Role of characteristics of key partners on the funding decisions by venture capitalists in startups

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ABSTRACT

This paper explores the role that specific characteristics of key partners of startups have on the investment decision of venture capitalists. Venture capitalists use several criteria when making investment decisions. However, a universal framework is missing. This paper aims at obtaining a universal guideline for startups regarding key partners. When important characteristics of key partners have been identified, startups can develop their network to satisfy the requirements of venture capitalists. A survey has been conducted among the 59 venture capitalists that invest in the seed- and early stage of startups. The results were analyzed and described. The major finding is that venture capitalists require an established partner which can guide the startup through challenges, problems and opportunities. Moreover, the established partner can share its resources, both knowledge and materials. This helps the startup to develop and possibly scale up its activities. Another role that is preferred by venture capitalists is the role of customer. A key partner as (potential) customer guarantees revenue and proves the business concept of the startup.

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1. INTRODUCTION

1.1 Introduction to the topic

A startup faces critical challenges in its early phase. Raising capital, establishing reputation, securing resourced providers, premises constraints and high labor costs are some examples that are known from the literature and empirical results (Evers, 2003). This paper focuses on the first aspect: raising capital. A startup has many options from which it can raise capital. Angel investors, friends and relatives and venture capitalists are the main sources of finance for startups. Angel investors mainly invest in the early stage of startups (Morrissette, 2007). There is a possibility that friends and relatives do not have the funds to support the startup. A startup then could focus on obtaining funds from venture capitalists. Though, venture capitalists have selection programs and strict requirements.

Venture capitalists use similar investment criteria, though there is no universal framework, since venture capitalists can have different crucial criteria (Callegati et al. 2015). Therefore, there is a lack of universal guidelines for startups regarding which elements are crucial (Simic, 2015). This paper focuses on one element of the business canvas: key partners. The focus is on key partners since partnerships in general obtain attention in research, regarding for example types of partners and successfulness of partnerships. They are also used in the business model canvas by Osterwalder as 'key partners'. However, it is unclear what characteristics of key partners could really make a difference in investment decisions from the perspective of venture capitalists. Which type of partner does a startup need to have to obtain a positive judgment about partners? Furthermore, key partnerships in the business model canvas are defined as ''the network of suppliers and partners that make the business model work'' (Osterwalder and Peigner, 2010). With this generic definition, the following questions arise: what makes a partner in the business network of a startup a key partner? If a partner is categorized as a key partner, then which characteristics are of importance at investment decisions of venture capitalists? How are key partners, their characteristics and their possible importance embedded within the criteria of venture capitalists? Moreover, there is a general consensus that startups with a well-developed business network have a higher chance of succeeding (Burt, 2000; De Carolis et al., 2009). Therefore, it is of importance to become aware when a business network can be named a well-developed business network for a startup.

1.2 Purpose of the study

This paper aims at finding out which characteristics of key partners can have an impact at the investment of venture capitalists at investment decisions. The results can be helpful for both entrepreneurs and venture capitalists.

For entrepreneurs, they could use the knowledge when they seek funds from venture capitalists. If it is known that specific characteristics of key partners are of significant importance to venture capitalists, a startup knows that it should have a well-developed business network with key partners that have these characteristics. This could increase the possibility of receiving funds from venture capitalists. Obtaining this information could be valuable for startups, since it is estimated that less than 1% of startups seeking funds from venture capitalists are actually rewarded funds (Wright, 2017). For venture capitalists, for example if other venture capitalists use key partners as a crucial element in their investment decisions, and their successful investments rate is higher due to this element, or if it does not affect the successful investment rate significantly. In the latter case, venture capitalists could decide to decrease the importance of key partners based on that result.

1.3 Research gap

Literature has focused significantly on partnerships. The following questions have been answered many times: What kind of partnerships are possible? Why do companies obtain partnerships? What are fitting partnerships for specific problems? Answers to these questions can easily be looked up. Though, for the purpose of this paper, these results are very generic. These results do not give an answer whether venture capitalists see it as crucial whether a startup has a partner or multiple partners with a high brand image for example. Moreover, when looking at the overview of past research about investment criteria by Martel in 2006, it can be seen that (potential for) partnerships have not been researched yet until 2006. Martel summarized 22 researches that were about investment criteria of venture capitalists. In this summary, 52 investment criteria were listed, ranging from entrepreneur characteristics to cash-out method. However, almost every characteristic had been researched multiple times. Only a few characteristics haven't been researched yet. One of them is the (potential for) partnerships. Therefore, it can be stated that there is a research gap. Of course, there is more than a decade between 2006 and 2018, which means that some research could have, and probably will have, been done in the meanwhile. However, there are not many results that can easily be looked up yet regarding the characteristics of partners of startups.

