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**VENTURE CAPITALISTS' INVESTMENT DECISION : THE CASE OF THE BELGIAN TECH
INDUSTRY**

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1. Introduction

Despite having a central position in Europe, a rather high GDP per capita and a highly-educated population, Belgium shows a really low rate of entrepreneurship. Indeed, the Global Entrepreneurship Monitor reported in 2013 a low early-stage entrepreneurial activity rate (TEA) of only 4.9% (Bosma, Holvoet and Crijns, 2014). This places the country below the world average, but also below the European average in terms of new entrepreneurial activities. However, small and medium enterprises contribute to 61.4% of the Belgian added value, 69.3% of the Belgian workforce is hired by SME's and 99.8% of Belgian companies are SME's (European commission, 2014). Among these small and medium companies, the digital industry is becoming a key sector in the prosperity of every country around the world. Nevertheless, in Belgium the ICT startup birth rate was 7.4% in 2010 which is way below the EU-28 average of 12.7% and places Belgium as the third worst country in the EU. In 2014, the investment activity in VC-backed European tech firms reaches the highest level in four years (€5bn for 855 deals) which represents a 78% growth year-to-year (European Tech Report, 2014). How different is the Belgian digital sector compared to other countries? How do entrepreneurs and investors consider the digital environment in Belgium? How do these entrepreneurs and investors proceed in their fundraising campaigns? How is their post-investment relationship? All of these questions motivated our research.

Scholars have been showing a tremendous interest in addressing the venture capitalists (VCs) for the last decades (Dimov, Shepherd and Sutcliffe, 2007). While some focused on their investment decision-making process by addressing the criteria used, the valuation method and the deal structuring (Wells, 1974; MacMillan, Siegel & Narasimha, 1985; Fried & Hisrich, 1995; Hudson & Evans, 2005) others reviewed the influence they had on their portfolio companies (Kaplan & Stromberg, 2000; De Dreu & Weingart, 2003; Collewaert & Sapienza, 2014). Despite the fact that it has been showed that the maturity and dimension of the private equity market might have a significant impact on VCs' investment decision, only few of the past researches have made of Belgium their center of interest (Manigart et al., 2000; Baeyens, Vanacker and Manigart, 2006; Bozkaya & Van Pottelsberghe De La Potterie, 2008). To our knowledge, the most similar research to ours is the one conducted in 2006 by Baeyens, Vanacker and Manigart aiming at drawing the picture of VCs' selection process in

the Belgian biotech industry. Furthermore, the entrepreneurship in the Belgian digital industry has a high interest in the sense that Belgium and especially Brussels is known as displaying a supportive environment for digital entrepreneurs. Indeed, thanks to a good access to startup capital, incubators and tons of initiatives aiming at developing the entrepreneurial mindset, Brussels has been ranked 7 out of 35 European major cities by the European Digital City Index in 2015.

In this context, the present paper aims to analyze the relationship between Belgian entrepreneurs and VCs in the digital industry.

First of all, we will construct a solid literature review that will help us to develop our analysis on strong theoretical grounds. We will first define what VCs are all about, compare it with other fund sources, highlight their importance for the economy and the entrepreneurs, describe their investment processes and finally go through the post-investment relationship by looking at the theories related to governance and internal conflicts. Later, we will lay the foundation of our study by reviewing the literature on the VCs' decision-making process which includes the criteria used to evaluate investment proposals, the valuation method and the deal structuring. Finally, we will analyze the situation both in Europe and Belgium by first comparing the US and the European VC markets, then having a closer look at the Belgian VC market, giving an update on the entrepreneurship in Belgium and end it by reviewing the digital industry both in Europe and Belgium.

Then, we will move to the analysis of the Belgian VC market. For this purpose, we will interview 8 VCs and 8 entrepreneurs in order to harvest their opinions on the digital industry in Belgium, do a case study on their fundraising process and analyze the post-investment relationship.

Finally, based on the analysis of the interviews we will draw conclusions on how VCs investments are conducted in the Belgian digital industry and give recommendations to future tech entrepreneurs seeking for funds.

2. Literature review

For the purpose of our thesis, we will propose an overview of the literature treating the relation between entrepreneurs and investors, from the screening of business proposals by the VCs to the post-investment relation. We will first cover the VC topic by pointing out their role, their importance and utility, the other options entrepreneurs have while seeking for fund, the investment timing, and their influence on their portfolio companies. Then, we will address the VC decision-making process by going through the different stages of the process, the selection criteria used by VCs to choose the projects they will invest in, the valuation of these new ventures by VCs, and the way deals are structured between the two parties. Thereafter, we will focus on our research and have a closer look to the Belgian case. This will be done by reviewing the development of VC markets, making a difference between the European and the US VC markets and highlighting some key facts about Belgian VCs' activity. To further address our research questions, we will then analyze entrepreneurship in Belgium and the digital industry both in Europe and Belgium. This literature review will give us all the necessary tools to produce consistent cases analysis on the digital market in Belgium.

2.1. Venture Capitalists

2.1.1. Definition

The VC fund is an independently managed, dedicated pool of capital that focuses on equity-linked investments in privately held, high growth companies (Lerner, 2000). Investors in VC funds are typically very large institutions such as pension funds, financial firms, or insurance companies that put reduced percentage of their total funds into high-risk investments and expect a high return from it (Zider, 1998). The partnership between VCs and Investors has a finite life ending at the liquidation or distribution of investments to the partners (Fried, Bruton and Hisrich, 1998). VCs select companies for investments and negotiate the purchase of usually illiquid stocks in private transactions. In addition to a management fee, VCs usually share in the generated profits from the investment made in partnership with investors (Fried & Hisrich, 1992).

2.1.2. Comparison with other fund sources

There are several ways for a new venture to get financing. Family, friends and fools (3 F's), business angels, banks, VC, foundation, government and public funding can be suppliers of capital (Callegati, Grandi and Napier, 2005; Rogers, 2009; Vidučić, 2012).

Surprisingly, the global entrepreneurship Monitor estimated in 2004 that less than 0.01% of entrepreneurs launched their new business with the support from VC or business angel investments (Global Entrepreneurship Monitor, 2004).

Since our research focuses on VCs, we will consider three major different sources of investment for startups in the period before the entrance on the stock market: Business angels, VCs and bankers. These funders make a funding decision by taking into account different investment criteria and emphasize different types of information since their respective goals are different (Mason & Stark, 2004).

Bankers differ from VCs by the fact that their principal concern when loaning some money to a new venture is the ability to repay the loan and collateral (Šimić, 2015). Unlike the business angels and the VCs that are equity investors, bankers put a priority on the financial aspects of the company (Mason & Stark, 2004).

The VC market is divided in two main segments: institutional VC (which is the formal VC), and informal VC (which is provided by business angels) (Landström, 2007). In contrast to VCs, business angels are usually individuals who invest their own disposable finance and use their professional experience to invest in the growth of a small business, startup or early stage (Šimić, 2015). Usually, these informal private investors (business angels) are the first to be considered as the main source of funding. At a later stage of the venture development, the formal VCs enter the development scene (Callegati et al., 2005). Business Angels have a long-term vision and unlike VCs they are not concerned with their reputation, experience less need to sell and face less pressure since they do not work with other people's money (Bruton, Filatotchev, Chahine and Wright, 2010).

Bankers and equity investors have very different requirements (Kirby, 2002) and as suggested by Šimić (2015), such differences in criteria and objectives emphasize the fact that

entrepreneurs should prepare a business plan that differs depending on the category of potential funders or suppliers of capital they want to attract.

2.1.3. Different types of Venture Capitalists

As demonstrated in their factor analysis, **Macmillan et al. (1985)** identified three clusters of VCs: those who carefully assess the competitive and implementation risks; those who seek easy bail out; and those who deliberately keep as many options open as possible (Macmillan et al., 1985).

The first and biggest group of VCs detected in their analysis represents the investors that will especially make sure that the potential risks related to the development of the new venture can be managed and controlled. This group of VCs represents then the most risk averse type of investors.

On the opposite, **Macmillan et al. (1985)** identified a second group of VCs that are open to any new venture proposal, and imposing an absolute minimum of restrictions concerning the criteria used to assess these new ventures. Also known as “*determined eclectics*”, these investors lower their expectations on risk management on purpose, as they are prepared to consider any deal.

Finally, **Macmillan et al. (1985)** identified a third and last group of VCs. These “*parachutist*” investors will invest in a new venture as long as they can bail out easily and get a comfortable liquidity “*parachute*”.

Furthermore, the literature has recognized that VCs can be differentiated regarding their type of ownership (Da Rin, Hellmann and Puri, 2011). The most familiar form of VC is the independent VC (IVCs) that is managing several pool of funds provided by institutional investors or individuals (Da Rin et al., 2011; Bertoni, Colombo and Quas, 2015). Alternatively, captive VCs have a different ownership structure such as an investment vehicle or business unit of a parent company (Bertoni et al., 2015). Captive VCs (or non-independent VCs) usually regroup three sub categories depending on the nature of the parent company; corporate VCs (CVCs) when the parent company is a non-financial institution, bank VCs (BVCs) when it is a financial institution or governmental VCs (GVCs) when it is a governmental institution (Dimov

& Gedajlovic, 2010; Da Rin et al. 2011; Bertoni et al., 2015).

2.1.4. The importance of Venture Capitalists for the economy and entrepreneurs

VCs are one of the major sources of investment for new ventures. Since the main objective for a startup is to reach a high growth rate, financing is key for these young firms. A VC funding is not only an important signal about the quality of the startup, it also increases the number of employees within the venture, helps companies to take advantage of early mover advantages, and stimulates its growth rate (Davila, Foster and Gupta, 2003).

The importance of VCs in the economy has always been recognized. For example, **Ferris (2001, p. 46)** already emphasized the importance of the VC industry in Australia by saying that if there is no vibrant and risk seeking VC markets, then Australians will face a steady decline in their relative living standards in this century. VCs play a really important role in the development of entrepreneurship in an economy, and they have a significant impact on economic growth, employment and the creation of new technologies (Hudson & Evans, 2005).

Followed by the UK, the United States has the largest VC market (Bank of England, 2001). Despite the young age of the VC industry, about a fifth of public American companies received VC financing. The VC has become a dominant force in the financing of innovative American companies and it has been proven that it played an important role in the economic development of the country (Strebulaev & Gornall, 2015). As already outlined in 2004 by **Gompers & Lerner** in their study about the VC cycle, many successful American companies we know including Apple, Microsoft, Google or Intel have received investments from VC funds.

In the post-investment relation, the VC, member on the board of directors, will often offer his services and help the new venture by using his network, offering operations services, or financial and strategic discipline (Fried & Hisrich, 1995). As proved by **Sapienza, Manigart and Vermeir (1996)**, this strategic role is largely considered as effective and useful by both VCs and CEOs.

To conclude, the importance of VCs for entrepreneurs and therefore the economy, goes far beyond the capital contribution. Indeed, as demonstrated by **Timmons & Bygrave**

(2002), *“the capital in VCs is in fact the least important ingredient in fostering technological innovation. Rather, it is management intensive, requiring very early involvement by VCs in nurturing budding innovators and technology, and thereby bird-dogging and accelerating the emergence of highly innovative technologies.”*

2.1.5. VC investment timing and new venture life-cycle

A crucial issue for VCs is the timing for their investment. In other words, in which development stage of the new venture should VCs invest? There are VCs focusing on investing in early-stage companies (i.e. seeds and startups) that are still in a phase of brainstorming ideas aiming to address an undeveloped market. Whereas other VCs prefer investing into later-stage companies having an established business, serving a well-defined market and seeking for funds to grow (Dimov et al., 2007). Noteworthy, the earlier in its development the new venture is when the VC decides to invest, the higher is the uncertainty regarding its viability and the riskier it is for the VC to lose its funds. **Zider (1998)** stated that VCs usually intervene after the development of an innovative idea by the entrepreneur and at the moment this innovation becomes commercialized by the company. He also added that about 80% of the money invested by VCs goes into building the infrastructure required to grow the business.

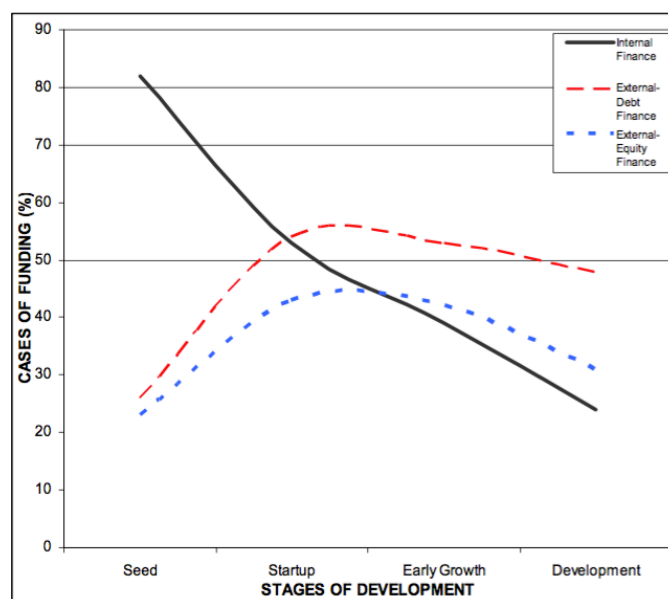
To further address VCs investment timing, it appears relevant to review the information problems assimilated to new venture funding. Access to external finance for small and medium-size companies becomes costly due to market inefficiencies (asymmetric information, moral hazard and adverse selection) (Stiglitz & Weiss, 1981). **Sohl (2003)** added that this information gap was leading to an important amount of promising new ventures left not funded. These inefficiencies have lead scholars to develop frameworks for the capital structure of young companies (Bozkaya & Van Pottelsberghe De La Potterie, 2008). **Myers & Majluf (1984)** stated that firms rely first on internal capital such as personal savings and then comes external capital where debt is preferred to equity.

Mason & Harrison (1996), described a funding gap occurring at seed, startup and early growth stages of SMEs caused by two factors. First, VCs prefer investing in later stages when firms seek for larger funds due to the large fixed costs generated by investment appraisals and

monitoring. Then, banks are not disposed to lend young companies at early-stages because of the risks.

In definitive, this gap engenders that initial investment of innovative firms mainly comes from internal capital (i.e. personal savings, friends, relatives) as showed by Mayer (2002). Regarding the debt part, commercial banks are the main players. In terms of equity funds, business angels appear firsts when the firm is still in an early-stage development such as seed and startup whereas VCs are the largest support for later-stage investments (Mason & Harrison, 2001; Freear et al., 2002; Bozkaya & Van Pottelsberghe De La Potterie, 2008). Also, VCs are critical in the information problem solving through their screening, contracting and monitoring (Gompers and Lerner, 2001). **Bozkaya & Van Pottelsberghe De La Potterie (2008)** gave evidences for the capital structure of startups in Belgium confirming that as they become older, the proportion of internal finance decreases in favor of external finance (see Figure 1).

Figure 1: Evolution of internal and external sources of finance



Source: Bozkaya & Van Pottelsberghe De La Potterie (2008), p. 13, chart 1.

2.1.6. Venture capitalists' influence on their portfolio companies

Kaplan & Stromberg (2010) showed that VCs have a certain impact on the management of the ventures they invested in. Their research confirms that in 14% of the investments, the VC plays a role in shaping the management team and that in 50% of the investments, VCs expect to play a role after investing.

While analyzing the relation between the management of a venture and a board of directors, two theoretical currents can be distinguished in the literature: governance and internal conflict.

2.1.6.1. Governance

Governance is a subject at the center of the entrepreneur – VC relationship. Therefore, it makes sense, in the frame of our study, to have a clear view on the literature related to governance in order to lay the foundation for further case analysis.

Governance has been studied a lot among large companies during the last decades. However, it seems that governance theory related to small or medium companies backed by VCs differentiates itself from public company governance on certain critical aspects, for example the separation between ownership and control, the highly uncertain and changing environments in which these evolve, their earlier stage of development, the higher investor incentive and sector knowledge, and their limited resources (Dalton, Hitt, Certo and Dalton, 2007; Garg, 2013).

In young venture backed companies that are not traded in an open market, boards of directors are a primary governance mechanism (Garg, 2013, p.90). This involves a really important monitoring function, with possible impacts on the firm performance. In his study about monitoring and its implications for firm performance, **Garg (2013, p.90)** defines monitoring as *“the activities of the board and its individual directors that track the significant behaviors of executives, the outcomes of their actions, and the performance of the venture in order to ensure that corrective action is taken as needed”*.

In their research, **Fried et al. (1998)** analyzed the way VCs are involved in venture's strategy and concluded that, ceteris paribus, boards of directors in companies funded by VCs are more involved in the strategy than boards with a larger amount of investors. Their assumption is that VCs' involvement in the company's strategy is making them more value-added investors than others. Indeed, studies clearly show that the main value brought by VCs to companies is a strategic role, and that VCs were considered as effective and useful in this

role by the VC-backed companies themselves (Sapienza et al., 1996). This means that there might be a positive correlation between VC representation on the board and board involvement within the firm strategy.

