

BACK TO THE BASICS

HSA's fortnightly bite-sized analysis of topics of relevance and interest in the world of transactions

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Investors' perspective on start-up founders

As an early-stage investor, the quality of founders is one of the most important criteria for us when we invest. Usually, at the time we come in, there is limited consumer traction and market understanding is more a hypothesis than a statement of fact.

But what does "quality of founders" mean? Having worked with scores of founders, there are some behavioral traits (as opposed to personality traits) that I have observed in strong founders that I have worked with and look out for:

- **Curiosity and pattern recognition:** Entrepreneurs need to have the curiosity to constantly look at the environment around them for opportunities, potentially for making things better/faster/cheaper. Often, the first idea they have may not be the winner – but as long as they are curious and intent on building out a solution, you often discover even better ones once you interact with the market and customers
- **Ability to tell a story:** I have seen strong founders' consistently displaying an ability to tell the most compelling story to catch people's attention and get them to nod their heads. Founders' will be selling to future investors, advisors, mentors, early employees, and even suppliers/vendors to believe in their vision – this makes how they pitch to us so important.
- **Team building:** To work on your own dreams and plans is easy – to get a dedicated team to take the risk of leaving whatever else they are doing and work on it with you is where real leaders stand out. Successful founders need the ability to attract and retain strong early teams that help them build out their vision. And they are able to keep adding to the team at every step of the way. In the early stage of a startup, there is rarely a perfect team – but in successful ones, they are more than the sum of their parts.
- **Persistence:** Not every business is successful from infancy. The biggest thing that a founder brings to the business is not an idea or skill or experience, but their drive and resilience. You can (and eventually should) hire for everything else. But no one else can bring the drive to the business as a strong founder can.

Once the business has succeeded a lot of things look great in retrospect. However, those dealing with early-stage startups know that is much more complicated – and tough. We have had the opportunity to look at founders at the start of the journey, and understand that having all of the above traits is necessary but not enough for them to be successful.

Venture capital is singular in the fact that it may take as much as a decade to know if you are good at it and you could fail twenty times, only to see your one success make up for it. But all of your successes will inevitably be borne on the back of strong founders.

AUTHORS



Piyush Surana

Principal

Tomorrow Capital



Saurya Bhattacharya

Partner

HSA Advocates

TRANSACTION LAWYERS' PERSPECTIVE

As external counsel to the investor, there are certain elements that we would look at with respect to a founder:

- **From a business and operations perspective:** Meant to ensure that the founder is duly incentivized and tied to his business plan commitments and does not create business/reputational risks for either the target entity or the investors. These would be covered in the **Investment Agreements** as well as the **Founder's Agreement**.
- **From an investor's role perspective:** To ensure that the founder is required to seek the Investor's involvement or opinion for certain actions. These would get covered in the **governance matrix** of the target entity under the **Shareholders Agreement**.
- **From a liability perspective:** To ensure that the investor protective provisions that are provided by the founder are effective, through an evaluation of the best structure for founder indemnity or security that the investor would receive. This could be addressed in a combination under the **Investment Agreements** as well as the **Founders Agreement**.
- **From a compliance perspective:** To evaluate the compliance culture the founder has and insert appropriate provisions in the Investment Agreements to align the same to best practices to the extent required. This is done through a combination of **legal due diligence** and **Investment Agreements**.