1.4 Research question

The research question aims at obtaining a universal result for both startups and venture capitalists, on which role several characteristics of key partners have in the investment decisions of venture capitalists. Therefore, the research question is formulated as follows:

What characteristics of key partners are used by venture capitalists and what is their impact on the investment decision?

To answer this research question, it is important to have every element clearly stated. In order to research every element of the research question, the following four sub-questions are formulated:

I. What are key partners and what role do they play in building up a successful business?
II. Which investment criteria do venture capitalists use to judge startups?
III. How do venture capitalists apply the assessment criteria and which role do key partners play in applying the criteria?
IV. Which characteristics of key partners have an impact on funding decisions by venture capitalists?

1.5 Outline of the paper

This paper mainly consists out of two parts. After the introduction, a literature review is conducted. The literature review will map the investment criteria that are used by venture capitalists. Furthermore it will analyze partnerships and their successfulness. Moreover, a distinction between partners and key partners is made. Based on the literature review, a field research is conducted. In the field research, the investment criteria from the literature will be scaled by the respondents. The field research consists of a survey for several venture capitalists. The main subject of the survey is investment criteria and, more specifically, the importance of different aspects of partners that make them key partners from the perspective of venture capitalists. The paper concludes with a conclusion about the role of characteristics of partners.

2. LITERATURE REVIEW

The following part will review a theoretical framework regarding characteristics of partners. Furthermore, literature on investment criteria of venture capitalists will be reviewed.

2.1 Partnerships

The following part consists of a definition of partnership that is best fitting the purpose of this paper. Following this, characteristics of partnerships are described. Furthermore it elaborates on literature that categorizes success for partnerships. Finally, a distinction is made between partners and key partners for startups.

2.1.1 Definition of partnership

Many definitions for partnerships have been used. Though, several elements are coming back in multiple definitions. For the purpose of this paper, partnerships will be defined as: "A partnership is a tailored business relationship based on mutual trust, openness, shared risk, and shared rewards that results in business performance greater than would be achieved by the two firms working together in the absence of partnership." (Lambert, 2014). A business can have several benefits from a successful partnership: improve its competitive position, gain entry to new markets, share risks, benefit from supplemental skills from its partner and share costs of joint projects (Išoraitė, 2009). Moreover, there are multiple types of partnerships: joint ventures, licensing, distributors, outsourcing, franchising and R&D (Išoraitė, 2009).

Partners can be described as: ''a bridge to access information and resources that supplements the existing assets of the entrepreneurs or nascent firms'' (Newbert et al. 2013; Semrau and Werner, 2013). Moreover, they can provide business opportunities and markets (Dodd et al. 2002). Furthermore, Partners can influence how startups understand and react to their environment (Jack et al. 2008). Though, a business network of a startup has multiple characteristics. Different characteristics can have a positive effect on the startup in different phases of the startup (Greve and Salaff, 2003; Hite and Hesterly, 2001; Sullivan and Ford, 2013).

2.1.2 Characteristics of partnerships

A business network consists of strong and weak ties. For the purpose of this paper, ties can be defined as partnerships. Strong ties have frequent contact with the startup, while weak ties do not have frequent contact with the startup (Granovetter, 1973). Partners can also be formal or informal. An example of a formal partner could be a bank, while an example of the latter could be family and friends (Smeltzer et al. 1988).

Moreover, a partnership has multiple structural characteristics: continuity, complexity, symmetry, informality (Snehota, 1995). The first characteristic is continuity: the two businesses have had transactions or a contract for multiple years already. For example, the average partnership with a supplier is between ten and twenty years (Hallen, 1986). Within these years partnerships can develop from merely transactional to very close partnerships. The second characteristic is complexity: partnerships can have different numbers, types and contact patterns of individuals within the partnership. Furthermore, the scope and use of the partnership. The third characteristic is symmetry: it is typical for businesses within a partnership to have relatively better aligned resources and the initiative that the businesses take. The last characteristic is informality: even though many partnerships are based on formal contracts, there is a high degree of informal contact (Macaulay, 1963). In reality, it is more based on informal bonding and mechanisms.

2.1.3 Successfulness of partnerships

Partnerships can be successful if one or more of the measurable goals has been achieved or will be achieved due to the partnership (Corcoran, 1999). Though, there are several frameworks that assess the successfulness of partnerships. Four attributes of the partnership are crucial for its success: commitment, coordination, interdependence and trust. (Mohr and Spekman, 1994). Furthermore, communication behavior and conflict resolution techniques are the other elements that contribute to the successfulness of partnerships Communication behavior consists of the quality of communication, information sharing and participation. Conflict resolution techniques consists of joint problem-solving and persuasion (Mohr and Spekman, 1994).

