

Deep Dive

The Psychological Playbook for VCs and Startups

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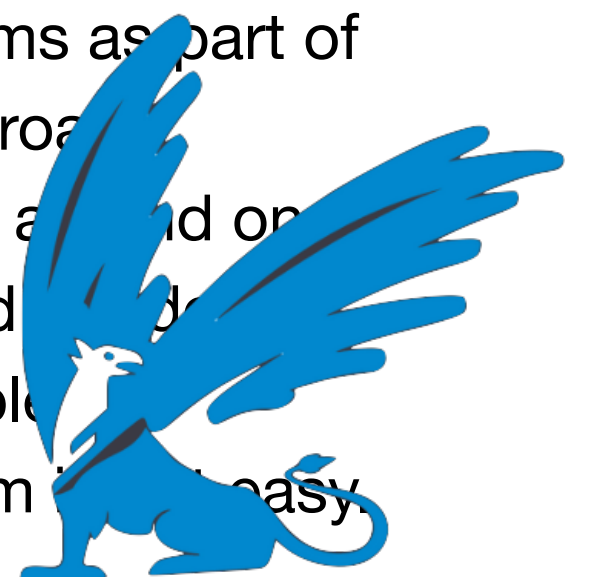
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Introduction

In the VC community, it is often said that the founding team is the most important aspect of an early stage venture. While products pivot, go-to-market strategies evolve, and customers come and go, the founders are the most consistent factor in the startup journey and are consequently a crucial parameter in the due diligence equation.

In a data-driven world filled with engagement metrics and gross margins, it is still difficult to find the right template to discuss this key matter - the team.

Despite the analytical nature of VCs, the process of evaluating a team has remained emotional and often led by bias. When it comes to evaluating founding teams as part of the due diligence process, the VC industry still uses an intuition-driven approach. The reasons for this blindspot in team analyses are varied; but they revolve around one principle: the psychological realm is less quantitative in nature and it is hard to build a mental scorecard that would fit the entrepreneurial spirit. There are multiple psychological factors to take into consideration and prioritizing among them is not easy.



We tried to tackle this evasive task by highlighting aspects for examination under **three chapters** that are essential for the team diligence process:

Founder Personality

01

Emotional Regulation	Intrinsic Motivation	Mental Flexibility
A	B	C

Team Dynamics

02

Complementing Skill Sets	Self-Awareness of Shortcomings	Trust and Accountability
A	B	C

Team-Market Fit

03

Market Traits	Product-Persona Fit	Buyer-Founder Fit
A	B	C

As you can see, we begin at the core - the inner workings of a founder - and broaden the subject matter gradually to the team and finally to the market. In providing you with clear definitions and key indicators, and the pros and cons of a team, we hope this playbook will give structure for this essential part of the due diligence process.



Chapter 01

Founder Personality

When asked who is the ideal startup founder, many people would point out classical qualities we often hear associated with the mythical founders of our time. We expect them to be visionaries, highly intellectual, creative and charismatic. Yet what worked for Steve Jobs and Elon Musk, would not necessarily work for the other 99% of founders. We would like to draw emphasis to a different set of characteristics - ones that have an even stronger correlation with future success and are often overlooked.

These traits all correlate with a key overarching trait - resilience. The power to move forward when facing adversity is essential in the ever-changing world of startup life. While it is hard to disagree with the importance of resilience, identifying it in startup founders can prove difficult, especially during a due diligence process.

Following are what we consider to be the building blocks of the resilient founder and some key indicators for their detection.



A. Emotional Regulation

The key word for this mental capacity is independence: the ability to autonomously conquer the negative emotions founders so often experience for a variety of reasons and achieve two important mental wins:



1. Down-Regulation:

Reducing the intensity of negative emotions.

2. Up-Regulation:

Injecting a healthy dose of excitement or positive energy in facing reality.

Emotional Regulation is all about staying strong and cool in the face of change, hardships and failure. Not getting easily upset and managing to raise energy levels and project them when needed. Experiencing and expressing a range of emotions in a manner that is tolerable to those around and being sufficiently flexible.