In his conclusion, **Garg (2013, p. 101)** argues that it is very likely that board monitoring has a positive effect on venture performance. This might be justified by the fact that the financial interests of venture executives and shareholders are often aligned, and that CEOs do not have the choice but to closely collaborate with the board. In fact, board monitoring provides a certain form of externally imposed structure for venture CEOs. This alignment of interests will then help the board members to fully understand the venture's situation and allow them to put their knowledge at the service of the venture's performance.

The question is then why VCs would expect an active involvement in their portfolio companies? The literature about that subject is quite vast and we will retain the main points. **Fried & Hisrich (1995)** found that the small board size, the lower insider membership, the industry practice among VCs, the venture's young age, and the fact that VCs are not well diversified are associated with a higher involvement in the company's board. The fact that VC's interests are almost perfectly aligned with stockholder's interests can also justify such an involvement (Johnson, Hoskisson and Hitt, 1993).

In the same way, **Khanna, Jones and Boivie (2013)** developed a model of board effectiveness in function of the director's capabilities and limitations. They came to the conclusion that two boards with a similar structure could have different impacts on their firm's performance, depending on the level of human capital. A higher level of capital within the board will sensibly improve the board's effectiveness and impact on the venture's performance. In addition, **Minichilli, Zattoni, Nielsen and Huse (2012)** confirmed the same hypothesis by supporting the fact that, depending on the institutional settings, the use of knowledge and skills will have a positive impact on board control and advisory task performance. They even went further by saying that board control and advisory task performance have a positive impact on the firm's financial performance.

To conclude, few studies showed that both board involvement (Zahra & Pearce, 1989, quoted by Fried et al., 1998) and concentration of ownership (Baysinger, Kosnik and Turk, 1991, quoted by Fried et al., 1998) might have a positive impact on firm performance (Garg, 2013). However, many factors can influence the impact of such an involvement. For example, the VC qualification will define to what extent its involvement will be beneficial for the venture (Fried et al., 1998). Furthermore, an excessive board monitoring could also have a negative effect on the venture performance by preventing any sort of innovation or by constantly interrupting venture executives in the venture management (Garg, 2013, p. 101). Finally, VCs could also have other roles. For example, **Fried & Hisrich (1995)** argue that VCs also have the role to impose discipline in the venture management.

2.1.6.2. Internal conflicts

Internal conflicts can occur in any team composed of different stakeholders, including in a team composed of different shareholders, entrepreneurs and investors. Since these internal conflicts might have an impact on a team's performance, it makes sense to understand to what extent conflicts can influence the group dynamic in the entrepreneurs – VCs relationship.

Group conflicts theories

In the literature analyzing the potential internal conflicts, many authors try to qualify the impact of a group conflict on the group's performance (eg. Jehn, Greer, Levine and Szulanski, 2008). Some try to understand how a conflict between an early-investor and an entrepreneur could affect the venture innovation (Collewaert & Sapienza, 2014). **De Dreu & Weingart (2003)** for example recently did an analysis of the associations between relationship conflict, task conflict, team performance, and team member satisfaction and **Korsgaard, Jeong, Mahony and Pitariu (2008)** even analyzed group conflicts in a multilevel view. The study of conflicts within organizations is definitely an area of intense interest for researchers, and it makes sense in the frame of our study to highlight the most relevant aspects of these researches.

Two main types of internal conflicts within a group or an organization are generally considered in the literature about group interaction. The first one is a conflict concerning the

task to be realized and the second one is an internal conflict related to **personal relationship** between members of the organization. (e.g. Amason & Schweiger, 1997; Kabanoff, 1991; Jehn et al., 2008). Beside these two types of conflicts, **Jehn et al. (2008)** even added one more to the list: a **process conflict**.

Task conflicts can be defined as disagreements among group members, concerning ideas and opinions about the task being performed, such as disagreement regarding an organization's current hiring strategies or the appropriate information to include in an annual report (Jehn et al., 2008).

It seems clear among the literature that a conflict between the members of a group and related to a task to be done, will negatively impact its performance and efficiency. Among the numerous articles dealing with the impact of a task conflict, a majority of them agree to say that such a conflict produces tension, distracts the team members and lower their productivity (eg. Wall & Callister, 1995). In their analysis on board effectiveness, **Minichelli et al. (2012)** also showed that their hypothesis saying that cognitive conflicts can have a positive impact on board control and advisory task performance is not verified. However, **Jehn et al. (2008)** for example affirm that norms encouraging task conflict can also increase positive emergent states within groups, which can positively influence the group's performance. Indeed, if the conflict intensity is not too high, a group could benefit from a certain amount of conflict that would force the team members to confront their opinions, boost their creativity and perception. This assertion is shared in several researches, among them from **Simons & Peterson (2000)**, or **De Dreu & Van de Vliert (1997)**.

In his qualitative analysis of conflict types and dimensions in organizational groups, **Jehn (1997)** describes **Relationship conflicts** as « disagreements and incompatibilities among group members regarding personal issues that are not task-related ». He also mentions that frequent relationship conflicts are about social events, gossip, clothing preferences, political views and hobbies. **De Dreu & Weingart (2003)** came to the conclusion that in terms of team performance, relationship conflicts are as much disruptive as task conflicts.

Finally, **Process conflicts** are defined by **Jehn et al. (2008, p.467)** as « *disagreements about logistical and delegation issues such as how task accomplishment should proceed in the work unit, who is responsible for what, and how things should be delegated* ». **Jehn (1997)**

found that sometimes, if it could be resolved easily, the right amount of process conflict could facilitate performance. On the other hand, other studies demonstrated that process conflict was negatively correlated with morale and team performance (eg. Jehn & Mannix, 2001).

Throughout the literature about the intra-group relation and its impact on performance, we found many authors stating that the correlation between team conflict and performance or efficiency was negative, meaning that the three types of conflicts in a team have a negative impact on the group viability and performance (eg. Wall & Callister (1995)). However, some other studies claim that a certain amount of conflict within a group could have a positive impact on the team's productivity. For example, **Levine, Resnick and Higgins (1993)** analyzed the conflict as a source of cognitive growth. **De Dreu & Weingart (2003)** realized a meta-analysis that takes the team satisfaction and correlation between task and relationship into account and **Korsgaard et al. (2008)** propose a multilevel model of group conflict that integrates the individual, dyadic, and intragroup levels of analysis.

At this point of our analysis, rather than trying to draw any conclusion, we prefer to highlight the fact that the analysis of group conflicts is a really important aspect that we should better take into account when analyzing the interaction between investors and entrepreneurs and that a group conflict has a certain impact on the team performance.

Internal conflict theories in the investor – entrepreneur relation

By suggesting that boards should be structured in order to stimulate internal conflicts, **Forbes, Korsgaard and Sapienza (2010)** demonstrated the importance of relations between board members. More specifically, they analyzed how conflicts in venture boards are influenced by investments and proved that down rounds are associated with more relationship and task conflicts, especially for the original founders. This assumption relies on two key premises. The first one considers that the valuation associated with the decision (higher or lower price) is likely to affect conflict in the venture board, above and beyond the conflict that may be explained by board structure. The second one states that “*task conflict*” can have a positive impact on decisions quality but that “*relationship conflict*” has destructive effects on the quality on a group's decision and its functioning. After having analyzed 161 venture boards they also found out that there is a weak connection between board structure and organizational performance in large and small companies (Forbes et al., 2008).

Another interesting aspect to analyze in this field is the heterogeneity of boards. As demonstrated by **Forbes et al. (2010)**, the more the board is dominated by outsiders, the better it is. Indeed, boards of directors in high potential companies like startups are typically dominated by investors (considered as outsiders) that own a significant part in the capital (Fried et al., 1889). This heterogeneity in the composition of boards, with founders on one side and investors on the other, brings us to think that potential internal conflicts might appear within the company and certainly regarding the organization's strategic choices.

In their study based on a survey realized in United States and Belgium, **Collewaert & Sapienza (2014)** argued that conflicts between entrepreneurs and early-investors about the managing of the organization have a negative impact on innovation and this negative effect is getting more important when opinions diverge, when the level of diversity of the team is low (Horwitz, 2007, quoted in Collewaert & Sapienza, 2014), or also when the team has a lack of experience. This negative effect could be mitigated by a good communication between the different actors or the presence of a coordinator.

2.2. Venture Capitalists Decision-Making Process

The decision-making process used by VCs while considering investing have been at the center of many researches for the last four decades. The literature regarding this topic covered many aspects of the subject and can be separated into two main streams. The first one initiated by **Wells** in 1974 addresses the investment cycle of venture as a whole. Those studies acknowledge that the decision-making process of VCs consists of a succession of several stages (Wells, 1974; Tyebjee & Bruno, 1984; Silver, 1985; Hall, 1989; Hall & Hofer, 1993; Fried and Hisrich, 1994; Boocock and Woods, 1997; Bliss, 1999, Silva, 2004; Klonowski, 2007). The second one concerns the identification of the selection criteria used by VCs while assessing funding proposals and has been animating the literature for many years (Wells, 1974; Pointdexter, 1976; MacMillan et al., 1985 and 1987; Dixon, 1991; Rah, Jung and Lee, 1994; Zacharakis & Meyer, 2000). This section is dedicated to first highlight what have been said respectively about the decision-making process and the evaluation criteria used by VCs. Then we will review researches covering both topics.

2.2.1. A multi-stage process

Researchers have agreed throughout the literature that VCs' decision-making process follow certain stages (Wells, 1974; Tyebjee & Bruno, 1984; Silver, 1985; Hall, 1989; Hall & Hofer, 1993; Fried & Hisrich, 1994; Boocock & Woods, 1997; Bliss, 1999).

Figure 2 summarizes findings regarding the agreement that the VCs' decision-making process consists of a succession of multiple stages.

In his work, **Wells (1974)** has interviewed ten VCs at eight VC firms through questionnaires and interviews and already addressed the decision-making process by suggesting that it is composed of four steps starting with the research for investments followed by the screening of the proposals, the evaluation of the proposals and ending with the deal structuring.

After having questioned 41 VC firms about both evaluation criteria and the decision-making process regarding 90 proposals, **Tyebjee & Bruno (1984)** converged to Wells findings by describing the decision-making process as a succession of four steps as well: deal origination; screening; evaluation; and deal structuring.

Silver (1985) diverged from his predecessors by replacing the well-established evaluation stage by a due diligence step to conclude that the process is made of five categories; these are search for investment, initial screening, due diligence and deal structuring. **Hall (1989)** built upon previous studies by modelling the process in six stages and therefore adding a proposal assessment stage between the screening and the evaluation.

Fried & Hisrich (1994) went through questionnaires and the interviews of 18 VCs to propose an alternative decision-making process consisting of six stages: deal origination; firm-specific screening; generic screening; first phase evaluation; second phase evaluation; and closing.

Later, **Boocock & Woods (1997)** presented a more detailed model adopted by the Midland Enterprise Fund (UK) during the process of 232 investment proposals which is

composed of seven stages: generating a deal flow; initial screening; first meeting; second meeting; presentation to board of directors; due diligence; and deal structuring.

Bliss (1999) examined the investment process to extend a model to transitioning economy (i.e. Poland). Based on questionnaires and interviews of six VCs, his findings differ from his predecessors regarding two stages; the deal origination and the screening phase. He found that the deal origination in transitioning economies differs in terms of source of deals due to the privatization of state-owned enterprises which sparked the interest of many VCs. Furthermore, this abundance of deals was caused by the lack of knowledge regarding VC activities. Consequently, a large number of the proposals were not fitting VC's investment profile. This is the reason why VCs spend most of the deal origination stage educating entrepreneurs. Finally, he added that the screening phase in Poland was largely lacking firm-specific considerations but consists more in a generic-screening.

Figure 2: Models of various stages of VCs' decision-making process

	Wells (1974)	Tyebjee & Bruno (1984)	Silver (1985)	Hall (1989)	Fried & Hisrich (1994)	Boocock & Woods (1997)	Bliss (1999)
1	Search for investment	Deal Origination	Search for Investment	Generating a deal flow	Deal Origination	Generating a Deal Flow	Deal Origination
2	Proposals Screening	Screening	Initial Screening	Proposal Screening	Firm-Specific Screening	Initial Screening	Generic Screening
3	-	-	-	Proposal Assessment	Generic Screening	First Meeting	-
4	Proposal Evaluation	Evaluation	-	Project Evaluation	First Phase Evaluation	Second Meeting	First Phase Evaluation
5	-	-	-	-	-	Board Presentation	-
6	-	-	Due Dilligence	Due Dilligence	Second Phase Evaluation	Due Dilligence	Second Phase Evaluation
7	Deal Structuring	Deal Structuring	Deal Structuring	Deal Structuring	Closing	Deal Structuring	Closing

Source: Adapted from Silva (2004), p. 129, Table 2.

Until then, all studies agreed on the fact that the decision-making process was encompassing at least four successive stages that can be entitled as Hudson and Evans (2005) did: deal generation; initial screening; evaluation (or due diligence); and deal structuring.

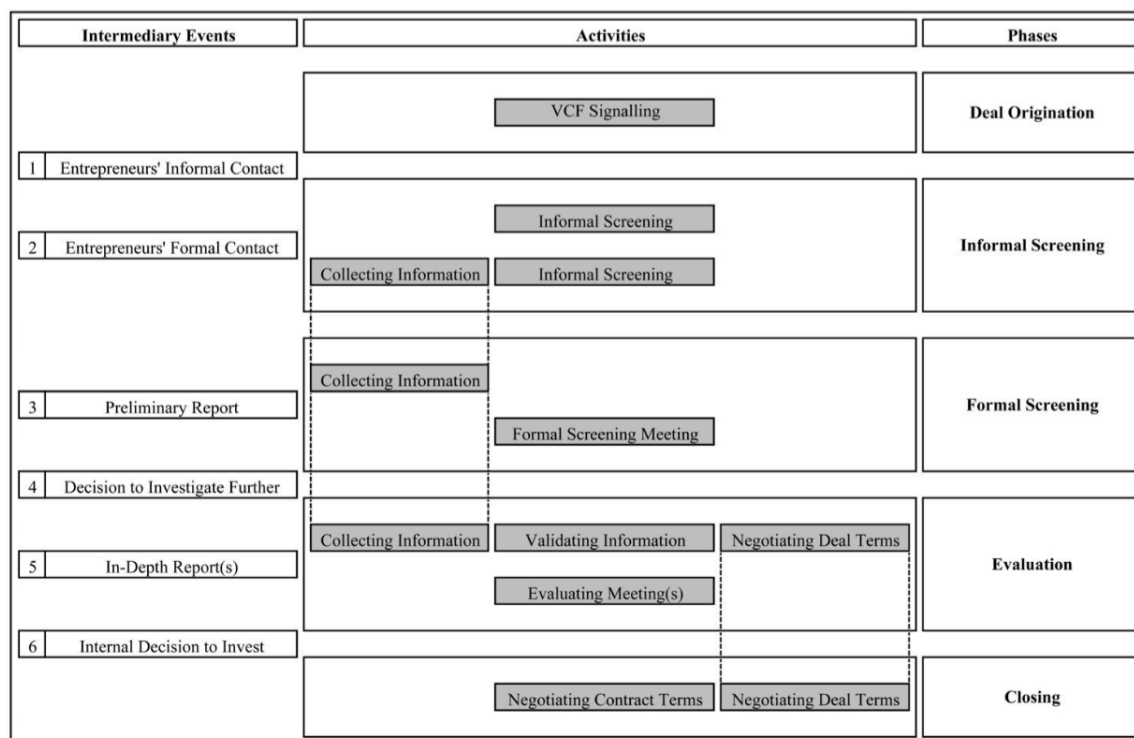
Deal generation refers to the emanation of prospective investments opportunities from a variety of sources (Boocock & Woods, 1997; Hudson & Evans, 2005).

Initial screening employs a small amount of people going through a large number of proposals. It consists of a fast lecture of the business plan seeking for key features determining if a closer evaluation would be worthwhile (Boocock & Woods, 1997; Hudson & Evans, 2005).

Evaluation consists of a closer study of the business plan providing the deciders for more information allowing them to take a decision. This stage may include a due diligence step which refers to a detailed analysis of the financial viability of the project and the credit searches of both the company and its owners (Boocock & Woods, 1997).

Deal structuring happens once the VC fund managers agreed on investing in the proposal in exchange of an equity share of the business. Negotiations between the VCs and entrepreneurs are pivotal at this stage. (Boocock & Woods, 1997).

Silva (2004) conducted a four months' study in which he observed both VCs and entrepreneurs during VC's investment decisions among sixteen early-stage projects in Portugal. Until then, researchers have considered the decision-making process to be a number of stages taking place sequentially (Wells, 1974; Tyebjee & Bruno, 1984; Silver, 1985; Hall, 1989; Fried & Hisrich, 1994; Boocock & Woods, 1997; Bliss, 1999). However, **Silva (2004)** proposed a more interactive and dynamic model of the decision-making process where certain activities appear simultaneously rather than successively. Silva's findings regarding VC's decision-making process are represented on figure 1.1. He highlighted that in most of the previous literature the first interaction between VC's and entrepreneurs was taking place after having passed successfully the formal screening phase. However, he showed that it usually happened at the beginning through an informal contact (e.g., mail, presentation, phone or meeting) (Silva, 2004). Silva explained his findings especially by the maturity of the dimension of the private equity market where most of previous studies had been conducted (i.e. developed markets) whereas the Portuguese market still presents a lack of information about VC. This explanation coincides with Bliss analysis of Poland transitioning economy. Through these interactions VC's could let entrepreneurs aware of VCs' roles and implications (Silva, 2004). Moreover, his findings showed that some activities (see figure 3) were happening simultaneously and not consecutively as proposed in the previous literature (e.g. Tyebjee & Bruno, 1984).