Another framework consists of fifteen elements and is known as ''Critical Success Factors''. The fifteen elements are: clear & common vision, shared objectives, mutual needs, strategic fit/complementary strengths, senior management/champion involvement, shared risk, shared reward, appropriate scope, shared control, team problem solving, shared decision-making, cultural compatibility, mutual trust, measureable goals, and partner accountability. These elements can be categorized as cultural and financial factors (Biggs, 2006).

A recent empirical study found seven essential elements, of which many overlap with the framework of Mohr and Spekman and the framework of Biggs, for successful partnerships: trust, compatible views of company culture, mutual respect, a common mission, good communication, similar attitudes toward money, and complementary skill sets and clearly defined roles (BMCS, 2018). An important element that only is specifically listed in the framework of Mohr and Spekman, is trust. However, it is an important underlying factor at the other frameworks. The more trust a partnership has, the higher the chance will be of achieving success (Glendinning, Powell, Rummery, 2002).

2.1.4 Difference between partners and key partners

A partner can increase the early-phase performance of a startup and overcome challenges of newness at a reduced costs (De Carolis et al., 2009; Greve and Salaff, 2003; Jack, 2005). Though, a partner can be characterized as a key partner when the partnership is decisive for the overall performance of the business (Snehota, 1995). Moreover, five dimensions are used to distinguish between 'normal' partners and key partners: technology, knowledge, social relations, administrative routines and systems, and legal ties. If one business is dependent on the technology or knowledge of the other business, the partner is categorized as a key partner. Furthermore, social relations cause confidence and mutual trust during interaction between the partners. Also, partners are seen as key partners when administrative routines and systems are set in place to make it easier to process information. This will be done only when much information needs to be processed for a longer period of time. Finally, if the businesses within a partnership have legal ties, they are key partners. Legal ties can cause control for one business at the other business and it can connect different business units (Snehota, 1995).

2.1.5 Conclusion

Now that the literature on key partners is complete, we can state that a partner is a key partner when one of the partners depends on the other. This helps to classify the importance of a partnership in the next parts of this paper. Moreover, the definition of a partnership helps to clarify why partnerships are of use for startups. Also, it is useful to know when a business relation can be classified as a partner, namely when it possesses the four characteristics: continuity, complexity, informality and symmetry. At last, by knowing when a partnership is successful, it is possible to assess the successfulness for a venture capitalists. Concluding, these elements are needed to know which, if any, partnership is noteworthy to venture capitalists to obtain a better judgment.

2.2 Investment criteria of venture capitalists

This part consists of a review of several frameworks that list investment criteria for venture capitalists. Different groups of researchers can be distinguished based on their view on important criteria. Furthermore, there are different frameworks with different criteria.

2.2.1 Investment criteria

In general, it is of significant value for startups to have knowledge about investment criteria of venture capitalists to increase the possibility of obtaining funds (Hall and Hofer, 1993). Venture capitalists use multiple investment criteria when judging funding requests. Though, there is no universal framework with criteria that venture capitalists use. However, there are investment criteria that are universally used (Simic, 2015). Moreover, every venture capitalist can appoint a different level of importance to a criteria (Simic, 2015). A well-known study by MacMillan et al. regarding investment criteria for venture capitalists came up with 27 investment criteria, which were categorized in six groups: the entrepreneur's personality, the entrepreneur's experience, the characteristics of the product or service, the characteristics of the market, the financial considerations and the venture team (MacMillan et al. 1985). Several researchers replicated the study and came with similar results in different countries (Zutshi et al. 1999). A study that compared screening processes in the Netherlands and the United States stated that the basic criteria are more or less the same. However, the relative importance of sub-criteria is different (Vinig and de Haan, 2002).

In literature, there are two groups of researchers regarding the importance of specific investment criteria for venture capitalists. One group considers management skills as crucial, while the other group considers market size, growth rate and product quality as crucial. The latter group also uses several criteria from past research: top management, market and market growth, product, risk, return, exit, quality, contracts, strategies, customers, and competition (Khanin et al. 2008). Two other categories that are used are the industrial organization view and the resource based view. The industrial organization view takes characteristics of the product or service and market, financial considerations and other criteria into account. The resource based view takes the entrepreneurs personality, the entrepreneurs experience and financial considerations into account (Knight, 1994).

In 2003 a list of 57 investment criteria was published. The list contains the industrial organization and the resource based view. Moreover, it summarizes the previous research conducted about investment criteria of venture capitalists (Suksriwrong, 2003).

It is important to state that there is a general consensus among researchers that the criteria used by venture capitalists are not a basis for their decisions, since it is a ''social and mental process of the integration of various information, such as information about market conditions, enterprise/business and the requirements of the venture capitalists fund'' (Martel, 2006). During the evaluation of funding requests three broad criteria are used: unique product or market opportunity, quality of management, and potential for capital appreciation. Next to these broad criteria, subjective elements are used: intuition and ''gut feeling'' of venture capitalists (Beim and Levesque 2004). Funding decisions by venture capitalists are also seen as unscientific and heterogeneous (Cope, 2004).

