investors' judgement as to which CEOs should go into due diligence tended to prefer trust over skills.[5] Technical skill gaps can be addressed via training, hiring, and advisors. Character is hard to change. The angels sought CEOs who were honest and trustworthy.

California angel investors' judgement as to which CEOs should go into due diligence preferred CEOs who were open to new ideas from investors regarding ways to increase value[5]. The angels did not want CEOs who refused to consider new ideas or refused input from the angels.

CEOs should view pitches as an improvisational conversation with investors, listening to questions, and even asking the investors what they think.[5]

My own observations are:

1) Gaining understanding of the points raised above requires meetings in addition to pitches, most likely in the due diligence process. Investors determine if they can work with the founders for several years.
2) Many investors seek founders who are able to learn knowledge(e.g. about customer, the marketplace, competition, etc.) and skills (e.g. cash flow forecasting, key business metrics, technical skills)
3) Most investors seek founders who demonstrate a deep understanding of the customers' problems, the benefits, and the competition. I've seen too many founders first build a solution and then try to find out if customers actually have the problem and are willing to pay for it.
4) Many investors seek founders who have some unique capabilities.
5) Many investors seek startups with unique technology or a unique solution which cannot be easily copied by competitors.
6) Successful founders tend to be brilliant, able to assimilate and analyze large amounts of information (both quantitative and qualitative) and focus execution on the unique insights they've gained.
7) Investors, especially angel investors, vary in terms of the potential size of the market and company they are seeking. I've seen angels get excited about a company that has the potential to grow to $10 million in revenue per year. Other angels seek the potential for $1 billion per year future revenue.

Your next steps
You must research each VC to understand how they assess startups. All VCs are not the same.

Footnotes:
[1] Paul Compers, Harvard Business School, Will Gornall, University of British Columbia Saunder School of Business, Steven N. Kaplan, University of Chicago Booth School of Business, Ilya A. Strebulaev, Graduate School of Business Stanford, "How do venture capitalists make decisions", April 2017, Page 42 This survey of VC firms included: 63% of all VC US assets under management, 9 f the top 10 VC firms and 38 of the top 50 50 VC firms.
[2] "How do venture capitalists make decisions", Page 53
[3] "How do venture capitalists make decisions", Page 54
[4] Brittney Riley ,"How should investors evaluate founding teams", Medium posting, April 24, 2017 This is an analysis of the relationship between company performance and personality traits of 500 startups.
[5] Lakshmi Balachandra, "How venture capitalists really assess a pitch", "*Harvard Business Review*", May-June 2017