Figure 3: Activities, events and phases of the investment process

Source: Silva (2004), p. 136, Figure 2.

More recently, **Klonowski (2007)**, used 38 interview interaction processes with VCs operating in CEE region. He concluded that the process is composed of six stages; deal origination, initial screening, feedback investment committee and due diligence phase I, pre-approval completions, formal approvals and due diligence phase II and deal completion. Moreover, he modelled the decision-making process in terms of three activity channels. First, the document channel concerning *the preparation and update of documents prepared by VCs for both internal and external uses* (Klonowski, 2007). Secondly, the information channel involving *the gathering and dissemination of information related to the deal* (Klonowsky, 2007). Thirdly, the decision channel referring to *decision-making conducted by various participants in the investment process* (Klonowski, 2007). Furthermore, he underlined that his model presents many overlapping activities making difficult the knowledge of when a certain activity is actually starting and/or ending which agrees with Silva's statements that some activities may occur simultaneously.

2.2.2. The evaluation criteria

It is no longer to prove how important it is for entrepreneurs to know and understand the criteria set by VCs while considering to invest in a new venture (Hall & Hofer, 1993; Fried & Hisrich, 1994; Zacharakis & Meyer 1998; Visagie, 2011). By understanding the decision-making process and its criteria, entrepreneurs could be funded more easily. The criteria applied by VCs while evaluating investment proposals has sparked the interest of many researchers for more than 40 years for diverse purposes. This section is intended to cover a broad but non exhaustive review of literature regarding the topic.

A first wave of studies was conducted in the US and in other developed equity markets. If **Wells (1974)** studied the staged decision-making process in his research article *Venture Capital Decision Making*, as referred in the previous section, he also spent most of his study at analyzing the criteria used by the eight VC firms he interviewed to evaluate investment proposals. Wells ordered the found out criteria according to their weight in the VC decision. The results showed that the most important criterion was the management commitment. The product, market, marketing skills, engineering skills, marketing plan, financial skill, manufacturing skill, references, other participants in the deal, industry and the cash-out method were respectively following.

Then, **Poindexter (1976)** decided to approach the problem from another side by using a larger sample (i.e. 97 VC firms) to rank the criteria according to VCs' opinion. Among the criteria highlighted in the research, the top of the ranking was taken by the quality of the management followed by the expected rate of return and expected risk.

Many other researches using a larger sample followed **Wells (1974)** and **Poindexter (1976)** at identifying the criteria set by VCs while evaluating new business opportunities (e.g. Tyebjee & Bruno, 1984; MacMillan et al., 1985; MacMillan et al., 1987; Robinson, 1987; Timmons, Muzyka, Stevenson and Bygrave, 1987; Dixon, 1991; Hall & Hofer, 1993; Fried & Hisrich, 1994; Zacharakis & Meyer, 1998). In their first study based on 46 US VCs interviewed on the phone, **Tyebjee & Bruno (1981)** found twelve factors influencing the screening of the proposals, with the most important being managerial skills. **Tyebjee & Bruno (1984)** improved their research by conducting a second study where they asked open-ended questions to 41

VCs. These two-steps-study allowed them to affirm that VC's were using five factors to evaluate the proposals: market attractiveness, product differentiation, managerial capabilities, environmental threat resistance and cash-out potential. The decision of investing was done by balancing the positive and negative expressions of these factors respectively entitled by expected return and perceived risk.

Macmillan et al. (1985) analyzed questionnaires sent to 100 US VCs to determine which criteria are the most important to decide on investing in a new venture. They identified 27 criteria divided into six categories: entrepreneur's personality, entrepreneur's experience, product/service characteristics, market characteristics, financial considerations and the venture team. The results revealed that five out of the top ten most important criteria were related to entrepreneur's personality or experience. While showing that the entrepreneur is the most determinant factor in the VC funding decision, **Macmillan et al. (1985)** asked the question why is the business plan considered that important since it mostly concerns financial aspects and not much the entrepreneur-related facts. MacMillan also underlined the closeness of his six categories and **Tyebjee & Bruno's (1984)** five factors.

Other studies followed to analyze the same problematic in (e.g. Macmillan et al., 1987; Robinson, 1987; Timmons et al., 1987; Dixon, 1991; and Hall & Hofer, 1993; Fried & Hisrich, 1994). A summary of some of them can be found in appendix 1.

Among them, **Macmillan et al. (1987)** addressed the problem differently by looking if the criteria proposed in previous studies were determinant in terms of successfulness of the venture. 150 ventures have been reviewed by 67 VCs using 25 criteria and it appeared that two criteria were determinant in predicting the successfulness of the venture: *the extent to which the venture is initially insulated from competition and the degree to which there is demonstrated market acceptance of the product* (Macmillan et al., 1987). With the same idea **Dubini (1989)** used MacMillan sample to find out entrepreneur's characteristics are predicating success for the venture in certain contexts.

Despite the abundance of the literature around VCs evaluation criteria no consensus was reached by researchers. **Hall & Hofer (1993)** proved it by showing the low convergence across the essential criteria found in the studies conducted by Wells (1974), Poindexter (1976), Tyebjee & Bruno (1984), Macmillan et al. (1985) and Macmillan et al. (1987).

Therefore, **Silva (2004)** argued that maturity and dimension of the private equity market might have an impact on VCs' investment decisions. Thereby, the lack literature over VCs' decision criteria taking the dimension and maturity of the different equity markets into consideration might explain the heterogeneity in the existing literature. This lead **Silva (2004)** to realize his case study over a Portuguese VC firm and in this way analyze the decision-making process in a smaller equity market. Thus, this study showed that, to develop more comprehensive knowledge in this field, it was necessary to take into account the context as well as the size of the equity market of the country analyzed.

To conclude, it is important to note that most researches have been conducted in well-developed equity markets, whereas it is important to understand how different the criteria used by VCs in emerging equity markets or small equity markets are from those defined in previous studies (**Šimić, 2015**). In this context, it would be relevant to analyze VC decision-making process in the context of the Belgian VC market.

2.2.2.1. Concerns about the methodology

The present section is dedicated to the critiques made towards the methodology used in previous studies. We already highlighted some concerns regarding the sample size of prior researches (i.e. Wells, 1974). Then, researchers in the previous literature used either questionnaires or interviews of VCs to identify the evaluation criteria (e.g., Wells, 1974; Poindexter, 1976; Tyebjee & Bruno, 1984; Macmillan et al., 1985; Macmillan et al., 1987; Robinson, 1987; Timmons et al., 1987). Scholars argued that these methods were relying on VCs' perception to accurately study their own thinking process and that therefore it consisted in self-reporting (Sandberg, Schweiger and Hofer, 1988; Hall & Hofer, 1993; Zacharakis & Meyer, 1998; Shepherd, 1999). And according to other studies self-reporting leads to biases: decision makers tend to understate highly important criteria and to overstate low important criteria (Stahl & Zimmerer, 1984, Zacharakis & Meyer, 1998; Shepherd, 1999). Also, previous

studies inferring VC decision-making process from its outcome have been criticized by **Sandberg et al. (1988)** leaning on **Svenson (1979;86)** who stated that « *It is gradually becoming clear that human decision making cannot be understood by simply studying final decisions. The perceptual, emotional and cognitive processes which ultimately lead to the choice of a decision alternative must also be studied if we want to gain an adequate understanding of human decision-making* ».

Aiming at elaborating more accurate and reliable studies avoiding biases highlighted in previous studies, researchers came with new findings using real-time data gathering (e.g. Sandberg et al., 1988; Riquelme & Rickards, 1992; Hall & Hofer, 1993; Muzyka, Birley and Leleux, 1996; Zacharakis & Meyer, 1998; and Shepherd, 1999). **Sandberg et al. (1988)** came with a study using verbal protocols on one VC. This method consisted in asking the VC to think aloud while he was processing the proposal evaluation. **Hall & Hofer (1993)** used the same technique at a larger scale (i.e. 16 proposals among four VC firms). It emerged from the study that VCs proceed extremely rapidly investment proposals. It took them less than six minutes to screen it and less than 21 minutes to go through the proposal assessment. Moreover, the most essential criteria during the screening phase were the fit with the venture firm's lending guidelines and the long-term growth and profitability of the target industry (Hall & Hofer, 1993). Also the source of the business proposal was considered as a major criterion of the second stage.

Another real-time data gathering method, namely "*conjoint analysis*", have been used by **Riquelme & Rickards (1992)**, **Muzyka et al. (1996)** and **Shepherd (1999)**. This technique allows to better understand the priorities and trade-offs among criteria by the help of quantitative data. **Riquelme & Rickards (1992)** emphasized that VCs give more importance to the entrepreneurs' experience at the first stage (i.e. screening phase). Whereas in the second phase (i.e. evaluation phase) the critical criteria are the product gross profit margin and the presence of a patent. **Muzyka et al. (1996)** conducted a study involving 73 VCs across Europe. Their findings were that the five management team criteria were among the seven most important and that overall, VCs prefer to select ventures presenting a good management team and reasonable financial and market characteristics. In his study, **Shepherd (1999)** found that industry-related competence was by far the most essential factor considered by VCs while assessing the proposal.

Zacharakis & Meyer (1998) used a technique called policy capturing aiming to compare the decision-policy they used with the one they think they used. Their findings showed that the pivotal criterion depends on the level of information available for the VC: the entrepreneur is critical when the VC does not have much information about the market but the entrepreneur becomes less important once he gets more insights about the market. However, the major finding was actually the core of their study entitled *A lack of insight: Do VCs really understand their own decision process?* Their answer: *Not necessarily*. Although they confirmed the relevance of still studying the criteria used by VCs since entrepreneurs seeking for funding still benefit from the understanding of the most important factors they used.

2.2.2.2. Subjectivity of the decision-making process

Many studies have followed, each one addressing the same issue – trying to determine the critical investment criteria set by VCs in their decision-making process – but no consensus among the results was reached so far (Hudson & Evans, 2005; Šimić, 2015). One more explanation given by some scholars is that even if VCs use information and objective facts to take their decision, their practices are heterogeneous and other subjective factors are used (Hisrich & Peters, 2002; Beim & Levesque, 2004; Cope, 2004; Šimić, 2015). The subjectivity of VC's decision process has been explained by their use of intuition, heuristics, *"gut feeling"* and creative thinking (Hisrich & Peters, 2002; Shepherd, Zacharakis and Baron, 2003). **Hudson & Evans (2005)** concluded in their study that VC's decision-making process is *"more an art than a science"*. Thereby, it is difficult for entrepreneurs who are seeking for funds to clearly develop a business plan intended for VCs. **Hudson & Evans (2005)** further added that the lack of a universal model to describe the decision-making process leads to state that each VC needs to be studied independently. More recently, **Streletski & Schulte (2013)** also underlined this shortage of comprehensive empirical model based on historical data valid for the whole VC market. This heterogeneity of VC practices, the subjective nature of their decision-making process as well as the inability to build a robust model able to be applied for the entire VC market reinforce or willingness to approach VCs independently.

2.2.2.3. The match between supply and demand

A number of researchers have pointed the lack of studies focusing on the demand side. Indeed, the majority of the conducted researches addressed the investment criteria from the VCs point of view. In fact, it appears that entrepreneurs and VCs might have differing opinions, for example when a venture is ready for external investment (Proimos & Murray, 2006). It might be interesting to address the process that leads the ventures to seek for VCs, the elements these ventures consider to be important to attract investments (Šimić, 2015). As suggested by **Hudson & Evans (2005)**, an alignment of the interests of both entrepreneurs and VC firms could improve the decision methods used.

2.2.3. Valuation and deal structuring – Process overview

In their study about the equity distribution and its impact on entrepreneurial teams, **Breugst, Patzelt and Rathgeber (2015)** analyzed the consequences of different equity distributions on team interaction, and tried to understand if a distribution perceived as unequal could affect the performance. They suggested that an equal distribution within the team can trigger positive team interaction spirals is one more argument to let us think that the valuation of a new venture and the way the deal will be structured between the VC and the entrepreneurs but also within the entrepreneurial team, are actually major factors that need to be analyzed.

During the pre-money negotiation, VCs will propose an investment to the entrepreneurs in exchange of a defined share of ownership in the new venture. The return that these investing VCs will get will be defined by the difference between exit proceeds at a liquidity event (Initial Public Offering (IPO) or Mergers & Acquisitions (M&A)) and the amount they paid up to invest in the company. On the other side, entrepreneurs will evaluate the deal made during a financing round with the quantity of ownership stake they will have to give up for a certain amount of capital injected into the venture. A negotiation will then take place, with on the one hand the VC willing to invest as less as possible for a maximum ownership stake and on the other hand, the entrepreneur willing to receive the highest investment possible for his venture by losing the minimum of control (ownership stakes) on the venture firm. (Cumming & Dai, 2010)

During the discussion between an investor and an entrepreneur, the economic valuation of a new venture is a critical question. Indeed, this is an important and challenging aspect to be handled by both entrepreneurs and VCs and it is often a delicate negotiation point in VC contracting (Cumming & Walz, 2010). As proof, **Bengtsson & Hand (2009)** emphasized how difficult the fundraising can be for founders of innovative startups.

In their analysis of the process of new ventures valuation, **Ge, Mahoney and Mahoney (2005)** developed an integrative framework that relies on a comparison between well-established firms and new ventures through the strategic management theories. They wondered how factors identified in the research literature on firm-level performance could also be applied and/or influence the economic valuation of a new business looking for investments from VCs. Their conclusion was that factors influencing the firm-level profitability could serve as fundamental basis for the economic valuation of a new venture. More precisely, **Ge et al. (2005)** argued that VC will value a new venture higher if:

1. The new venture is in an industry with higher product differentiation and faster growth.
2. The founders have top management experience and startup experiences before this one.
3. There is several complementary founders that cover the major management functions instead of a solo founder.
4. The new venture has external partners.

It also seems that measures of human and social capital are important factors that are positively correlated to venture valuation. For example, **Hsu (2007)** demonstrated that prior founding experience increases both the likelihood of VC funding via a direct tie and venture valuation. He also highlighted the fact that founders' ability to recruit executives via their own social network is positively associated with venture valuation.

In addition, **Cumming & Dai (2010)** tried to understand what could affect the VCs in their pre-money valuation of a new venture. Their research focuses on the way characteristics of VC funds, and especially the fund size, could impact the new businesses valuation in the VC industry. First, they argued that the most reputable VCs will pay a lower

price. Second, they suggested a convex relationship between the fund size and firm valuation. It means that the bigger the fund size is, the higher the negotiation power, until a certain fund size where the investor's attention is diluted and alternative options reduced, except for the less reputable VCs. In addition, they showed that there is a concave relationship between fund size and the venture's performance, measured as the probability of successful exits. In their analysis of the impact of fund inflows on private equity valuations, **Gompers & Lerner (1999)** came to a similar conclusion and state that the impact of VC inflows on prices is greater in US states with the most VC activity and segments with the greatest growth in venture inflows. In conclusion, these findings showed that the price decided by VCs is also influenced by the VCs characteristics. But it mainly highlights the fact that there might be scale diseconomy within the VC industry, which further complicates our analysis.

In fact, it clearly seems that the real drawback in the valuation of new startups is the absence of information about past performances to support a potential forecast. In addition to this lack of information common to any new venture, some startups could evolve in a new and unknown industry, or even have innovation as the only driver of value. This particularly uncertain startup phase where only a very few indicators can give approximate indications concerning their valuation let us think that other methods than the ones used in well-established firms have to be modeled.

Maya (2004) tried to define the true value of a startup firm by relying on the concepts of Real Options Approach and Creative Destruction. Indeed, she compared, with the words of **Schumpeter (1942)**, the process of creating an innovative startup to a process of creative destruction and stated that for startups *"both intellectual capital, as the engine of innovation, and market power, as the expectation of monopolistic power when innovating, are fundamental components of their value"*. The Real Options Approach is the only one that gives prominence to the upside potential for risks, based on the argument that uncertainty can sometimes be a source of additional value (Damodaran, 2007, p. 231). Her proposal is then to consider the Creative destruction - Real Options Approach (CD-ROA) as a relevant tool to value new companies taking part of a process of Creative Destruction. The value of the firm will then be the sum of the project's value without flexibility plus the value of the real options the project offers to the firm. The CD-ROA method gives higher valuation than traditional

methods, and proves that there is no over-pricing in the valuation of an innovative company, but rather recognition of a growth potential.

Finally, although **Keienburg & Sievers (2009, p.26)** demonstrated that precise venture valuation is possible simply by taking into account verifiable and objective data even for firms with insufficient benchmarks, negative earnings and zero sales, our main concern remains, and it seems that the valuation of startups is a much more complex process that perhaps could not be fully modeled in a scientific article. In fact, **Quindlen (2000, p.169)** already said that the valuation of an entrepreneurial firm *“is much more art than science”*. This let us think that, as **May & Simmons (2001)** suggested, *“the truth about valuing a startup is that it is often a guess”* (Retrieved from Ge et al., 2005).