2.2.2 Conclusion

Even though there is no universal framework, after this literature review it is possible to find some consensus regarding investment criteria. More or less the same criteria are used by venture capitalists, but different approaches and/or goals of different venture capitalists determine the relative importance of each criteria. There are different views on the importance of criteria. One focuses mostly on the management team, while the other considers other factors, like growth rate and product quality. It can be concluded that there is no unanimous answer in the literature regarding which investment criteria are more important than others, however there are observable preferences of 'groups' of venture capitalists.

2.3 Criteria that are relevant for key partners

The following 14 criteria from the list of 57 investment criteria from Suksriwong (2003) could be of use for startups, regarding key partners: competitive advantage, degree of core technology, degree of technical knowledge, degree of equipment facilities, degree of technical manpower, degree of sales distribution channel, growth potential, price stability of raw materials, stable supply of raw materials, technology development capability, informal acquaintances and management skills and experience. These criteria are chosen, since all of these criteria could be brought by a partner of a startup. Below, it is explained why these criteria could be of importance.

A key partner has the ability to give the startup a boost, since a startup can obtain entrepreneurial competencies which makes it possible to transform an idea into a business (Man et al. 2002). By obtaining or developing entrepreneurial competencies, like initiative taking, spotting opportunities and envisioning (European Commission, 2016), an entrepreneur could develop his idea easier and/or better into a startup. For example, when an entrepreneur has a great idea for a product, but does not have a good vision about the future, the partner could help by guiding the entrepreneur and create a vision.

A startup can also obtain core technology, technical knowledge, technical manpower, equipment facilities and the possibility to develop technology when it has a partnership with a key partner (Rasmussen et al. 2015). By obtaining a core technology, the startup can possibly start its production and/or service, or start developing its own product. The same goes for technical knowledge. When a startup needs specific technical knowledge to develop its product or even produce its product (more efficient), the partner could enable the startup to produce and/or develop. Moreover, when a problem occurs or the startup does not have enough technical manpower to perform at a successful rate, the partner could make the startup use its technical manpower. When a startup needs expensive equipment facilities or does not have enough equipment facilities, the startup could be helped out by the partner by using its equipment facilities. Finally, when a startup has a technology which needs to be developed or needs a new technology, a right partner could be the solution to the problem.

A key partner could distribute the product of sales of a startup relatively fast and widespread and increase its growth potential since it could already be active in other markets than the startup (Azzam and Muala, 2012). Also, it could be easier to use the reputation, status or resources of an established partner to drill in new markets.

If a startup has a supplier as key partner, it can obtain more trust. This trust could lead to price stability of materials and a stable supply of these materials/services, since both partners will have a bigger responsibility for achieving success (Glendinning, Powell, Rummery, 2002). However, also without the explicit trust, obtaining a partnership with a supplier could lead to price stability and/or a stable supply of materials/services, since there is possibly more symmetry, informality, continuity and complexity, as explained at ‘characteristics of partnerships’. For example, when there is more symmetry between the supplier and the startup, processes could be aligned and thus better organized, which can lead to a better and/or cheaper supply of materials/ services. If the supplier for example obtains automatic orders when the startup is running out of some material, the supplier could already start the supply process instead of having to wait for an order from the startup.

Also, if a startup has informal acquaintances, it can obtain local resources; for example a premises or employees (Birly, 1985). The startup could even get information about how to effectively market in a specific region. This type of information is very specific and depends on the informal partner.

Finally, management skills and experience are the arching elements regarding the investment criteria. The management skills and experience make it possible to attract partners which can develop the startup. It is crucial for a startup to develop and maintain partnerships and to handle interactions effectively among these partnerships (Jian and Wang, 2013).

3. METHODOLOGY

This part describes and elaborates which research type has been used, how it has been used and the content of the research. Moreover, it describes how the results have been analyzed.

3.1 Classification of the research

The research conducted in this paper is of a qualitative and quantitative nature. Qualitative research can be defined as ‘’a form of systematic empirical inquiry into meaning’’ (Shank, 2002). Qualitative research fits well, since it can describe ‘’reality as experienced by the respondents’’ (Sarantakos, 1998). With obtaining experiences of venture capitalists, this paper aims at obtaining new insights regarding the impact of specific characteristics of partners of startups. Moreover, by quantifying the assessments made by respondents, the research is also partly quantitative. Furthermore, this research is exploratory, since it examines in a small scale whether there are specific characteristics of partners which have a significant positive impact on the investment decisions by venture capitalists (Walliman, 2011). Exploratory research can be defined as ‘’ research conducted to gain new insights, discover new ideas, and for increasing knowledge of the phenomenon.’’ (Burns and Grove, 2001). Since a student has limited time, but the focus is on reaching as many venture capitalists as possible for collecting data, an online survey has been used as research method. Even though a survey fits more to a quantitative research, the survey gives insights from the experiences of venture capitalists which give a qualitative result, since it answers the following question: which characteristics are important in the investment decision of venture capitalists? The relevant criteria for key partners have been assessed by the respondents, but there was also room to come up with own input about important criteria. Moreover, open-ended questions were added to obtain new insights, which fits best with exploratory research.