This does not mean that the founder should not be using external mental support - it is definitely encouraged - but in the grand scheme of things, we strive for our founders to be emotionally independent, grounded and mentally strong.



A. Emotional Regulation

Characteristics

Stable | Predictable | Not Easily Upset | Cool Under Pressure



Real Life Example #1

High Emotional Regulation

After a successful seed round and a year of fundamental disagreements with the CEO, the CTO decides to leave the startup. The remaining CEO keeps going without him. There are days in which the CEO feels overwhelmed and believes that there is no way she can carry the startup forward alone - leading to fear and disappointment. However, she manages to independently self regulate by leveraging past experience and understands that while things change for the worse, they can also change for the better. She does not allow disappointment and stress to take over and distract her from her ultimate mission.



Real Life Example #2

Low Emotional Regulation

An early-stage CEO is about to go on stage and pitch to a crowd of hundreds. A few minutes prior to her pitch, she receives an unfortunate email from a potential investor, saying he would not proceed with an investment. The CEO is obviously upset; the disappointment takes over her and distracts her from the mission - providing a memorable pitch. When on stage, she finds it difficult to perform as negative thoughts take over her; she can not act as if nothing happened and ends up on a poor performance.



A. Emotional Regulation

Questions To Ask A Founder -



01.

“Provide an example for a situation where you were heavily disappointed, hurt or distressed by someone or something. Describe the chain of events which followed that situation and your manner of dealing with it.”

02.

“What keeps you up at night these days? What are your key stress factors? How are you dealing with them?”



A. Emotional Regulation

Indicators of Sufficient Emotional Regulation

Answers that indicate the ability to rethink and reframe the challenging situation, with the purpose of reducing stress or any other negative emotion, while gaining a broader perspective.

“I trust myself to know what are my strong and weak points; where I am strong, I will find the right tools to deal with the situation and where I am weak - I will approach others for help”

“I try to use helpful distractions - shift my thinking onto other issues at work which are more immediately solvable”

“Focusing on the positives: whatever makes me happy or calm”

Indicators of Insufficient Emotional Regulation

Answers that indicate a lack of self restraint, self awareness of shortcomings and/or the ability to reach a moderate perspective leveraging internal resources.

“I stand my ground - people around me need to learn to listen and do as they are told”

“I will make the person conform, even if it means I will have to raise my voice”

“Overall, I don’t see a problem I cannot handle. I have been through pretty much everything and figured out my coping mechanisms”



B. Intrinsic Motivation

A powerful and unique type of motivation produced as a result of doing things we love and are passionate about. The opposite of pursuing goals for the sake of external rewards (which often involve monetary gains).

When a founder is engaged in problem solving, creating a product or building a business which creates excitement - he or she will be able to maintain high levels of energy for longer periods of time. Intrinsic motivation is the founder's mental "immune system".

This is what gets him or her through the rollercoaster of startup life and through countless failures. It fuels the founder's belief in themselves, their team and vision even when reality proves otherwise momentarily.



B. Intrinsic Motivation

Characteristics

Internal Reward System | Determination | Commitment to Oneself | Independence of Thought



Real Life Example #1

High Intrinsic Motivation

An early-stage startup is developing a deep-tech product. It is taking them close to two years to be ready to approach potential customers. Throughout the product development process, the founders manage to produce and conserve energy derived from their vision and subject-related passion. While they are occasionally bothered by the length of the process at times of stress and disconnection from the market, they manage to restore positive energy gained from the greater goal and can project it to the rest of the team.



Real Life Example #2

Low Intrinsic Motivation

A team of three founders started working together on a new venture several months ago. The CEO senses they have sufficient conviction to launch their seed round. His co-founders follow his lead. After a month of fundraising attempts and an evident lack of interest from investors, the team realizes it was too soon to fundraise. At that point, the atmosphere in the team shifts - the team experiences its first crisis. The CEO starts to question the pain they are trying to solve, and gradually loses interest in the company.



B. Intrinsic Motivation

Questions To Ask A Founder -



01.

“What drove you to go on the entrepreneurial path?”

02.