To conclude, the literature about the valuation methods of new ventures is quite vast, with different opinions and models that eventually do not provide a recognized, universal and accurate valuation method. It even seems that there is still a part of *“unrational factors”* such as the emotions or intuition playing a role in the valuation of a startup. In addition, not only the startup or industry characteristics play a role in their valuation, but the VCs' characteristics, such as the fund size, can also influence the estimated value of a given venture. All these observations are only reinforcing our conviction that it makes sense to analyse each case independently.

2.3. Venture capital markets review

Previous researches have showed the heterogeneity and the differences of the VC market between different countries (Wright, Thompson and Robbie, 1992; Manigart, 1994; Sapienza et al., 1996). Thus, those differences across VC markets may provoke variation in the way VCs approach the valuation of new proposals and the information they use for the screening process (Manigart et al., 2000; Silva, 2004). For this reason and for the purpose of this thesis, it seems legitimate to compare the European VC market with the US one before looking more specifically to a smaller equity market (i.e., Belgium).

2.3.1. Comparison between the US and the European VC Market

VCs appeared first in the US before expanding slowly through the rest of the world (Bruton, Fried and Manigart, 2005). As the VC industry became mature in the US, its European counterpart emerged. However, its development in Europe experienced differences from the one in the US (Grilli & Murtinu, 2014).

The rise of the American Venture Capital Industry

In the US, it took some time for the VC industry to be well established. Indeed, it all depends on the time needed for industry participants to accept and work with the basic processes and practices previously developed (Aldrich & Fiol, 1994). Institutional practices are informally spread while they are tested and considered as appropriate to finally become routine (Bruton et al., 2005). According to **Reiner (1989)** it took a few decades for the US VC industry that was born in the mid-1940s to be institutionalized in the mid-1980s.

It appeared that cooperation between VC firms through syndication contributed to the establishment of the industry in the US. Since VC firms were very small at their early days, there was a necessity to syndicate their investments with other VC firms to allow them to diversify their portfolio, ensure the highest return and share information (Reiner, 1989; Sorenson & Stuart, 2001).

Moreover, the foundation of the National Venture Capital Association in 1973 played a role in the institutionalization of the VC industry in the US. It aimed to promote a “*professional behavior*” for VC firms through the distribution of standards to which members had agreed to comply (Bruton et al., 2005). The consequence was the acceptance and establishment of the industry practices implying a cohesion in the sets of beliefs about VC firms’ behaviors in the US (Fried & Hirsrich, 1995).

The emergence of the European Venture Capital Industry

In the late 1970s when the US industry was institutionalizing, a VC industry emerged in Europe with the UK and Ireland leading the trend by attracting VC firms. It mainly consisted of affiliates of US firms relying on the US capital and expertise (Oehler, Pukthuanthong, Rummer and Thomas, 2007). In the mid 1980s, continental Europe followed with the

Netherlands where VCs were often investing funds from large domestic banks (Wright et al., 1992; Manigart, 2004; Oehler et al., 2007). In order to grow, the European VC industry was following the US model. However, many studies have showed that the US VC industry stays the most developed and mature in the world far from its EU counterpart.

The differences between the US and European VC markets

First of all, **Croce, Grilli and Murtinu (2014)** highlighted structural differences existing between the US and EU VC industries based on the data reported by the European Parliament in 2012. Regarding fundraising, they pointed out that the EU funds dramatically reached € 3.3 billion in 2010 (0.03% of GDP) far behind its US counterpart with € 10.1 billion in 2010 (0.09% of GDP). Their observation converged towards the same point concerning the investments made by VC firms since US VCs invested for € 11.8 billion (0.11% of GDP) while only €3.5 billion (0.03% of GDP) had been invested in EU in 2010. **Bertoni & Croce (2011)** added that the ratio between VC and private equity (PE) investments was way higher in the US (67%) than in Europe (17%).

Furthermore, the differences between US and European VC firms can also be considered in their respective performance. **Schwienbacher (2005), Hege, Palomino and Schwienbacher (2009)** and more recently **Lerner (2009)** showed that the US VC firms were generating significantly more returns than their European counterparts. For example, from the early 1980s until 2007, the average European VC fund had an annual return of minus 4% against 16% for the average U.S. VC fund (Lerner, 2009).

However, these differences are not only restricted to the sizes and performances since there are evidences regarding their structure in terms of VCs typology and stages. The EU VC market presents a higher level of heterogeneity of VCs typologies than its US counterpart (Bottazzi, Da Rin and Hellman, 2004). Also, independents VCs (IVCs) and corporate VCs (CVCs) are more important in the US industry whereas bank-affiliated VCs (BVCs) and, even more remarkably, governmental VCs (GVCs) are more frequent in the EU market (Bertoni, Colombo and Quas, 2015, p. 19). Also, it appears that Europeans VCs are less likely to invest in early stage companies than US ones but rather prefer later-stages and management buy-outs (Manigart et al., 2000; Leleux & Surlemont, 2003; Bruton et al. 2005 and Bertoni et al., 2015)

A few authors addressed the reasons for the existence of such a performance and structural gaps between the two continents.

First, the two continents have differences in their external environments, namely a more attractive capital market where young companies can exit via Initial public offerings in the U.S. and a problem of retention of highly qualified employees. **Schwienbacher (2005)** identified the factors of the underperformance of the European VC markets against the US one. Among them the lack of liquidity of the EU market in terms of exit strategies and human capital and the fact that they are less likely to use convertible securities. Other studies like **Jeng & Wells (2000)** or **Cumming, Fleming and Schwienbacher (2006)** pointed out the European capital market as the main cause of the underperformance. They basically stated that a well-developed market such as the US one allowing IPOs and rapid exit strategies for VCs are favorable for the VC industries whereas VCs have much more difficult exiting their investment in the EU market.

Moreover, some authors think that the underperformance of the European VC market may also be due to their contracting behavior. **Schwienbacher (2005)** in his study further added that the lack of syndication among European VC firms is causing a higher risk for their investment. His thoughts were in line with **Hege et al. (2009)** who underlined the staging frequency and the syndication as explanation of performance differences. **Tyabji & Sathe (2010)** added that Europe and the U.S. have some differences in the way VC firms operate, mainly characterized by a bigger risk aversion for European VCs.

Furthermore, there are differences in the institutional environment. **Bruton et al. (2005)** used the institutional theory and more precisely Scott's (1995a) forces to explain the dissonance observed between VC markets. Among these the authors highlighted the regulatory and the cognitive forces. Indeed, there are differences among regulatory institutions around the world. For example, the level of legal protection of minority shareholders that impacts the willingness of the investors to take risks by investing in young and early-stage companies or cognitive institutions that may differ across countries. A major cognitive factor for the VC industry is the status attached to entrepreneurs that can vary from one country from another. In the US the society attributes a high status to entrepreneurs whereas European people consider entrepreneurs as opportunistic people. It negatively

impact the supply of entrepreneurs (Kuemmerle, 2001; Bruton et al., 2005 and Bertoni et al., 2015).

Finally, many authors stated that the resources committed and the policies taken by Europe since before the Lisbon Agenda to make its VC market stronger and to close the gap between Europe and the US have been inefficient (Bruton et al., 2005; Bertoni & Croce, 2011; Bertoni et al., 2015). **Bertoni et al. (2015)** highlighted the localized investments conducted by European GVCs and support the removal of the regulatory constraints provoking local biases. They also argue for more syndication with private VCs to boost their performance and expertise. **Grilli & Murtinu (2014)** also addressed the policies taken by the EU and stated that private VC would be better supported by the aid of indirect forms of support such as tax incentive and labor reforms (see also **Jeng and Wells, 2000**). They mentioned for example the EU policy initiative of April 2011 *aiming to eliminate any unfavorable tax treatment to EU cross-border VC activities* (Grilli and Murtinu, 2014, p. 1537). They further criticized the way European GVCs are managed and invited for a reconsideration. One of their solution is to imitate a specific type of Australian public-private co-investment model similar to the US and Israeli ones that are proven to be efficient in terms of startup and early-stage high-tech firm investments and enhancing the Australian VC industry in general (Grilli and Murtinu, 2014).

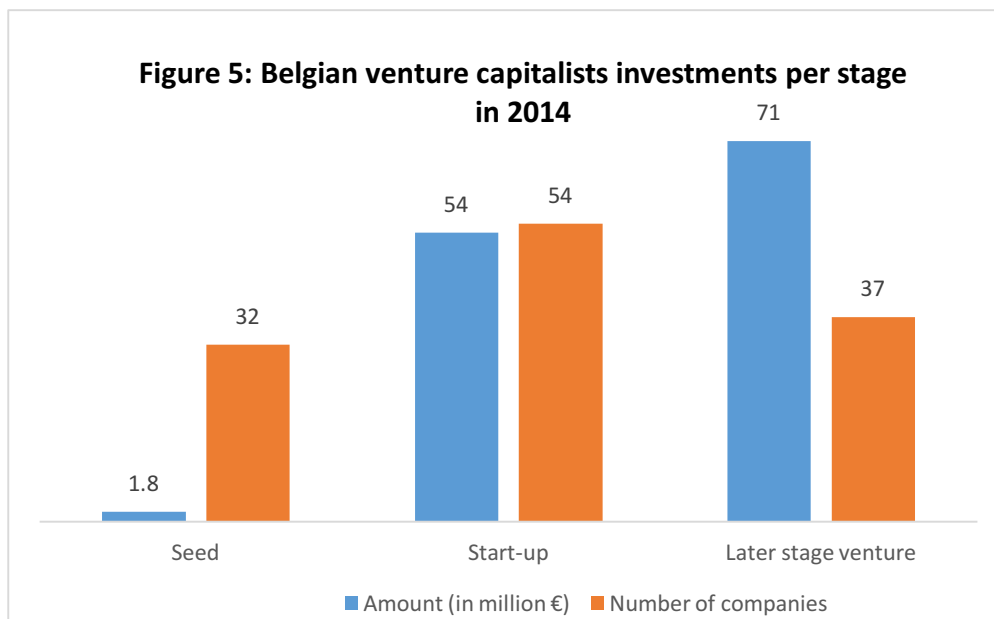
2.3.2. The venture capitalists market in Belgium¹

Belgium has a Continental European financial system as compared with the US and the UK (Baeyens et al., 2006). However, in contrast with other European Countries the Belgian VC industry is quite well developed (Reynolds, Bygrave, Autio and Camp, 2000).

In 2014, Belgian Private Equity companies raised € 260.3 million where 29.2% consisted of VC focusing on early-stage investments. In that year, Belgian VC firms invested for € 126.7 million which represents an increase of 22% compared with 2013. 123 companies have been venture backed by Belgian VC's in 2014. As represented on figure 5, startup stage investments accounted for the largest part of the VC activity in 2014 with 44% (54 companies). Followed by later-stage investments which reached 30% (37 companies) and seed-stage with 26% (32

¹ All the data of this point have been retrieved from EVCA, 2014.

firms). However, even if the number of seed stage companies represent 26% it only accounts for slightly more than 1% of the amount invested by Belgian VC's in 2014 (€ 1.8 M).



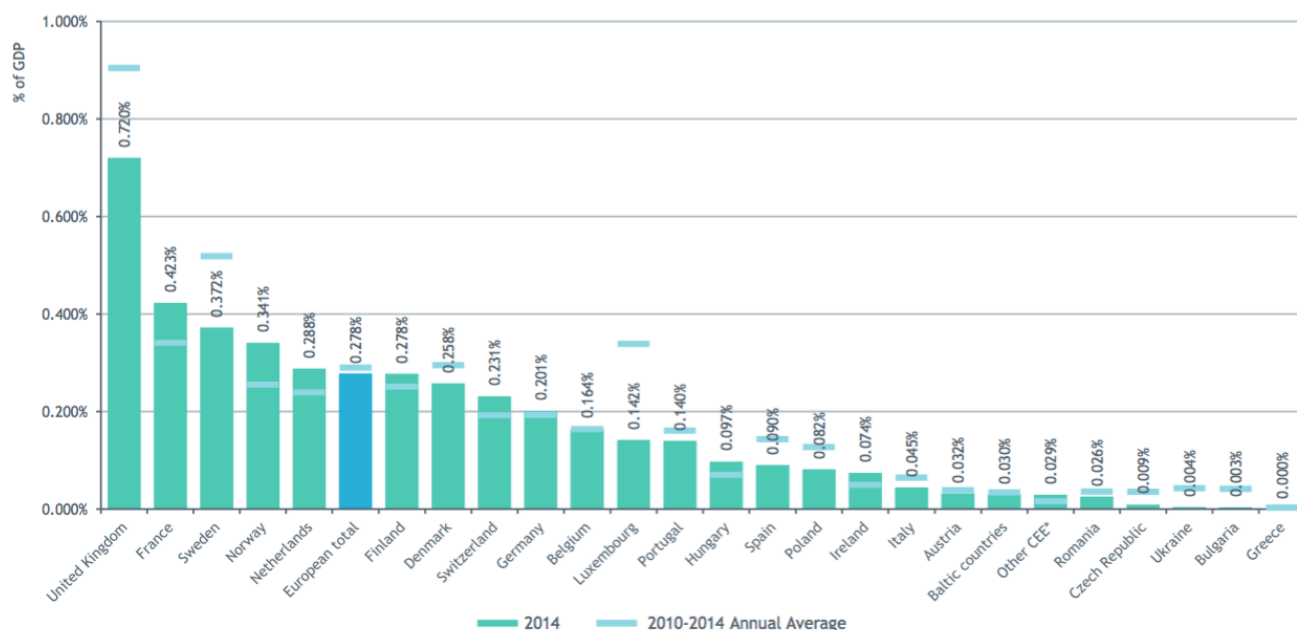
Source: Made by the authors based on the data retrieved from EVCA, 2014.

Consumer goods & retail were the most represented companies (16.5%) followed by life sciences (14,9%) energy & environment (12%).

Also, 68.5% of the private equity investments were domestic, 30% have been made in other European countries whereas 1.5% in Non-European countries. The main cross-border investment destinations were France with € 89 million followed by the Netherlands and Germany respectively with € 35 million and €34 million.

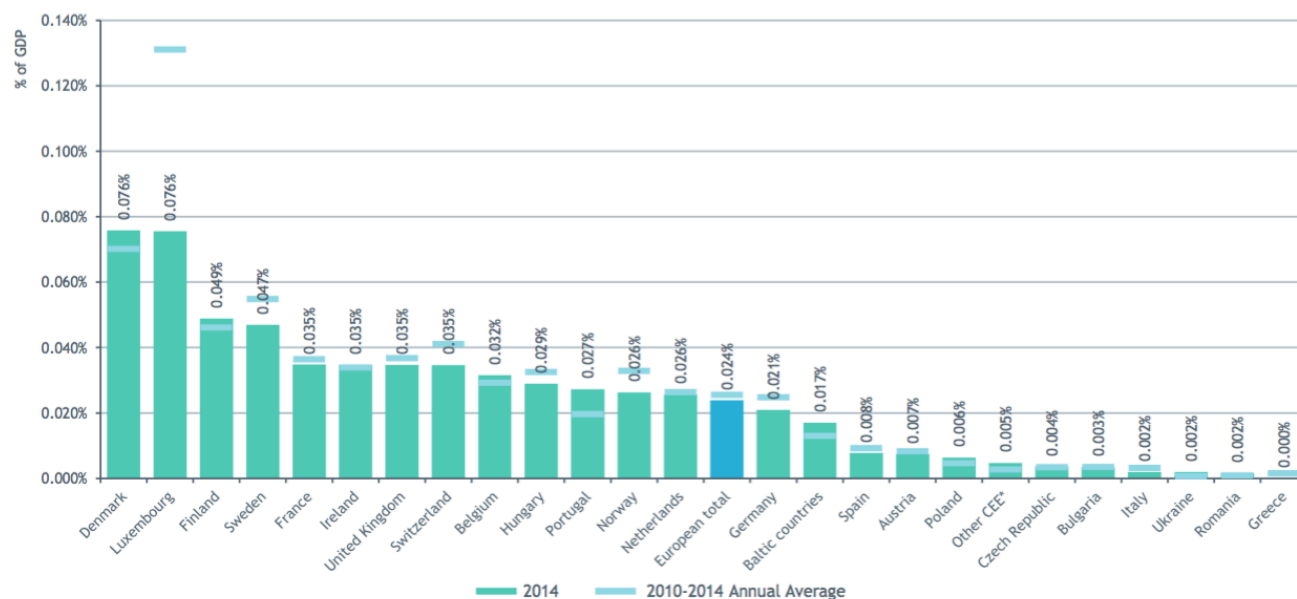
As a comparison with other European countries, Belgian private equity firms accounts for 0.6% of the total funds raised in the EU. However, they contribute for 1,6% of the private investments in the EU and even more if we consider only VC investments (3.4%). Figure 6 and 7 allow for a comparison of private equity and VC investments across countries in relative terms (as a percentage of their respective GDP). Belgian private equity investments represent 0.164% of the GDP which is below the European total and far from the leading countries such as UK (0.72%) and France (0.42%). However, VC investments in Belgium performs better and correspond to 0.032% of the GDP which is this time higher than the European total (0.024%) and close from UK and France (0.035%).