The survey can be classified as an experience survey, which can be described as a tool to interview experienced individuals in the field. These insights can then be used for understanding (Manerikar and Manerikar, 2014).

3.2 Sample

Since the focus is on partners of startups in the Netherlands, every Dutch venture capitalist or venture capitalist that is based in the Netherlands, and focuses on seed or early stage funding, has been contacted via E-mail or phone, with a small summary of the purpose of the research and the link to the survey. A total of 59 venture capitalists has been contacted, of which 12 have filled in the survey. All the venture capitalists that are eligible for the purpose of this study have been contacted, which means that the probability is the same for every possible respondent. Since this research focuses on the characteristics of business partners of startups, merely seed- and early stage venture capitalists have been selected for the sample. This sample has been created out of a sampling frame that consists of all the venture capitalists in the Netherlands. Since not every selected venture capitalist responded to the survey, it is helpful to state that it is assumed that the respondents and the venture capitalists that refused/were unable to respond have the same characteristics (Tryfos, 2001).

3.3 Data collection

Now that the research type has been explained and the sample has been described, the field research can be described. The field research is conducted to answer which characteristics of key partners have a role in the investment decision and how venture capitalists apply these criteria regarding key partners. Therefore, the survey consisted of four open questions and a question where respondents has to scale the importance of characteristics of key partners. At first, the respondents were asked whether partners have any importance in their investment decision. This gives an insight whether the venture capitalist uses the criteria in his/her investment decision at all. Following the literature research, several types of partners had been listed: joint ventures, licensing, distributors, outsourcing, franchising and R&D. Respondents were asked which type of partners can be of importance from their perspective. Following these two questions, the respondents have assessed how much, if any, impact every individual characteristic of a key partner of a startup has on the investment decision. These characteristics were chosen from the 57 characteristics of Suksriwong in 2003. All the characteristics that a (potential) partner of a startup could have to help a startup, were used. After scaling every characteristic, the respondents were asked to make a top three of characteristics that are important to them. A note was made that they could add characteristics that were not used in the survey yet. Finally, there was an opportunity to note additional remarks about the subject.

3.4 Data analysis

When analyzing the open questions, the focus was on observing a pattern in the answers. Whether, for example, one type of partner is very positive from the perspective of the respondents, or an overlap in the importance of partners in general, or even a characteristic that was not used yet in the survey. Consensus could be observed regarding several factors which will be explained and described in the results section. The scale questions were analyzed with a different method. First, an elaboration on the scale should be made: the scale has four categories: no impact, low impact, medium impact and high impact. The small scale has been chosen to give a clear reflection of the opinion of the venture capitalist. To assess an opinion, it is easier to distinguish between medium impact and low impact than for example a scale with 10 categories. To illustrate, it is easier to express an opinion within categories like medium and high than between medium, medium/high, high, very high. Furthermore, the characteristics are all of a positive nature, which causes the scale to not be negative.

First, the weighted averages for every characteristic have been calculated by multiplying the percentage of respondents with the weight factor of the scale. Every scale category has been given a weight factor. No impact has a weight factor of 0, low impact 1, medium impact 2, and high impact 3. These weight factors have been chosen, since they merely reflect the relative importance of each factor. The goal is not to point out which factor is two times more important than another factor, but to construct a scale which shows which factor is relatively more important than the other. This means that one characteristic could score 1.5 points higher, but is in reality two times as important as the compared to characteristic. Therefore, this means that 'high impact', with a score of 3, is not especially 1.5 times more important than 'medium impact', with a score of 2. Based on the weighted average and relatively high or low percentages, several outliers have been described. After that, a top three has been made that, according to this study, are of most importance for seed- and early-stage venture capitalists. Due to the small sample size, the weighted average does not have any statistical relevance. However, it helps to rank the characteristics used in this paper and therefore to classify the relative importance of each characteristic.

4. RESULTS

This part consists of an analysis of the responses to the survey. First, the scores of importance of the 14 relevant characteristics of key partners from the list of Suksriwong (2003) will be listed in table 1.1 and then analyzed. Following this, the responses to the open-ended questions will be summarized and analyzed.

4.1 Outliers

When looking at the table, it is observable that there are some outliers. First of all, ''informal acquaintance'' is the only characteristic that has not been assessed by any respondent as having a high impact. Moreover, it has the highest percentage of respondents scaling it has having no impact. Though, it is interesting that 41,7% of the respondents scaled it as medium impact. This gives an indication that the role of informal acquaintances should not be overlooked completely.