“What is your end goal with this venture?”

03.

“How did you discover this particular problem you are tackling?”



B. Intrinsic Motivation

Indicators of High Intrinsic Motivation

Answers that indicate an emotional and experience-based connection with the company’s product and goals.

- “I experienced the pain I am solving first hand”*
- “It has been a lifelong ambition of mine to create a product and company from scratch”*
- “I find myself not getting tired even when working long hours. I feel that the excitement of doing what I love fuels me”*
- “This is a problem I have been looking to solve for years”*
- “There is nothing more exciting to me than this”*
- “This is where I belong, I have a strong connection to this field”*

Indicators of Insufficient Intrinsic Motivation

Answers that do not indicate a connection or bond with the company’s product, or a strong sense of purpose and values revolving around the company’s product and goals.

- “I have been a part of many businesses in the past and understand that this is the only way in which I can create significant wealth for myself”*
- “I have always envied other startup founders and wished to finally take this step myself”*
- “I have been a part of many businesses in the past as an employee and it is time I lead a business on my own”*
- “Founding a startup sounded like an interesting challenge I wanted to explore. In case this company does not succeed - no harm done”*



C. Mental Flexibility

They say that if you would have met Mark Zuckerberg or Bill Gates once a year, it would have been as if you were meeting a whole different person each time.

Mental flexibility allows founders to abandon a thought pattern, a habit or a perspective when it no longer serves a valuable purpose and find an alternative direction. At its peak, mental flexibility pushes founders to navigate smoothly through a variety of options and alternatives, even at times of significant stress. It supports them in adapting to new and unexpected situations quickly and efficiently.

We see that mentally flexible founders are the more coachable ones; they are receptive to feedback, happy to accept constructive criticism and implement it quickly. They tend to show great interest in external insight and constantly seek feedback from their network: investors, customers, colleagues and employees.



C. Mental Flexibility

Characteristics

Highly Adaptable | Overcoming Tunnel Vision | Feedback Acceptance | Challenging the Status Quo



Real Life Example #1

High Level Of Mental Flexibility

A CEO receives repeated feedback from her Customer Success team, according to which customers are asking for a product feature which was recently under prioritized. The founder decides to act on this new information and adjust the company's roadmap accordingly, despite it being in conflict with her recently determined set of priorities.



Real Life Example #2

Low Level Of Mental Flexibility

A startup's VP Sales is working with the CEO on adjusting the sales pitch so a different and more important aspect of the company's value proposition is given more focus. While the founder seems initially receptive to this change, in the long term, the company's current sales pitch does not reflect this adjustment. It appears that the founder dismissed the hard work that was put in, and decided to do it his way.



C. Mental Flexibility

Questions To Ask A Founder -



01.

“Provide an example for a professional mistake you have made recently - how did you figure out you were mistaking and what did you do to remedy the situation?”

02.

“Provide an example for an overwhelming dilemma you were facing lately - how did you eventually make a decision? Describe the chain of events which followed the decision”

03.

“How do you settle disagreements with your co-founders



C. Mental Flexibility

Indicators of High Mental Flexibility

Answers that indicate an ability to dynamically navigate between steering the wheel and taking a backseat - according to the issues at hand.

“I am aware of my professional weaknesses and strengths - I am a willing listener to experts”

“I will gather relevant data from several professionals I trust, and then make a thoughtful decision”

“I am open to constantly reviewing plans to see if they can be improved”

“I am not a fan of rules and restrictions - rules are made to be broken”

“I have a spontaneous side to me - I trust myself to tackle issues as they come”

“I am not foreign to compromise - when there is conflict in opinions, I can step back and let others lead”

Indicators of Insufficient Mental Flexibility

Answers that indicate rigidity in the founder’s outlook on structure and work dynamics - an inability to let go when necessary and identify shades of grey in complex problems.

“I prefer not to step outside of a highly organized and methodological work structure”

“I rarely have disagreements with my co-founders, this is just how we are”

“Keeping an extremely high standard of work quality is crucial - there is rarely a place for compromising at work”

“I always follow through until a project is done - processes are there to be completed”