Figure 6: All private equity investments in Europe as % of GDP in 2014



Source : EVCA (2014), p.43

Figure 7: VC investments in Europe as % of GDP in 2014



Source : EVCA (2014), p.44

2.4. Entrepreneurship in Belgium

Donckels & Dupont (1987) described the entrepreneur characteristics at the startup of his business as well as his attitude towards public authorities. Their sample consisted of 400

new Belgians entrepreneurs (i.e. they defined a new entrepreneur as *a person who has set up for the first time a business in the period 1974-1985*) composed of 50 percent of French and 50 percent of Dutch-speaking people and whose sector was either manufacturing or trade or services. They established a profile for what they called “*new entrepreneurs*”.

According to them, the new Belgian entrepreneur was pretty young (between 26 and 35 years), had most often a technical degree (even if the educational level was higher than suggested in the literature since 25% of entrepreneurs from the services sector have a university degree) and was mainly seeking for personal independence and job satisfaction. Also, they found out that entrepreneurs had most frequently an entrepreneurial family background.

Regarding their startup capital, it appeared that 73% of the surveyed entrepreneurs started with a capital lower than \$10,000. Moreover, 90% of them used personal and family resources to start their business while only 13% used funds from private institutions. Most entrepreneurs (nearly 68%) did not request any support from the government. Also, it appeared that most of the entrepreneurs (81%) had a job before deciding to start their own business and that only few of them started immediately after finishing their studies (7%). They also showed that among those who had a professional experience, 54% of them experienced a certain job instability (i.e. they changed employer at least once). Finally, their results showed that more entrepreneurs come from small firms than large firms.

Bosma, Holvoet and Crijns (2014) reviewed the entrepreneurial culture of Belgium in the *Global Entrepreneurship Monitor* by surveying 2000 Belgian adults. Regarding adult attitudes, perceptions and growth aspirations they observed that if the level of perceived opportunities in Belgium was similar with the benchmark economies (i.e. France, Germany, Spain, Netherlands and UK) the picture for the perceived skills and the fear of failure was less positive. One third perceived they have sufficient skills to start their business and half of the interviewed people affirmed that their fear of failure would prevent them from starting up. Also, the societal consideration for entrepreneurs are not as high as the benchmarks. People think that entrepreneurship is a good career choice but not suited for them and that successful entrepreneurs do not receive high status.

Despite having a central position in Europe, a rather high GDP per capita and a highly-educated population, Belgium shows a really low rate of entrepreneurship. In 2013, the Global Entrepreneurship Monitor reported an early-stage entrepreneurial activity rate (TEA) of only 4.9% (Bosma et al., 2014). This means that the percentage of 18–64 age group who are either a nascent entrepreneur or owner-manager of a new business is 4.9%. This places the country below the world average, but also below the European average in terms of new entrepreneurial activities (see figure 8).

Figure 8: Phases of entrepreneurial activity in the GEM countries, 2013

	Nascent entrepreneur- ship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses
Belgium	3.1	1.9	4.9	5.9	1.9
Flanders	2.8	1.7	4.4	6.5	1.8
<i>Benchmark Economies</i>					
France	2.7	1.8	4.6	4.1	1.9
Germany	3.1	2.0	5.0	5.1	1.5
Netherlands	4.7	4.8	9.3	8.7	2.1
Spain	3.1	2.2	5.2	8.4	1.9
United Kingdom	3.6	3.6	7.1	6.6	1.9
<i>Average</i>	3.4	2.9	6.2	6.6	1.9
Canada	7.8	4.7	12.2	8.4	4.4
Czech Republic	4.9	2.7	7.3	5.3	3.4
Finland	2.7	2.7	5.3	6.6	2.0
Greece	3.3	2.3	5.5	12.6	5.0
Ireland	5.5	3.8	9.2	7.5	2.5
Israel	5.3	4.8	10.0	5.9	4.8
Italy	2.4	1.1	3.4	3.7	1.9
Japan	2.2	1.5	3.7	5.7	1.5
Korea Rep.	2.7	4.2	6.9	9.0	2.5
Luxembourg	6.0	2.8	8.7	2.4	2.8
Norway	2.9	3.4	6.3	6.2	1.6
Portugal	4.2	4.2	8.2	7.7	2.8
Puerto Rico	6.6	1.8	8.3	2.0	1.8
Singapore	6.4	4.4	10.7	4.2	3.3
Slovenia	3.6	2.9	6.5	5.7	2.6
Sweden	5.9	2.5	8.2	6.0	2.4
Switzerland	4.5	3.7	8.2	10.0	2.3
Taiwan	3.3	5.0	8.2	8.3	5.0
United States	9.2	3.7	12.7	7.5	3.8
<i>Average all innovation driven economies</i>	4.7	3.3	7.9	6.6	3.0

Note: all figures denote percentage of the population 18-64 years

Source: Global Entrepreneurship Monitor, 2014

Such a low performance rate in terms of entrepreneurship in Belgium can be explained by several factors. First of all, some cultural factors can explain such a result. **Hofstede (2001)** showed that Belgium received an uncertainty avoidance index value of 94%, which is largely above the European average and is associated with a low level of entrepreneurship (Thomas & Mueller, 2001). Furthermore, the Global Entrepreneurship Monitor reported in 2014 that the percentage of 18-64 population (individuals involved in any stage of entrepreneurial

activity excluded) who indicate that fear of failure would prevent them from setting up a business is 49% in Belgium. In addition, a problem of conversion occurs with the massive Belgian high-tech R&D that costs a lot and is risky to bring on the market (Minniti, Maria, Erkkö Autio, William and Bygrave, 2006, p. 50). The really high budget dedicated to research does not help to launch new ventures in these areas since much academic research typically focuses more upon testing hypotheses and advancing knowledge rather than developing a product (Moerman, 2007, p.47). Moreover, the relatively comfortable per capita wealth, the perception of a complex administrative process by its citizens and the lack of communication by the government might be explanations to the Belgium's low rate of entrepreneurial activity (Zegers et al., 2004, p. 76).

2.5. The digital industry

We would like to restrict the field of this thesis to a specific industry; namely the digital startups. Indeed, tech industries are growing rapidly and account for more and more in the economy. For example, UK's digital tech industry is growing 32% faster than the rest of the country economy (Tech Nation, 2016). Also, in 2014 the investment activity in VC-backed European tech firms reach the highest level in four years (€5bn for 855 deals) which represent a 78% growth year-to-year (European Tech Report, 2014). For the purpose of our thesis, we will now review this topic by defining the digital economy, its importance in Europe, the environments enabling digital entrepreneurship and end it up by the specific case of the Belgian digital industry.

2.5.1. The digital economy

Technology improvements and the rise of the IT industry are shaping the so called digital economy. This economy has been rapidly surging around the world and the **European Commission (2016)** stated that it was *the single most important driver of innovation, competitiveness and growth*². But before going further in this topic, defining the digital economy appears necessary.

² European Commission. (2016). *The importance of the digital economy - European Commission*. [online] Available at: http://ec.europa.eu/growth/sectors/digital-economy/importance/index_en.htm [Accessed 3 May 2016].

Atkinson and McKay (2007) attempted to define the digital economy. They argued that contrary to what people thought the digital economy was a wide concept going way further than internet economy. They defined it as *“the pervasive use of IT (hardware, software, applications and telecommunications) in all aspects of the economy, including internal operations of organizations (business, government and non-profit); transactions between organizations; and transactions between individuals, acting both as consumers and citizens, and organizations”* (Atkinson & McKay, 2007, p.7). The authors concluded that IT has been responsible from the economic revival that the world faced at the beginning the 21th century ending a 20 years’ period of productivity slowdown. It has not just allowed a productivity growth through automated business processes or consumer convenience but IT has also disrupted entire industries such as bank and retail sectors and improved the people quality of life for example in terms of health care, education or environment. **Atkinson and McKay (2007)** further underlined the key factors of the digital revolution; *faster, better, cheaper and easier*. IT component prices incredibly fell and whereas their performance kept improving unlike any other technology in history. All these advancements had a widespread use which also allowed the IT to be pervasive. They concluded that IT would remain the engine of growth for at least one or two decades.

2.5.2. The European digital industry

The European Commission has understood the importance of the digital economy and the huge potential of digital technologies for the economic development of the continent. As digital trends such as mobile web services, cloud computing and social media changes the whole environment of businesses, their boundaries and the responsibilities of their leaders, European Leaders acknowledged the necessity of digitization. Moreover, digital entrepreneurs are key players of the ICT sector by generating new ideas and developing technologies. And as previous researches show the ICT industry itself is contributing to economic growth (Belitski & Desai, 2015). This lead the EU to make policies such as the *Small Business Act for Europe* or other initiatives such as the *Ace Programme* and more recently *The Digital Single Market Strategy* in order to support the growth of ICT entrepreneurship in Europe. (European Commission, 2016).

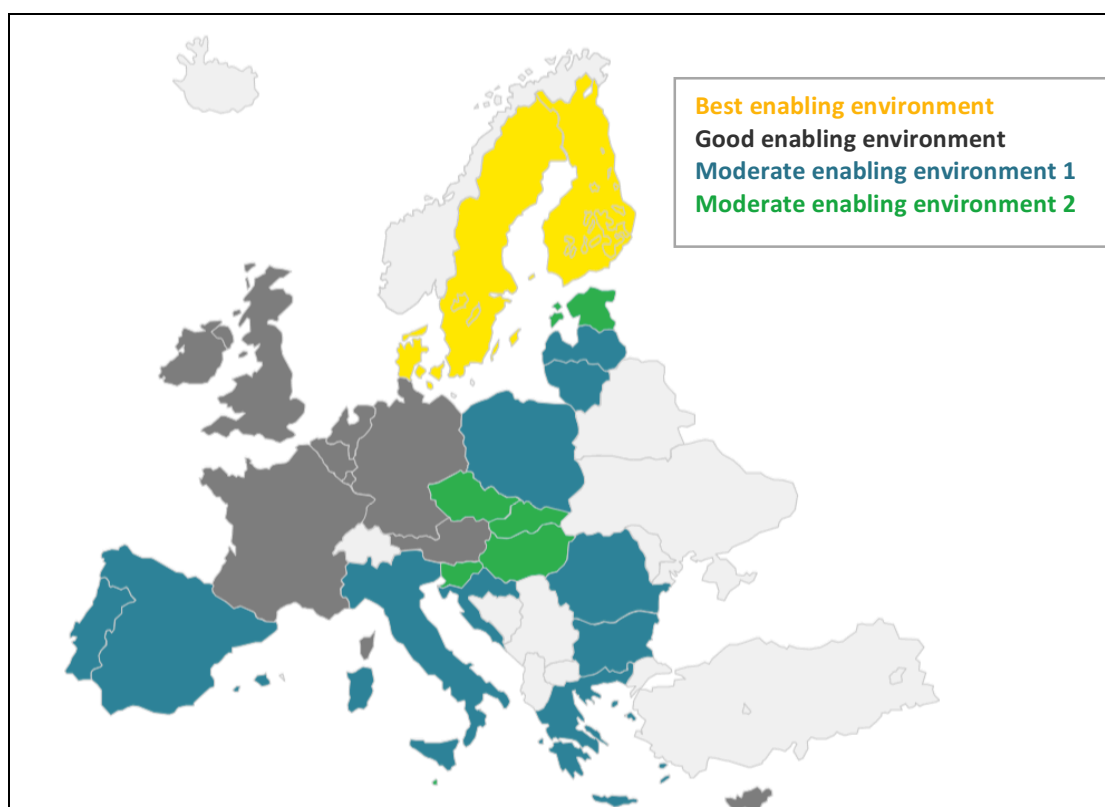
However, Europe is still far from being a leader in terms of digital. Indeed, the digital economy accounts for € 3.2 trillion in the G-20 major economies, contributes for 8% of the GDP and create jobs. For example, in the US the app market created 500,000 new jobs. In Europe 41% of the companies are non-digital and only 2% are fully taking advantages of the opportunities offered by the digital. Statistics show that some European entrepreneurs benefit from the digital trends and grab new business opportunities but their global economic impact remains too small. (European Commission, 2016).

The European Commission established a framework assessing the environmental factors contributing to the development of digital entrepreneurship in Europe. This framework encompasses 5 pillars: the digital knowledge base and ICT market, the digital business environment, the taxation & financial environment, the digital skills and e-leadership and the entrepreneurial mindset. Based on data of the period 2010 – 2012, they classified the member states in 4 groups depending on how enabling their environment were for the digital entrepreneurship (see figure 9). It appears that there is a certain link between the group belonging and the geographic location of the country. Thus, the leaders of this ranking are Nordic Countries such as Denmark, Sweden and Finland. Those are followed by countries located in North-Western Europe and Cyprus. Countries having a moderate enabling environment 1 are Southern ones, the Balkans one and some from Eastern Europe whereas the last ones are smaller countries from Central Europe. The results for each of the five pillars globally show that the rankings are following the trend of the 4 clusters (These are detailed in Appendices 1 to 5). (European Commission, 2015)

Then, they used two output dimensions to measure and identify digital entrepreneurs. The first one is the digital transformation and regroups companies that adopted the major digital trends (Cloud, Mobility, Social Media and Big Data) and also the share of companies' turnover due to e-commerce. The second one consists in measuring the birth rate of digital startups and their employment shares (see appendix 2 to 7 for the results of the second dimension). For the purpose of the present thesis we will look at the birth rate of ICT firms in Europe. It is computed by dividing the number of ICT company births in 2010 by the number of ICT firms active in the same year. Figure 10 shows the 2010 ICT birth rate for the EU-28. This chart no longer represents the patterns of the four clusters depicted in the results of the

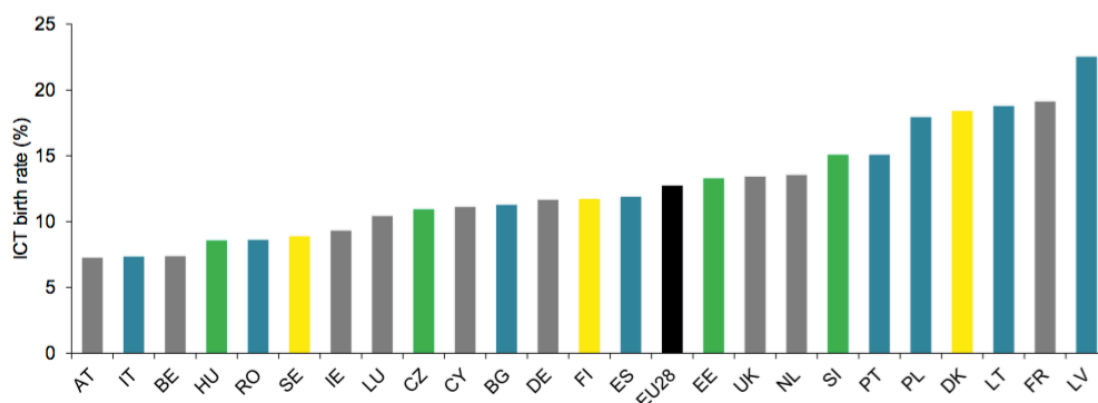
five pillars. Indeed, Latvia presents the highest rate of ICT company births (around 22%) relatively to the other countries. Nordic Countries are spread through the sample. And countries presenting a good enabling environment for digital entrepreneurship such as Germany, Cyprus, Luxembourg, Ireland, Belgium and Austria are behind the European average of 12.7%. (European Commission, 2015)

Figure 9: Mapping of the EU-28 countries belonging to the four clusters in the period 2010-2012



Source: European Commission (2015), p.20, Figure 5.

Figure 10: The ICT company birth rates in the EU-28 in 2010



Source: European Commission (2015), p.78, Figure 61.