Another outlier is the characteristic ''Established distribution channels (which are usable for the startup)''. It has the highest percentage of respondents assessing it as high impact. Moreover, the remaining respondents mostly assessed it as medium impact (25%), while 8,3% of the respondents assessed it as low impact.

The characteristic ''Ability/willingness to share (technical) knowledge'' has been assessed by 50% of the respondents as high impact, while the other 50% respondents classified it as medium impact. The characteristic ''(Equipment) facilities which can be used by the startup'' follows closely, with 50% of the respondents classifying it has medium impact, 41,7% as high impact and 8,3% as low impact.

4.2 Analysis using the weighted average

Next to pointing out the outliers, which can be observed relatively easily, the weighted average of every individual characteristic has been calculated. The weighted average is calculated by multiplying the percentage of the survey with the points that are addressed to each scale: no impact has 0 points, low impact 1 point, medium impact 2 points and high impact 3 points. By comparing the weighted averages of each characteristic, the characteristics can be put in a ranked order with the highest weighted average being the ''best'' characteristic. This means that this characteristic has the most impact on investment decisions based on judgments by venture capitalists.

When looking at the weighted average of all the individual characteristics, it is observable that the lowest score is 1.00, while the highest score is 2.58. The average score is 1.96. Out of the fourteen characteristics, the following seven score below the average: informal acquaintance, ability to develop current technology, maintain stable supply, maintain stable demand, growth potential, demand has growth potential, and core technology that makes it possible for the startup to do business/ develop/ launch. However, not all of these seven characteristics should be overlooked. Depending on the preferences of a venture capitalist, any of these characteristics can be of significant importance.

Only two characteristics score relatively very low: informal acquaintance and growth potential. As already described, informal acquaintance has a high percentage of no impact, and 0% at high impact, which causes the score to be low. According to the respondents, a key partner that is an informal acquaintance has little, if any, positive impact on the investment decision. Growth potential has a slightly different pattern. Some respondents assessed it as high impact, while the other respondents were divided from no impact to medium impact. The percentages are more or less evenly spread across the impact scores.

Seven characteristics have been assessed as more important than the average of 1.96: ability to develop a new technology, maintain stable price for supply, established distribution channels (which are usable for the startup), ability/ willingness to share (technical) manpower, ability/ willingness to share (technical) knowledge, (equipment) facilities which can be used by the startup, and ability/ willingness to function as an advisor.

4.3 Patterns in the results

When looking at the weighted averages, it is observable that the highest scores are given to characteristics of key partners that are already experienced: established distribution channels, (equipment) facilities and technical knowledge and manpower have the highest scores. These four characteristics describe a key partner that can scale up and help develop the startup, or in other words an established and experienced partner. As explained in 2.3, these characteristics can help a startup in many ways. When a partner has distribution channels and/or (equipment) facilities which the startup can use, the startup can overcome problems with production of its service and/or product. Moreover, it can distribute faster and/or easier compared to the situation where the startup has to facilitate everything itself. Also, the characteristics ability/willingness to share technical knowledge and technical manpower with the startup contribute to the development of the startup. If a startup comes across technical problems during its production phase, the partner can help to overcome or even prevent these problems. Also, when a startup is going from idea to business, the partner can help with developing the specific product and/or service with the technical manpower or knowledge that is needed. A startup might lack resources to acquire this itself in the early phases. Furthermore, following these four characteristics, the fifth most important characteristic is the ability/willingness to function as an advisor. This contributes to the role of helping to scale up and/or develop the startup.

Next to the most important factors, another group of characteristics can be found. The ability to develop a new technology for the startup scores 2.17, which is above average. The ability to develop the current technology of the startup scores 1.67, which is relatively low and below average. These characteristics might look closely related, however there is one big difference. The ability to develop a new technology regards innovation, which is clearly an important factor from the

1.1 Table with respondent scores and weighted average

	No impact	Low impact	Medium impact	High impact	Weighted average
Informal acquaintance	41,7%	16,7%	41,7%	0%	1.00
Ability to develop a new technology	0%	50%	33,3%	33,3%	2.17
Ability to develop current technology	8,3%	41,7%	25%	25%	1.67
Maintain stable price for supply	0%	25%	50%	25%	2.00
Maintain stable supply	8,3%	16,7%	50%	25%	1.92
Maintain stable demand	25%	8,3%	16,7%	50%	1.92
Growth potential	25%	33,3%	25%	16,7%	1.33
Demand has growth potential	16,7%	16,7%	33,3%	33,3%	1.83
Established distribution channels (which are usable for the startup)	0%	8,3%	25%	66,7%	2.58
Ability/ willingness to share (technical) manpower	0%	0%	66,7%	33,3%	2.33
Ability/ willingness to share (technical) knowledge	0%	0%	50%	50%	2.50
(Equipment) facilities which can be used by the startup	0%	8,3%	50%	41,7%	2.33
Core technology that makes it possible for the startup to do business/ develop/ launch	0%	41,7%	33,3%	25%	1.83
Ability/ willingness to function as an advisor	8,3%	16,7%	33,3%	41,7%	2.08

perspective of venture capitalists. When a partner of a startup is able to innovate for the startup and develop new technologies, it is very positive for the investment decision. However, if the partner can 'merely' develop the current technology, it does not have a very positive influence.

