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The true meaning of “founder friendly”

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Crowded markets tend to devolve into a race-to-the-bottom, and today’s venture capital market is no different. There are way more venture dollars available than potential venture-scale businesses to invest in (whether those businesses need venture financing or not is a different story: no judgments here), often resulting in a frenzy that operates along two axes: deal price and deal terms. This frenzy can begin at the earliest of stages, having moved from the Series A to the seed to the pre-seed to a compelling team in an exciting space leaving their respective employers with nothing more than a deck and a dream. If an opportunity (it may not even be a company yet) is deemed “hot”, one must use imagination to conjure up the mix of price and terms that they might get. And this is fine. But there is a third axis that has emerged as a basis for competition, one that has historically fallen under “terms” but has really developed a meaning of its own: “founder friendliness.”

Having started in seed stage technology investing on the East Coast in the mid-2000s, there was a clear distinction between what I’ll refer to as “East Coast” terms versus “West Coast” terms. Frequently, East Coast term sheets adopted the frame of investor-as-debtholder, including features such as participation, cumulative dividends, 5-year redemption rights and protective protections with teeth, even in the very early stages. West Coast term sheets were distinctly different, almost always without participation, with when-as-and-if-declared dividends, no redemption provisions and few protective provisions. From the get-go the West Coast investors were more closely aligned with founders, adopting more of an equity-mindset than that of someone holding a debt instrument with significant downside protection. I learned a lot of working with investors on both coasts and developing my own philosophy (which has only become more closely-held with the positive influence of Brad and Jesse), which is a purist version of the West Coast ethos, clean, simple and aligned with founders from the outset. This is indeed “founder friendly”, but not the kind of founder friendliness that gives me pause.

With the flood of LP dollars into early-stage venture, and with the explosion of new venture firms, the notion of “founder friendly” has morphed into something that I believe does a grave disservice to both founders and LPs alike: abdication of responsibility to deliver honest, important, often difficult feedback that might be hard for founders to hear. Regardless of whether one is working with a first-time founder or a serial entrepreneur, building a company is insanely hard. And even more than the myriad things an investor can do, e.g., helping with organizational set-up, recruiting, corporate connections, etc., an investor has an obligation to build a trust relationship with founders and to offer timely and valuable perspective when it is warranted. Backing a super-smart, eager, hard-working team is not nearly enough: it’s doing the hard work of providing substantive feedback, but doing so with empathy and in a way that is consumable, that gets to the essence of what being “founder friendly” really should mean.

It sucks telling people stuff that they don’t want to hear, even if it is ultimately good for them and the right thing to do. But to be avoidant and passive in the name of “founder friendliness” is nothing more than a cop out IMO. My objective is not to be a founder’s best friend, but to be the partner that helps them be their best selves. And if this means having some hard conversations with some bruised egos and hurt feelings in the short run, but with an eye towards medium and longer-term payoffs that possibly change the game for the better, so be it.