2.5.3. The Belgian digital startups industry

Now, if we want to give a closer look at the case of Belgium, it appears that the country exhibits good performances in the setting of favorable conditions for digital entrepreneurship. That resulted in the presence of Belgium within the group of countries having a good enabling environment for digital entrepreneurs next to UK, Ireland, Luxembourg, the Netherlands, France, Germany, Austria and Cyprus. The European Commission (2015) explained it by the fact that the country scored higher than the EU average in various domains. For example, the number of application for high-tech patents (16 per million habitants in 2010) is nearly two times higher than the EU average. Then, it has a good environment for doing business (ranked 33th worldwide in 2012 by the World Bank). 33% and 24% of the entrepreneurs used respectively an ERP and CRM. In 2010, 13% of the Belgian firms provided training for their ICT specialists to develop their skills which made from Belgium the 5th country in the EU. In contrast with that Belgium presents the fourth highest tax rate on commercial profits (57%) which is 9% more than the EU-28 average. Also it has a bad situation in terms of entrepreneurial mindset as mentioned in the previous point. However, even if Belgian as an environment enabling digital entrepreneurship the number of new ICT firms remain too low by comparison with other EU countries. Their ICT startup birth rate was 7.4% in 2010 which is way below the EU-28 average of 12.7% and makes from Belgium the third worst in the EU. As a comparison we can underline the good performance of France with a birth rate of 19.1% or the Netherlands with 13.5%. (European Commission, 2015, p. 86)

The European Digital City Index (EDCi) also assessed in 2015 how supportive was Belgium, and more specifically Brussels to digital entrepreneurship. Through the integration of several indicators such as the access to capital or the skillset of the workforce they developed two readiness rankings namely the *Startup* and the *Scale-Up*. The first one is more appropriate for young companies and individual entrepreneur whereas the second one concerns rapidly growing firms with at least 10 employees. It appears that among the 35 cities of the EU-28 Belgium ranked 9 and 7 respectively for the *Startup* and *Scale-Up* rankings. EDCi (2015) further argues that the high ranking of Brussels is mostly due to its high score in terms of the *Access to Capital* theme. Indeed, Brussels based on EVCA (2014) data, the Belgian capital city ranks 6 in term of access to capital. It also highlighted the supportive business

environment with examples such as Minister Alexander de Croo proposals giving incentives to entrepreneurs (i.e. reduced labour costs, tax breaks, easier crowdfunding...) as well as Brussels ecosystem with more than 85 opportunities for startups (i.e. incubators, accelerators, investments activities...). In terms of features, Startup Hubs which is powered by the European Commission registered nearly 14,000 digital startups in based in Brussels that employs more than 77,000 people, secured more than € 37 million and created € 10bn revenue in the past 10 years. Berlin that is ranked 7 for Startup and 9 for Scale-Up by EDCi (2015) has 13 times more startups, employing 9 times more people and generating 5 times more revenue than Brussels. Even if Belgium and more specifically Brussels has an environment enabling digital entrepreneurship that is renowned in Europe it still presents some barriers when we consider the output of the digital startup industry (Number of firms, employees, investments and revenue) by comparison with other cities presenting a pretty similar environment.

3. How does this thesis fit into the existing literature?

In our literature review we decided to sum up all the theoretical knowledge available about the relationship between VCs and entrepreneurs, going from the proposals screening to the post-investment relation. While writing this literature review, many aspect of the decision-making process theories led us to one common conclusion: it is more interesting to address VCs in a limited geographical and cultural market and on a precise industry.

We firstly worked on the definition of VCs, understood that there were different types of VCs depending on their ownership (IVCs, CVCs, GVCs and BVCs) and compared them with other sources of funds. Then, we reviewed VC investment timing and the need for external capital and saw that there was a funding gap occurring at seed, startup and early growths engendering a certain amount of ventures left non-funded. We came to the conclusion that the timing decision of VCs may actually differ among funds depending on their ownership type and strategies.

In the first part of this literature treating the definition of VCs, we also went through the theories addressing the VC's influence on their portfolio companies, and realized by analyzing the governance and internal conflict theories how singular the investor-entrepreneur relationship could be. This reinforced us in our conviction that every VC, every investment decision, and relationship was different.

Later, we analyzed the VCs decision-making process by starting with an analysis of the criteria used to assess new venture proposals. We found out that the theory regarding criteria is really broad and exhaustive. We concluded that the different scholars could not reach a consensus and that there was a really low convergence of opinions. Based on previous literature, it appeared that entrepreneur-related criteria are by far the most decisional factors whereas others emphasize the importance of industry-related factors and others that it depends on the stage of process, the context of the company or the level of information available to the VC. This lack of convergence could actually emerge from three limitations. Firstly, private equity markets are heterogeneous and obviously impact VC investment decisions. However, there is a lack of study mitigating the results by taking into account the characteristics of each private equity market. Secondly, divergences among studies emerge

from the variations in the various methodologies used by researchers. Thirdly, there is a reasonable part of subjectivity in VCs decision-making which appears to be more an art than a science since emotional factors, intuition and “*gut feeling*” clearly influence their investment choice. Therefore, it leads us to the conclusion that restricting our research to a specific private equity market and giving a closer look to specific case studies is the most appropriate way to produce the most consistent work.

Furthermore, we got interested in the valuation process of new ventures by VCs. The main goal was to understand how VCs are valuing young companies and how they would structure the deal with the entrepreneurs. Again, the literature turned out to be really broad, with different opinions and models that eventually do not provide a recognized, universal and accurate valuation method. It even seems that unrational factors like emotions or intuitions dependent on the situation influence the valuation they give to a startup. One more time, our conclusion preconizes a singular approach.

Also, we would like to address a gap highlighted in the literature. Number of scholars have pointed out the lack of studies focusing on the demand side namely entrepreneurs. Indeed, previous researches concern only the investment criteria from the VCs point of view. Entrepreneurs and VCs may have differing opinions regarding the investment decision. Analyzing what entrepreneurs consider as critical when seeking for funds might be valuable and could give new insights to the existing literature.

Since we realized that it is more interesting to address VC's in a limited sector rather than trying to draw general, non-specific conclusions, we decided to expand our research to the specificities of the Belgian market. Compared to the US, the European VC market is clearly late. However, despite its small equity market Belgium present a pretty developed VC market in comparison with other European countries. Throughout the writing of our literature review, we went further by reviewing the state of entrepreneurship in Belgium as well as the specific case of Belgian digital startups exactly like **Baeyens, Vanacker & Manigart (2005)** did with the case of the Belgian biotechnology industry. We saw that in spite of having an environment enabling digital entrepreneurship (e.g. ecosystem with incubators, investment activities...) the country presents real shortcomings (e.g. cultural factors, fear of failure...) leading to a lack of entrepreneurial initiatives. This gives us the motivation to orient our future research in line

with **Baeyens et al. (2005)** analysis, but applied to the Belgian digital industry and to address the propositions they made.

For the purpose of our thesis, we will interview 8 VCs active in the Belgian digital economy as well as 8 digital entrepreneurs. Therefore, we will limit ourselves to specific case studies without attempting to draw any general conclusion for the whole VC market.

Concretely, the present paper will first begin with a description of the methodology we will use to interview the different VCs and entrepreneurs on basis of the observations we have drawn from the different methods used in the past. We will use qualitative information as the basis of our research, and will therefore question VCs and entrepreneurs through semi-structured interviews as well as questionnaires. We will then, as **Baeyens et al. (2005)** did, give an overview of the typical characteristics of a digital startup investment proposal from the perspective of a VC. In addition, we will understand how these investors deal with the distinctive characteristics of digital new ventures in their selection process by addressing the criteria they use as well as their valuation methods. Furthermore, we will describe the observed VC – entrepreneur relationship at the light of the governance and conflict literature. Moreover, the research proposition made by **Baeyens et al. (2005)** reinforced our willingness to not only focus on the supply side in the investor-investee relationship. Therefore, we will interview the entrepreneurs in the exact same way and try to put the two analyses in parallel in order to identify relevant implications.

We are convinced by the relevance of our thesis since it may help Belgian digital entrepreneurs in the elaboration of their proposal by having a better understanding of Belgian VCs' investment decision process. Moreover, we will evangelize the research on one of the most dynamic and growth-oriented market in Belgium: the digital industry. We will provide useful case studies describing the complete Investor – Investee relation, and helping the reader to fully understand its meaning.

4. Methodology

Our study aiming to analyze VCs' investment decisions in the Belgian tech industry involves two samples groups. On the one hand we interviewed VCs having already backed digital startups and on the other hand we met digital entrepreneurs who raised funds through VCs or at least attempted to. We identified the VCs with an interest in digital firms by using the Belgian Venture Association directory, publications, databases such as CrunchBase as well as press releases. Digital entrepreneurs have been found out through CrunchBase, press releases, LinkedIn and publications. The following sections will in turn describe the samples and the procedures used to interview VCs and entrepreneurs, respectively.

4.1. VCs

First, we contacted VCs by telephone at the number we found on their official website. We solicited their consent to participate to an interview concerning their investment decision process. Most of them asked us to send them an email explaining what our thesis was consisting in, what we were expecting from them and who we wanted to interview so that they could distribute the mail internally to the people directly concerned. Interested VCs would contact us directly. VC funds have a limited amount of employees that are pretty busy. In a few weeks we were able to elaborate a list of 17 VCs. We faced a rejection rate of 53% among the contacted VC funds. The objective was to gather data from people who were directly involved in an investment process targeting a digital firm and who were taking actual investment decisions. This is why all the interviewees were either managing partners, administrators, or investment managers of the fund.

4.1.1. Procedures

Once they agreed, we fixed an appointment with them to conduct a semi-structured interview. The reason why we have chosen this method supported by **Fried et al. (1994)** is that it allowed us to gather more informational content. Given the small sample size of our research, a qualitative approach was preferred. Then, **Bruton & Ahlstrom (2003)** highlighted that VCs often prefer face-to-face interviews over questionnaires and that it is generally necessary to develop a relationship with the VC to get a comprehensive response. They further added by quoting **Frey & Oishi (1995)** and **Lee (1999)** that since they are less structured than

surveys it allows more spontaneous discussions. Also, **Mike & Robbie (1995)** stated that studies relying only on questionnaires do not provide the complete nature of VCs' investment process.

We also sent an online questionnaire to the interviewees before the interview in order to gather information regarding the characteristics of their fund and the relative importance of the criteria they used while conducting investments. In the case the interviewee did not complete the questionnaire before the interview, we asked him to fill it in at the end of the interview.

4.1.1.1. Questionnaire

In order to gain time and prepare the interview, we decided to send a questionnaire in advance that the interviewee had to fill in (see appendix 11). This questionnaire was made of two parts, the first part gathered general information on the fund itself, whereas the second part consisted in a Likert scale evaluating the importance of the criteria they used while conducting investments. We made this online questionnaire with *Survey Monkey* and directly exported the information on an excel file to analyze the results.

For the first part of this questionnaire, we asked 9 precise questions in order to get general information describing the fund. This helped us to go straight to the point during the interview and to get an overview of the fund characteristics from the investor point of view. The 9 items focused on specific fund characteristics such as its name, its type (IVC/GVC/BVC/CVC), its preferred industry, its stage focus, to the size of the fund, the investments made in the past on digital companies or the last deal concluded.

The second part of this online questionnaire dealt with the investment criteria used by the investors to take the decision to invest or not in a new venture. Based on previous studies (i.e. MacMillan et al., 1985; Bachher & Guild, 1996; Simic, 2015), we established 62 relevant criteria likely to be significant for the investors. Since the amount of criteria is quite large we decided to classify these criteria into 5 different classes, exactly like **Bachher & Guild (1996)** did. The first class gathered criteria about the entrepreneur's characteristics. The second contained all the criteria related to the venture offering characteristics. Another treated the market criteria. In addition, a class was gathering criteria related to the investor requirements

and finally another class was about the characteristics of the investment proposal. Such a classification helped us to clarify the analysis of these 62 different criteria. Appendix 8 shows the 62 investments criteria divided in the 5 categories.

In order to evaluate the importance given by the investors to certain criteria, we decided to use a Likert scale. On the basis of previous studies made by **Baeyens et al. (2006)** and **Bachher & Guild (1996)** we came to the conclusion that such a method would be the most efficient and appropriate to use. Indeed, Likert scales use a universal method of scaling which means that it is easy to understand and quick to answer. Moreover, it allows for consistency and an easy comparison between responses. Therefore, we asked the investors to estimate the importance they gave to each criteria within a range from 1 to 7, with 1 meaning that the criterion is not important to the investors' decision making and 7 implying that the criterion is highly important to their decision making.

4.1.1.2. Interview

This section aims at describing the procedures we used to conduct the semi-structured interviews with the VCs. Between May and June 2016, we interviewed 8 VCs backing digital firms in Belgium. We used the same interview guide (see appendix 9) for all the interviews to get consistency among the results in order to allow us to do some comparisons between them. The interviews lasted on average one hour and was involving two interviewers. We asked the interviewees the permission to record the whole interview so that we could transcript it entirely afterwards. One of the interviewers also took notes in case of a technical failure of the recorder or if the interviewee did not agree. The interview was structured in three different parts treating various aspects of the investor-entrepreneur relation.

First, we started the interviews by asking the VCs to identify the typical characteristics of a digital startup investment proposal as well as some general questions about the digital industry. Among these we asked them to describe their motivation to invest in this industry as well as the reason of their target venture stage. We also asked them to give their opinion about the competition on this market, their expected return and the various risks involved. We ended this part of the interview by addressing the environment for digital entrepreneurs.

Secondly, we asked the VCs how they were dealing with the distinctive characteristics of digital new ventures in their selection process and how it fitted with their investment strategy. To ensure more reliable results, we asked VCs to describe the investment process they used for the last investment decision they were involved in.

According to **Fried & Hisrich (1994)**, asking them to use their most recent experience ensures a more accurate data gathering process. It avoids non-contingent or hypothetical responses as well as self-reporting biases. On the basis of the questionnaire they had filled earlier, we also tried to have more accurate information about the way they prioritize certain categories of criteria. Eventually, we asked semi-opened questions about the way they usually structure the deals between the entrepreneur and the fund. The objective was to let them describe their valuation process of new ventures and understand if they are using a generic model with objective economic factors or simply using their intuition and emotions.

Thirdly, we approached the post-investment relation by asking some questions about the investor's role in the venture. We asked the VCs their opinion about the impact they have on the venture's performance and tried to understand in which domains they perceive themselves as the most useful. We also asked questions about the impact of a potential conflict between the board and entrepreneurs. With open questions, we tried to understand their perception of a potential conflict and the consequences it could have on the venture performance. During the interviews, we kept in mind that the same questions would be asked to entrepreneurs from the digital industry.

4.1.2. VC sample

We estimated that around 17 VCs in Belgium are active in the digital industry. After contacting all of them, we got the chance to meet 8 of them. In comparison, **Baeyens et al. (2006)** identified 25 VCs active in the biotech industry and eventually included 16 of them in their sample. Among the 8 VCs interrogated, 4 are from the Walloon region, 2 from Brussels and 2 from Flanders. 4 VCs were independent, whereas 4 others were governmental. Most of them were mainly focusing on the digital industry. In total, the 8 VCs we interviewed represent a pool of capital of about 598 million €, Meusinvest being the largest VC with a fund size of about 250 million €. By interviewing 100% of fund or investment managers, we really took

care of contacting employees that were highly involved in the investment decision-making process.

VENTURE CAPITALISTS INTERVIEWED

	- Volta Ventures is a seed & early stage VC for internet & software companies in the Benelux - Type: Independent VC - Portfolio: Beatswitch, Cashforce, Setiance,... - Amount invested in 2015: 3 million € - Preferred industry: Digital - Stage focus: Seed, Startup, Expansion - Fund size: 55 million € - Invested in 3 digital startups in 2015 - Person interviewed: Frank Maene – Managing partner → Interview at their office (Gent)
	- Lean Fund is a privately held seed and early stage investment fund managed by experienced entrepreneurs. - Type: Independent VC - Portfolio: Koalect, Sortlist, Neveo, Take eat easy - Amount invested in 2015: 450.000€ - Preferred industry: Digital - Stage focus: Seed, Startup - Fund size: 1.62 million € - Invested in 3 digital startups last year - Person interviewed: Benoit Lips – Partner → Interview at their office (Mont-Saint-Guibert)
	- Meusinvest is a fund specialized in the financing of SMEs, supported by the state. - Type: Government VC - Amount invested in 2015: - Preferred industry: No preferred industry - Stage focus: Seed, Startup, Expansion, Later stage - Fund size: About 250 million € - Invested in 7 digital startups last year - Person interviewed: Xavier Péters – Investment manager (digital section) → Interview at their office (Liège)

	- W.I.N.G by digital Wallonia is an investment fund managed by the SRIW and specialized in the financing of digital startups. - Type: Governmental VC - Portfolio: Neveo, Listminut... - Amount invested in 2015: 0 (New fund) - Preferred industry: Digital - Stage focus: Seed, startup - Fund size: 50 million € - Person interviewed: Damien Lourtie – Investment Manager → Interview at their office (Liège)
	- SmartFin Capital/Eggsplore is an investment fund targeting smart technology investments with a special focus on Fintech. - Type: Independent VC - Portfolio: Beatswitch, Cashforce, Setiance,... - Amount invested in 2015: - Preferred industry: Smart - Fintech - Stage focus: Rapid Growth - Expansion - Fund size: 75 million € - Invested in 4 digital startups last year - Person interviewed: Ellen Thijs – Managing operations and first selection → Interview at their office (Diegem)
	- Sherpa Invest is an investment fund based in Brussels. - Type: Independent VC - Portfolio: Vadis,... - Amount invested in 2015: 1 million € - Preferred industry: No preference - Stage focus: growth, expansion - Fund size: 7 million € - Invested in 1 digital startup last year - Person interviewed: David van Tieghem – Co-founder & Investments manager → Conference call

	- SAMBRINVEST is a governmental investment fund active in the Charleroi – Thuin region with the objective to guide and develop SMEs - Type: Governmental VC - Portfolio: Opinum,... - Amount invested in 2015: - Preferred industry: No preferred industry - Stage focus: seed, startup, expansion, later stage - Invested in 4 digital startups last year - Fund size: 30 million € - Persons interviewed: Anne Prignon – Administrator (Director) → Interview at their office (Charleroi)
	- SRIB is governmental fund specialized in the financing of SMEs, supported by the region of Brussels and part of the Finance.Brussels structure. - Type: Governmental VC - Portfolio: Skwarel,... - Amount invested in 2015: 15 million € - Preferred industry: No preference - Stage focus: Startup, Expansion, Later stage - Fund size: 130 million € - Invested in 15 digital startups last year - Person interviewed: Sarah Unger – Investment manager → Interview at their office (Brussels)

4.2. Entrepreneurs

In order to fill in the existing gap in the literature, we decided to follow the recommendation of **Baeyens et al. (2006)** and included the entrepreneurs' perspective into our analysis. The objective of interviewing the other side of the table is to analyze the potential divergences or convergences existing between entrepreneurs and investors in their perception of the investment process. In this regard, we interviewed the entrepreneurs by using the same methodology, process and structure. We contacted 21 entrepreneurs with a fundraising experience and faced a rejection rate of about 62%. Between May and June 2016, we conducted 8 interviews with digital entrepreneurs. We designed each question for the entrepreneurs so that we can put the entrepreneur's vision into perspective with the investor's expectations.