The last group that can be found is the group of characteristics that regard demand and supply. There are four characteristic which score more or less the same: maintain stable price for supply, maintain stable supply, maintain stable demand, and demand has growth potential. With the weighted averages ranging from 1.83 to 2.00, it is possible to state that these are of equal importance to venture capitalists. The scores are all around the average of 1.96, which means that they score average. This means that both the supply and demand of a partner to a startup are of relevance from the perspective of venture capitalists. For example, when the supply is unstable, either regarding the price or supply of goods, this might have a negative effect on the investment decision. Furthermore, a stable demand and/or a growth potential of the demand of the partner could affect the investment decision. If the partner is the main customer of the startup, but does not have any growth potential in its demand, there might be a risk for the future regarding the possibility to scale up. Also, when the demand is not stable, there might be an uncertainty risk for the startup regarding its revenues. This might affect the investment decision significantly.

4.2 Open-ended questions

Before and after the scaling of the characteristics, some open questions were asked to the respondents. These will be summarized and analyzed in this section.

Firstly, the respondents were asked whether, in their opinion, partnerships have an impact on their investment decision. There were mixed answers. For example, several respondents stated that partners of a startup can validate the business concept. However, there seemed consensus among the respondents that partnerships do have an impact, but not a positive impact per se. Two out of the twelve respondents stated that partners are not likely to be of much importance in their investment decision.

Secondly, it was asked which, if any, type of partner(s) can be of importance for the investment decision. There was a contradiction observable between some answers: one respondent stated that joint-ventures are rare, but very positive. However, another respondent stated that it does not invest in joint-ventures. Several respondents stated that it could be a pitfall when a startup is outsourcing, especially when specific knowledge is the core of the business. Furthermore, there was one type of partner that was very important according to more than half of the respondents: customers. Many respondents stated that a (potential) customer as key partner is very positive for the investment decision.

After assessing the scores of the characteristics of key partners, the respondents were asked to make a top three of important characteristics. There was also the possibility to add characteristics that were not listed in the survey. The respondents chose merely to use their own words, however the most important factors can be summarized using the following words: experience, network, expertise, distribution, customers and reputation. Similar to the weighted averages, the respondents stated that technical knowledge, established distribution channels, and networks have a positive impact on the investment decision. The reputation of partners and customers were brought up by the respondents. They stated that a positive and big reputation of a partner gives a positive impact on their investment decision. Furthermore, as already stated before, there is a very big focus on partners as customer of startups. When startups have a guaranteed sale of their product and/or service, it is a huge plus on their overall judgment.

The last part of the survey was the possibility for additional remarks. One respondent confirmed that, when deciding on a startup, they want tech in house, which confirms the fact that outsourcing can be an important pitfall. Another respondent stated that there is a risk of dependency on big partners, therefore they look at the startup independently of partners. This causes partners to not have a significant impact on their investment decision. Another respondent confirmed the observations about experienced and established partners, by stating that corporates are the best partners for startups, since they can scale up and/or develop a startup relatively easily.

5. CONCLUSION

This final part summarizes the paper and comes up with limitations and recommendations. First, a summary of the results is given. Then, recommendations for startups are given. Following that, the contribution to the current knowledge about characteristics of key partners of startups from the perspective of venture capitalists is described. Also, the research question is being answered. Finally, limitations of the paper are explained.

5.1 Summary of results

This paper aimed at obtaining a ranking of characteristics of partners of startups to classify which characteristics, if any, are of importance for the investment decision of venture capitalists. Now that the results have been analyzed and described, it can be discussed whether the goal of this paper has been achieved.