4.2.1. Procedures

In the same way that we approached VCs, we usually emailed or called entrepreneurs in order to get their agreement to participate to our study. It was really important to find the right person within each company that was directly involved in the fundraising process and that had been in direct contact with the VCs during the negotiation. Therefore, we mainly interviewed CEOs, co-founders or CFOs of Belgian digital companies that received or tried to raise a certain amount of investment.

4.2.1.1. Questionnaire

In order to gain time and give us the opportunity to prepare the face-to-face interview, we also asked the entrepreneurs to fill in an online questionnaire structured in the exact same way than the one asked to the VCs (see appendix 12). The first part of the questionnaire is dedicated to general questions about the venture and their last fundraising campaign and the second part is about their perception of the different criteria used to evaluate a new project.

More precisely, in the first part we asked the entrepreneurs since when their startup was existing, at which stage of their development they received their last investment, what the amount received on this last round was and the name of the VC funds that invested in their project.

In the second part of this questionnaire, we asked them, on the basis of their opinion and experience, the importance level they would give to each criterion considering an investment opportunity in a digital company. Again, we used the same categories and criteria the one used in the VC questionnaire (see appendix 8). We first asked them to classify the 5 classes of criteria in order of importance, and we then used the same Likert scale to ask them to qualify the importance of each criterion among these classes.

4.2.1.2. Interview

The semi-structured interview with the entrepreneurs is separated in three parts, covering the whole relation between investors and entrepreneurs, going from the investment

proposal and the digital market, to the fundraising process and the post-investment relationship (see appendix 10).

The first part targeted their perception of the digital industry in Belgium, as well as the typical characteristics of an investment proposal. We tried to understand their motivation to be an entrepreneur in the digital economy, their expectations about the market, and their thoughts about the Belgian tech environment (infrastructures, access to capital, mentalities, regulations...). We also asked them to try and qualify how a digital startup investment proposal was by comparison with other industries.

As for the second part, we asked the entrepreneurs some questions about the fundraising process in general. We first asked them to explain us in detail their fundraising campaign (the process, the time it took,...). Then we tried to understand why they considered certain selection criteria as more important. We then asked them a few questions about the valuation method used to value their business and the way the deal was structured with the VCs, still with the objective to compare their thoughts with the investors.

The third part was dedicated to the post-investment relation. The goal here was to bring up two topics: the influence of VCs on the company performance and the impact of a potential conflict within the board on the venture performance. We asked them their opinion on the VCs role and efficiency, as well as the domains these investors have been the most useful to the firm. We also tried to understand the relation within the board, and asked them their opinion about the impact of a potential conflict on the whole company.

4.2.2. Entrepreneur sample

Many new startups are active in the digital industry in Belgium. After contacting 21 of them, we got the chance to meet 8 new ventures. Among the 8 startup co-founders interrogated, 3 are located in the Walloon region, 3 from Brussels and 2 from Flanders. In total, the 8 companies we interviewed raised a pool of capital of about 35 million €, Take eat easy being the company interviewed with the highest fundraising (18.07million €). Among the persons we have interviewed, 100% were CEOs and 100% co-founders, which shows that we really took care of contacting employees that were highly involved in the fundraising process.

	- Koalect is a website and mobile app to help schools, sport clubs & youth organizations solve their fundraising issues with a toolbox to better reach their local community and with a new fundraising philosophy. - Created in March 2014 - Investments raised on their last round: 350.000 € - VCs backing them: SOIF, Trividend, Lean Fund - Persons interviewed: Simon Detienne – Co-founder & Designer Maxime Bouckaert – Co-founder → Meeting at their office (Mont-Saint-Guibert)
	- Cashforce improves working capital & cash flow management in a cost-effective and sustainable way by combining cutting-edge Big Data technology and proven best practices & expertise. - Created in 2013 - Investments raised on their last round: 1 million € - VC backing them: Volta Ventures - Person interviewed: Nicolas Christiaen – Co-founder & CEO → Skype interview
	- Odoo is a suite of open source web-based apps targeting companies of all sizes and including sales, CRM, project management, warehousing, manufacturing, financial management and HR. - Created in 2002 - Investments raised on their last round: 7.4 million € - VCs backing them: Sofinnova, XAnge, SRIW - Person interviewed: Fabien Pinckaers – Co-founder & CEO → Skype interview
	- Shelterr is The best place to find your property. Find houses and apartments for rent or for sale in your favorite neighborhood. - Created in december 2014 - Investment raised on their last round : 2.5 million € - VC backing them: Statsnet - Person interviewed: Benjamin Wayenberg – Co-founder & CEO → Meeting at their office (Kraainem)

 TAKE EAT EASY	- Take eat easy is a delivery platform that delivers your favorite restaurants to your door. - Created in 2013 - Investment raised on their last round: 11.24 million \$ - VCs backing them: Lean fund, Rocket internet, Eight Roads Venture, Piton Capital, DN Capital - Person interviewed: Adrien Roose – Co-founder & CEO → Meeting at their office (Brussels)
	- Sortlist is an online-tool reinventing the way businesses find marketing and communication agencies. - Created in August 2013 - Investments raised on their last round: 1.2 million € - VCs backing them: individual investors – but potential fund raising with VCs in the future - Person interviewed: Thibaut Vanderhofstadt – Co-founder & CEO → Meeting at their office (Wavre)
	- Sentiance is about Real-time Ambient Intelligence, empowering companies to build behavioral profiles & enriching profiles with predictive and context-aware services. - Created in 2012 - Investments raised on their last round: 5.7 million € - VCs backing them: Samsung catalyst Fund - Person interviewed: Filip Maertens –founder and ex-ceo → Skype interview
 listminut'	- Listminut' is a multisided platform which allows individuals to connect in order to get their daily tasks done. - Created in February 2013 - Investments raised on their last round: 300.000 - VCs backing them: WING + Individuals - Person interviewed: Jonathan Schockaert – Co-founder & CEO → Skype interview

5. Results

5.1. The investor perspective

5.1.1. Overview of the digital industry in Belgium

5.1.1.1. Motivation of the investor to invest in the digital industry

When we asked VCs their motivation to invest in the digital industry in Belgium, 75% answered first that it was to follow the global trends, the economic situation and that it actually was a requirement nowadays. They affirmed that the tendency of digital firms' creation in the last fifteen years represent an appealing market for them.

Moreover, there is an emerging demand from the shareholders' side to invest in digital firms. For example, one of the interviewees said that banks have a certain fear of fintech companies and therefore, they want to diversify their activities by investing in these emerging businesses through VC funds. Then, public shareholders are also willing to outsource digital investments to independent VCs that have a better expertise.

Also, a motivation that appeared 5 times out of 8 was the cost efficiency of digital startups. They require less capital due to the nature of the initial investments that are mostly intangible (most frequently labor, development and marketing). Indeed, they do not need high fixed assets such as factories and do not require costly resources neither unlike traditional industries.

"A medium software or internet company will require 20M€ whereas a biotech company would easily need 5 times more. This is making the tech industry, as opposed to life sciences for instance, the most cost effective sector."

An independent VC

In addition, 50% of the interviewees expressed that digital startups are highly scalable which can lead the venture to rapidly expand and conquer the world without any linear dependence on human capital. This scalability does not rely on expensive logistics but rather use the internet as the main channel through which they lever their activities. Thus, the

scalability allows startups to reach humongous valorization and leads their investors with attractive exit opportunities.

“We believe that what is definitely representative of the digital industry is that we can create value by investing in early stage internet and software companies with the intention to be able to sell at least a few of them 4 to 15 times the investment.”

An early stage VC

Three VCs also described the impact and the disruptive potential of tech companies as an incentive to invest.

“The tech aspect in digital businesses is a strong driver for disruption. We see business models that will change thanks to the technologies. This is for example the case for fintech companies; they are the backbone for a lot of changes largely impacting the financial sector.”

An independent VC

Furthermore, four of them highlighted the easiness to start a digital business. Digital entrepreneurship is theorized pretty well on the internet and starters have access to a lot of tools helping them to grow their business. So, this easiness of starting up provides a large offer of innovative ideas waiting for investments.

Also, a few of the interviewed VCs told us that investing in the digital industry is actually resulting from a past experience in this sector. Either by having been tech entrepreneurs themselves or due an expertise by having worked a few years for a digital firm.

However, although independent VCs clearly showed their willingness to generate higher return through their investments in digital new ventures, government backed VCs also mentioned that their activities were essentially motivated by government' digital policies aiming at supporting digital initiatives, making their region more connected and smarter, supporting the industrial shift or creating jobs and value in their region. This is why, within the digital industry, they most frequently support the digitization of established companies in order to improve their processes rather than startups.

5.1.1.2. Distinctive characteristics of a digital startup investment proposal

The most typical characteristic of digital proposals that is acknowledged by all the VCs and which represents one of their major motivation to invest as well is that proposals concern **relatively small investments** by comparison with other industries. As detailed in the previous point it is because it mostly relies on intangible assets and a small team with a lot of creativity.

Then, 6 VCs pointed out that there was a **low differentiation rate** among digital proposals.

“There is a low differentiation rate among all the proposals. Many of them are converging towards the same trends and services. Moreover, we see quite often people proposing something already existing abroad. This shows the intense competition of the digital market. This makes the task even more difficult for the investor; on the one hand we want to closely assess the potential of the proposal and on the other hand entrepreneurs are extremely impatient and want the deal to be closed quickly to avoid their market to be captured by someone else and we do not want to miss a good opportunity neither.”

An early stage GVC

What frequently came out is that this observation is linked to the **extreme difficulty to have intellectual property** such as patents for digital proposals. This represents a low entry barrier for entrepreneurs and therefore leads to a high rivalry.

Moreover, most of the VCs underlined a **frequent lack of consumer traction** among the proposals. They also added that they often see a **lack of preparation**.

“It is rare to see a startup coming entirely ready in the sense that it has a strong consumer traction and already conducted a deep analysis of the market, competition, consumers and the pain. And even if there is a good analysis of the pain, the offering is generally not structured which means that they usually do not have the ability to create a solid business plan and to execute it.”

A seed VC

Additionally, the interviewees evoked two main categories of business models. First, there are the software as a service businesses (SaaS) that are perceived as relatively appealing since it breaks the old model of costly licenses by having recurrent revenue streams from the use of the software. Secondly, three VCs expressed that **many proposals do not have any monetization method** and solely rely on the large user base. Founders expect their community to grow so much that they would have a high value from itself due to the potential it represents and the information it contains.

“It is very frequent to see project without any monetization. But we do not back this kind of project and will reject them directly, that is one of our exclusion criteria. This kind of business model relies on a US model like Snapchat for example. We do not trust this mentality of first making an audience and then see for the revenue streams. It only works for a tiny amount of startups.”

An independent VC

Furthermore, regarding the team it was largely acknowledged that most of them are composed by **relatively young entrepreneurs** that just graduated from the university or even without any degree which is typical of digital proposals. This means that investors adapt the way they assess the quality of the team as well. They do not look at the founders' resumes but rather check how skilled they are and whether they have a relevant experience leaving them with good knowledge of the industry or the technology used. One VC told us that the philosophy of those entrepreneurs is also typical; they have the **willingness to quickly sell** their company and therefore create value. It differs from the traditional vision we have in Belgium that an entrepreneur will work 20 years or even all his career for his company.

Finally, even though most of the VCs recognized a lack of preparation in the investment proposals, they all recognized that a mature venture project had a **short time to market**. Founders are quickly able to develop a first version of the service and publish it online. Furthermore, they can easily get feed-back and modify it without major consequence.

5.1.1.3. The environment for digital entrepreneurs in Belgium

We asked the VCs their thoughts about the environment for digital entrepreneurs in Belgium. They all saw a good evolution in the past years and globally drew a positive image of the Belgian environment supporting entrepreneurship in Belgium. We asked them to develop in more details their opinion regarding the infrastructures, initiatives, access to capital, regulations and mentalities.

100% of them agreed that in terms of infrastructures Belgium is offering many opportunities to entrepreneurs. A lot of incubators, accelerators or co-working spaces are flourishing in major cities all over the country. This is supplemented by many initiatives aiming at promoting the entrepreneurial mindset and coaching entrepreneurs such as Startup weekends, international conferences, the entrepreneurial/student status in Liège or entrepreneurial contests. These initiatives are coming from both public and private sectors but even corporates such as banks are organizing events to stimulate entrepreneurship.

"I think the environment is amazing and both at public and private levels. It is definitely supportive for entrepreneurs. You have so many aids; to do research and development, to hire or to incubate your ideas. They are possibilities to be incubated, get coaching, feed-back and networks for free for almost a year!"

A government VC

However, two VCs acknowledged that there are more than enough opportunities to support entrepreneurs and that this is maybe getting too much.

"Incubators are getting all over the place. Banks are starting as well and every city wants its own incubators. Seriously it is getting ridiculous... We reached a point where all these infrastructures may provoke a loss of time for entrepreneurs"

An independent VC

Then in terms of capital, they globally expressed that if you have a good proposal it is easy to get funds in Belgium. There are more and more private investors that can replace the 3 F's as well as more established networks of business angels both in Wallonia and Flanders (respectively with *Be Angels* and *BAN Vlaanderen*). Nevertheless, they all recognized that the

access to foreign capital is difficult for Belgian startups because we are stuck in a small market. They globally think that it is necessary to expand abroad and get foreign capital if you want larger investments at serie A or B.

Their opinion concerning the regulations are quite mitigated. Two VCs think that the regulations are totally not suited for the evolution of new technologies, that they are protecting lobbies and that a lot of efforts still need to be done. To illustrate their point of view, some of them gave the examples of Uber that has been declared illegal, the case of the sharing economy engendering tax issues or the fintech company facing difficulties to cope with bank regulations. However, other VCs hailed the improvements there were in the past months to stimulate the digital entrepreneurship especially with the Minister Alexander De Croo.

Out of the eight VCs, six highlighted the **bad mentality** Belgians had regarding entrepreneurship.

“Belgium definitely does not have a culture of entrepreneurship by comparison with other European countries. We have a problem of mentality where it is to be an entrepreneur in Belgium and to earn a lot of money and have a nice car. This is why there are so many initiatives arising to develop the entrepreneurial spirit.”

A government VC

Furthermore, even if a lot of efforts are made in Belgium to promote entrepreneurship, it was mostly acknowledged by VCs that more efforts were made in Flanders than in Wallonia with Ghent and Antwerp as Flemish hubs for entrepreneurs and with Limburg following. Whereas Brussels is attracting most of the Walloon entrepreneurs leaving the southern part of the country only with two regions that are active but still small (the Walloon Brabant and Liege), the remaining regions staying completely static.

In conclusion, the leading opinion is that the environment is positive for the development of digital startups and that the lack of better investment proposals is the reason why there are not so many Belgian outputs by comparison with other European hubs such as

Berlin or Paris. In this respect, one GVC added that we are missing some success stories and experience to attract more entrepreneurs.

“If we do and exit for 100M€ you can be sure that we will attract international talents to start up in Belgium. But we also need to recognize that the low level of outputs we present is due to our market. We have a pretty small market and if startups want to grow they need to get out of it, which is not that easy. But there is also a question of youth; our market is still young, 5 or 10 years ago we were not talking that much about digital! It is not like the Silicon Valley that exists for many years. I think it is mainly a question of time for Belgium.”

A government VC

5.1.2. The investment process

We asked the eight VCs to describe their selection process from the moment they receive the proposals until the fund liberation. We noticed that the process differed between each VC fund. They globally follow the typical stages: deal origination, screening, evaluation, deal structuring and closing. Even though the stages are the same, the procedures and the order in which they happen may differ among VCs.

Nevertheless, we can draw the conclusion that the first stage of the process is the same for all of the interviewed funds namely the deal origination. VCs receive hundreds of proposals and it can go until 2,000 according to an independent VC. Proposals are generally arriving by mail or submitted on the VC website. It is also important to note that 70% of the VCs expressed that it often comes from their network. Also, a minority part mentioned that it might arise from an uncommon way such as a phone call or an event. The material required for the application is most often a pitch deck followed by a business plan and a one pager. If the main points are present in the material, they move to a second stage but they sometimes ask for complementary information if they received incomplete documents.