First, it can be stated that indeed a ranking has been made by using the results of the survey. As already described in the results, a pattern has been found within the most import characteristics. There is a top three of characteristics, however the third and fourth have the same score, so both will be used as shared third. The four characteristics describe an established partner, which can share its resources, both knowledge and materials, to support the startup in its early phases. According to venture capitalists that responded to the survey, the most important factor is established distribution channels of a key partner, which can be used by the startup. Moreover, it is very positive when the startup has a partner which can and wants to share its knowledge with the startup. Furthermore, sharing manpower and facilities comes in a shared third position. All of these characteristics help the startup to get an easier entry to the market and cope with possible challenges regarding distribution, production or development. Next to these most important factors, a partner that can be an advisor to the startup also scores relatively positive. This fits with the above characteristics to advise the startup during challenges and possible problems or opportunities. These characteristics were listed from the literature review. However, next to the importance of a partner that can provide all the knowledge, materials and reputation, the venture capitalists were almost unanimous about a role that was not explicitly in the survey and thus in the literature: it was addressed that one of the most positive roles of a partner would be when it is a (potential) customer of the startup. When the startup has the possibility to have a guaranteed sale of its service or product, it proofs that there is a demand for its service or product. Furthermore, it means that the risk of not gaining revenue decreases. However, depending on the partnership and the demand of the partner, it might not be sure whether the demand is guaranteed for the long term, or whether the demand is enough for the startup. It could still be possible that the startup needs to find other potential customers, also to increase its dependency on the partners. It was stated several times by the venture capitalists that startups should be aware of the pitfall of dependency of partners.

Another factor is outsourcing. The venture capitalists stated that outsourcing does not belong to the preferences of their judgment. It can be said that it is a huge negative when a startup outsources. Of course, if startups outsource their ICT environment, or cleaning, there is nothing to worry about. However, when a startup outsources its core idea or technical product which is the source of their core business, the dependency is too big. A unanimous statement from the venture capitalists is: ‘’we want tech in-house!’’. This is the only type of partnership from the literature which is not preferred by the venture capitalists.

5.2 Recommendations

After concluding the results, it is recommended for startups to have an established partner, which helps to overcome the problems that the startup faces in its seed- and/or early-phase. More specifically, this paper gave four characteristics of established partners from the literature which assessed by venture capitalists as very positive from their perspective. Therefore, it is recommended for startups to have a partner that fits their possible pitfalls. For example, a startup which uses a high-tech technology to produce its product, might need a partner with technical knowledge and manpower, or even a partner that can develop a new technology in case its own technology becomes outdated.

Next to having a partner that is already established, a startup could also have a partner or multiple partners that are (potential) customers of the startup. This guarantees revenue, in case the demand is more or less stable. However, the startup should regard the stability of demand and the growth potential of the demand of their partners, in case there are partners as customers. If a partner has more or less stable demand, it is very positive from the perspective of venture capitalists. Of course, the element of growth potential of demand depends per startup. It is possible that a startup can sell all of its products and/or services to a partner or its partners and does not have the vision or possibility to scale up. However, if the demand is not big enough and the startup wants to sell more, it might need demand growth potential.

At last, according to the respondents it is recommended for startups to not outsource their core technical product and/or service. Most of the respondents stated that he or she prefers tech in house. This is the case for startups which have one core product and/or service which is the base of their business. A startup could obtain a weak position when it outsources its unique element and is thus not the only business with its valuable idea. However, it might be possible for a startup to outsource its core product and/or service, since this is very case specific and is subject to a change of scope with every startup.

5.3 Contribution to knowledge

This paper explored the importance of characteristics of key partners of startups, from the perspective of venture capitalists. Through a literature review, a list was made with the relevant characteristics of key partners. By letting venture capitalists assess these characteristics, it became possible to gain new insights regarding the importance of these factors. Moreover, by asking several open-ended questions, new insights were gained regarding the customer role of a key partner. These insights can be used as a starting point for further research regarding the investment criteria of venture capitalists.

Finally, the research question can be answered: *What characteristics of key partners are used by venture capitalists and what is their impact on the investment decision?*

As explained above, many characteristics are used in investment decisions. From the literature review, a list of fourteen characteristics has been made. Their impact has been researched with the field research. Every characteristic has a different impact. However, there are three groups observable: established partner, innovation, and demand and supply. The characteristics that can describe an established partner are the most important characteristics, together with the partner role of being a customer, according to venture capitalists. However, it should be noted that, as explained in the literature review, venture capitalists do not merely use criteria, but also use their (gut-) feeling when judging investment requests. Therefore, they do not have a universal impact on investment decisions. However, this paper gives an indication of the relative importance of the characteristics.

5.4 Limitations

While the findings are straightforward and almost unanimous in the survey, they are not statistical relevant or generalizable. This means that the findings are merely exploratory and could be used as a starting point for further research. Further research can focus on the role of an established partner that helps to scale up and develop a startup. Therefore, the four most important characteristics that describe an established partner could be the core of further research, together with the partner role of being a customer of the startup.

It is also noteworthy that the sample size of this research was relatively small, with 59 venture capitalists. The sample size is limited, due to the fact that this paper focusses on Dutch seed- and early-stage venture capitalists. This research might be further performed internationally, or in other countries, or even by disregarding the element of startups and investment requests in general. These options can increase the possible sample size.

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