After that, things are starting to differ among VCs. 50% of them are inviting the entrepreneurs to a first meeting for a pitch or a discussion without having done any screening whereas the other half already eliminates a significant part of the proposals. If four VCs told us that they organize only one meeting with the venture team, the other four set at least two

meetings and conduct analyses getting more and more accurate in order to eliminate more propositions.

In addition to the initial screening, they all conduct at least one evaluation of the project in order to assess its viability. They generally start with a qualitative analysis based on the criteria we will address in the following point. The evaluation is also consisting of a due diligence where the financials are assessed. Some of the VCs mentioned that they also conduct a deeper due diligence later in the process.

Then, as explained by 7 of the 8 VCs interviewed, the investments analysts or managers prepare a note for the decision committee that will take the final decision in most of the cases. In some cases, the board also needs to give its approval in addition to the committee. One interviewee told us that this could happen when the investment proposal does not fit the overall strategy of the fund.

Furthermore, the investments managers we met told us that at the initial screening they take their decision extremely fast based on what they saw. A few seconds for a pitch, the first words of a mail or a pager and a few minutes while screening a pitch deck.

Regarding the timing of the process we observed that it is pretty similar for all the VCs and that it ranges from 2 months to 9 months with an average of 3 months. However, the extreme is around three weeks for two of the seed VCs. It is due to their strategy of investing small tickets of convertible debt (between 100K € and 200K €) after two or three meetings. Therefore, they do not spend too much time on the financial aspects since the valuation will come at the following round when they will invest more in the venture reach the target. It is also important to add that according to all the VCs, the longest part of the process consists in negotiating the terms with the entrepreneurs (i.e. the deal structuring stage). This step actually accounts for the majority of the entire process and some of the interviewees estimated the ratio at 75% of negotiation. In terms of time, one VCs told us that *“they sometimes face negotiations lasting easily six months”*.

We asked them if they would prefer the process to be faster or slower. They globally expressed that they do not want the close deals faster because they operate risky investments and therefore it is necessary to conduct a lot of analysis to mitigate the risks. One seed VC told us that *“investing as a lead investor at the seed stage requires a lot of time because a lot of things are generally missing (e.g. terms, conventions, contracts or notarized agreements)”*. They also underlined the uniqueness of each proposal which means that they treat each of them individually with the closest look and specific terms without using any general templates. In addition, they added that entrepreneurs are always in a hurry, *“once they complete their business plan, they want the money on their bank account in the following weeks”*. But the material provided by the startup is not always complete and investors often require more information during their evaluation to do their due diligence which can take a long time to arrive. Moreover, one VC told us that sometimes, they follow a proposal for two years because they see that the project is not mature but still presents a certain potential. In that case, they will accompany the team to structure their ideas until they are able to propose a consistent business plan. Finally, a few of the interviewees confessed that being too slow presents the risk of having a proposal stolen by another investor.

5.1.2.1. Investment strategy

VCs have certain strategies shaping their investment decision. We observed different investment strategies among the 8 interviewed VCs. They operate in an uncertain environment and therefore, they want to mitigate the risk they bear. Other VCs act under specific conditions due to their nature or policies that restricts them to invest in some ventures.

The first strategy we noticed is to diversify the investments. Three VCs in our sample only invest in digital firms. Therefore, they want to have a pretty balanced portfolio between the different digital segments.

“We want to offer our investors a balanced portfolio. Let’s say if we already invested in a few apps, we will try to not invest in apps anymore and for example privilege SaaS projects to be sure our portfolio remains spread. But of course, if there is a very attractive proposal for an app, we will back it.”

And independent VC

However, one of them recognized that it was pretty difficult to do so since a lot of projects go to the same direction. Then, two of the VCs also investing in other industries than the digital one, have targets regarding the digital share in the total total portfolio.

Then, there is a second strategy aiming to restrict their investments to specific stages. Thus, VCs looking for a lower risk will focus on later stage and growth/expansion investments. Indeed, it is crucial for digital companies to ensure a high consumer traction and to retain them. In this regard, later-stage companies usually present a large basis of loyal consumers. In our sample, we had three VCs that are not investing at the seed stage because they do not want to take the highest risk of investing when there is only an idea but no consumers which represents the willingness of their shareholders as well. Two VCs are diversifying by investing in all the stages (e.g. seed, startup, rapid growth/expansion and later stage). And three VCs are only investing in early stage companies (i.e. seed or startup) because they think that the earliest you invest in a digital venture, the highest will be the exit for the ones that skyrocket. One VC told us that their motivation to provide seed capital is that there are only few VCs investing in that stage. So the competition is low and you almost always keep the proposal. Whereas at growth and later stage, when a good proposal is on your desk, everyone is able to judge that it is an attractive one. Thus, the competition is significantly more pronounced and the risk of losing a deal is higher. But on the other hand, the earliest you invest, the riskiest it is, so they said they had strict evaluation processes.

Then, another strategy concerns the method of investment. Some VCs investing in early-stage explained us they use a convertible debt. This mechanism allows investors to avoid entering in a valuation process at the seed stage where there are no cash flows. It will basically remain a debt until the venture goes through a real fundraising round. At that moment VCs will have the opportunity to convert it to equity at some predefined terms. One the VCs explained us the terms consisted of a 25% discount on the valuation realized in the subsequent round so that he is sort of compensated for the higher risk he took by comparison with second round investors. Also, one of the VCs expressed that during seed capital it is interesting to have different investors involved in the same fundraising to mitigate the risk. Hence, it allows the entrepreneur to easily go through a second round with them if he could not reach the target.

Moreover, almost all the VCs said that they do not invest in a single entrepreneur and always require a team of at least two people. This choice is not particular to the digital industry and they motivate it by the fact that starting a company is a long-lasting process that is requiring a lot of time and energy that one single people is not able to provide. Some try to privilege teams that have gone through accelerators or incubators because it allows them to challenge their idea, test their market, the consumer requirements and generally follows the lean framework. Indeed, they think it is highly important for digital firms to constantly test and verify the ideas to make sure the product is aligned with consumer expectations.

Besides having strategies to mitigate the risk, we observed that some VCs invest under specific conditions due to their nature or policy. We met three government VCs whose goal while investing was to support businesses creating activities, value or jobs in their region. Since their funds come partly from public institutions, this is a requirement and therefore they will reject proposals originating from other region. Another example is one VC who told us that he was never investing in e-commerce websites because it does not fit with his fund philosophy since *“retailing does not add value”*. Also, one VCs told us he was not investing in specific segments such as fintech or sharing-economy because of the regulatory pressures.

5.1.2.2. Criteria

We asked VCs about the criteria they use to take their investment decision. We collected answers through unprompted questions during the interview as well as through the online questionnaire. It is important to note that as we mentioned in the previous section most of the VCs conduct an implicit screening to eliminate projects that do not fit with their obligations, convictions or stage focus.

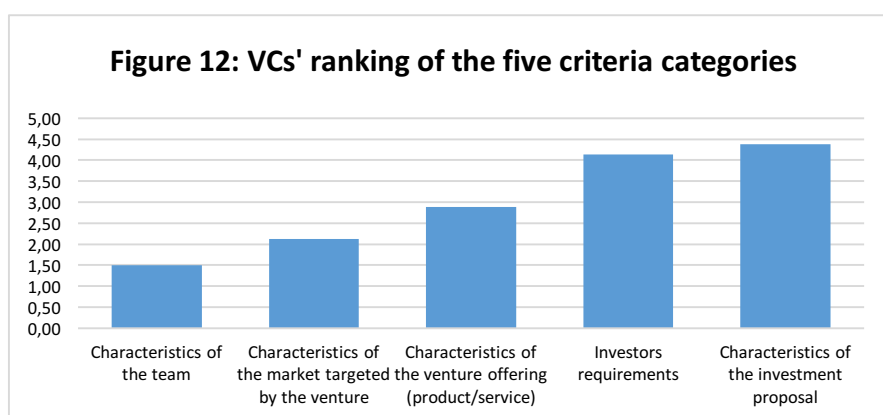
When we asked them to rank the five categories of criteria of appendix 8 based on their relative importance in their overall decision it appeared that the 8 VCs consider the characteristics of the team as the most important followed in order of importance by the market, the offering and the investor requirements and the characteristics of the business proposal (see figure 12). They judge the team as highly important for several reasons in the context of the digital industry. First, three of them expressed the same idea:

“I prefer to have a very good team with a so-so project than an amazing product but without a good team. The reason is that it is the team doing the job, if the idea is not amazing they will still be able to bring it to a top level and sell it. This is what we ask them to do.”

Also, since the digital industry is pretty competitive due to the low entrance barriers and the short time-to-market, it is critical to have a passionate, talented and result-driven team to differentiate from the competitors and be able to do it quickly. Also, one VC underlined the importance of having a complementary team. They often face teams with either two business guys or two developers whereas the important thing is to have a team regrouping both profiles. Indeed, even if the market is appealing, it is pivotal to have a team able to sell in order to capture a sizeable part of the market and this is not possible with two developers. On the other hand, two business entrepreneurs do not have sufficient IT knowledge to develop their knowledge. Some VCs highlighted the importance of the fit between the VCs and the entrepreneur as well.

“And if you invest in a company it is a long term relationship, you need to have the click with the company, with the team, how they work, what they do and how they do it. Because you will be working for a long time together so it is a process of getting to know each other before. Therefore, that is the most subjective process but it is very important.”

An independent VC



Then, investors acknowledged that they give a lot of attention to the market. A large market size with the potential of grabbing a substantial market share is driving them to invest. Also, they look how scalable can be the firm within the market. Indeed, a company having high

growth potential without being constrained by its processes or resources, with the ability to repeat their business model and to expand through their distribution channel is a criterion for many VCs we met. Then, there is the timing of the market. An investor for example said *“If you want to start an Uber or big data business tomorrow, I will not back you because it is too late. You need to come up with ideas that are just on time for the market”*. Some investors would refer it to the so-called *“first mover advantage”*. In addition, within the market they will give a close look at the competitive environment by looking who are the main competitors and consequently, why the offering is better, faster or cheaper than theirs. And if the entrepreneurs cannot provide this information or if they cannot differentiate from them, VCs will probably not invest.

Another important criterion spotted in the interview is the presence of a revenue model. It is very often for digital proposals to not have any revenue model. However, it is critical for the Belgian VCs we met to see a reliable business model and not a project relying on the potential of a large community of free users.

Furthermore, VCs globally highlighted that they consider less the quality of a business plan (or pitch deck) than people would think for several reasons. First, they think that the financials forecasts within a business plan are generally too optimistic and not reliable due to the uncertainty and the dependence on the client adoption. Then, they think that a business plan is usually not representing fairly a venture since you cannot put everything in it and this is why some prefer a meeting with the entrepreneurs. Finally, two investors even told us that they do not read all of them. However, handing in a terrible business plan is obviously decreasing your chance of getting funded though.

Finally, a few investors clearly told us that their decision was very subjective. It also depends a lot on the personal interest they have for the product and the global feeling towards the company. For example, one of interviewed VCs told us the board rejected a projects that was at the last step, that had completed all the evaluation because it was promoting alcohol which was against their personal values.

5.1.2.3. Valuation and deal structuring

During our interview, we then asked investors how they were proceeding to determine the venture value. This part of the process is actually crucial since it is determining the equity share held by investors. The objective of this question was clearly to confront the method they used with the ones addressed in the long-lasting discussion present in the literature and therefore to know how emotional factors are contributing to the valuation.

It seems that there is a common agreement among the interviewed VCs that the valuation made in the digital industry are relatively high for the moment. Some of them explained this by two reasons. First there is the willingness of the entrepreneurs to avoid being diluted too early since digital startups usually know 3 to 4 fundraisings. Secondly, the increasing amount of success stories with high valuation relayed in the media is influencing entrepreneurs and giving them a high cash appetite. 50% of the VCs gave us the same opinion regarding two high valuations. One of them told us that *“raising with a too high valuation at the first round will leave the team with 90% chance of not reaching the forecasted business plan which means that they will be diluted at the second fundraising. Whereas a team valuing lower while keeping 70% still has 20% anti-dilution margin at the second round if it could not reach the business plan”*.

90% of the interviewed VCs told us that they used mathematical calculations to have a rough idea of the venture value. Among the methods they used are present the traditional discounted cash flows (DCF), methods based on comparable such as multiples (e.g. based on the revenue or on the user value) or other models such as the scorecard method or the venture capital method. Two VCs told us they were using five different valuation methods and then take the average, the lowest and the highest so than they have a range for the negotiation. However, regarding the DCF methods, two early-stage VCs told us that they do not want to use this model because the digital environment is too uncertain and it is not relevant nor trustworthy to forecast future sales because customers acquisition is way too volatile. Then, it is important to notice that seed VCs will not look at DCF since at seed stage since there are no reliable cash flows. This is why these investors told us that they rather consider pre-revenue valuation methods such as the scorecard method, the venture capital

method based or a target exit based valuation. Nevertheless, the values they get from the various methods are always impacted by several factors and the negotiation with the entrepreneurs.

All the VCs told us that subjective factors such as emotion and intuition are playing a large role in the valuation. One of them even told us that these subjective factors accounts for 50% of the valuation process. According to them, the valuation is all about a feeling; if they trust in it they will easily value the company higher. Then, during the conducted interviews we were able to spot a few subjective factors influencing the valuation. The quality of the team is one of them. They basically will tend to value higher if the team has an expertise of the industry or if the entrepreneurs are already cofounders of other ventures. The uniqueness of the offering is also positively correlated to the valuation. The state of the venture is of course determinant as well. The further the team is in the business development the higher the valuation is as well. Let's say that a seed stage venture is looking for funds, it will be more valued if it already has a prototype and even more if it has certain consumer traction. In addition, having received investments earlier in the life-cycle is seen as a signal of confidence by VCs. Another subjective factor highlighted is the market trend. VCs will look how many investments have been conducted to similar companies to increase or decrease their valuation of the venture.

Then, 40% of the VCs told us that the valuation highly depends on the investment asked by the entrepreneurs. This investment is compared with the ownership that investors would like which in turn will guide the post money valuation. 40% also mentioned that they survey the founders to know if other investors are negotiating with them. The more other investors are interested in the deal, the more confident the VC is, the higher is his willingness to invest, and therefore the higher is his perceived valuation.

Negotiation

All the VCs that we met told us that their valuation is actually not the most important part of the deal. They recognized that they spend more time on the negotiation and that it generally has a significant impact on the valuation they had computed. Two VCs used the

comparison of Turkish bazaar to describe the negotiation meaning that the VCs are systematically arguing for a lower valuation whereas the entrepreneurs tend to push it higher.

Among the VCs we surveyed, none of them was usually getting the majority shareholder. Their ownership is ranging from 10% to 50%. 10% can happen if the investor cannot afford the totality of the required investment and if there are other investors in the same round. The average we got out of these interview is around 30%.

They generally agreed that entrepreneurs have no incentive to come up with their own valuation. If they come with a valuation that is lower than the investors' one, they get diluted and give more power to the investors. However, they told us that if the entrepreneur come with a too high valuation, they will not take them seriously and generally will not even try to negotiate with them.

Furthermore, they recognized that the negotiation is crucial in the sense that they should not frustrate the entrepreneurs and risk to lose a nice opportunity. It is all about human relations and trying to reason with them. Two investors told us that they also frequently use some stratagems to seduce the entrepreneurs and push them to accept a low valuation. And six VCs also told us that they add certain terms in the term sheet to protect themselves in case of a high valuation. Among them, they highlighted warrants, liquidation preferences or anti-dilution provisions.

Finally, since this period is referring a lot to human relations, what appeared from the interviews is that this step of the process is generally announcing the color regarding the post-investment relation. If the entrepreneur is not willing to negotiate and if he is complaining about every terms it gives a pretty bad signal of the future relation to the VCs. Some investors told us that a too difficult negotiation may sometimes results in an interruption of the negotiation.

5.1.3. The post-investment relationship

5.1.3.1. The perceived role of the investor in the venture after investment

It is important to understand that once investors get into the early-stage company as shareholders, they usually own a significant part of the capital (between 20% and 40%). This means that they clearly have an important position within the company. Among the 8 investors we met, all of them always invest in a venture if and only if they can get a seat in the board of directors. Some of the investors even demand a certain amount of board meetings per year. The first thing investors often pointed out is the fact that they often have more experience than the entrepreneur himself. Investors consider that their experiences with other ventures provide them with a certain expertise and the ability to analyze situations with the benefit of hindsight.

First of all, 5 investors have highlighted their utility for the entrepreneur in the preparation of the next fundraising campaign. Usually, the investors pretend to help entrepreneurs in their next fundraising process in two ways. First, they usually provide entrepreneurs with a strong network of potential investors. A few investors interviewed even said that their only presence within the company is already a useful signal made to the future potential investors. Their implication in the project would give it credence and reassure potential investors of the venture's quality. Second, some investors pretend to be really useful in advising the entrepreneurs on the fundraising process itself, going from the way to start the fundraising campaign to the way to negotiate the best deal possible. This seems logical, because as explained by one of the most experienced VCs we interviewed, *"we will never know as much as the entrepreneur on the product but we are good at positioning the company for the next round by doing what is necessary to maximize the chance of raising the maximum of funding at a decent valuation"*.

One more domain of expertise that has been cited by some investors is their knowledge of the law. Indeed, some of the investors and especially the governmental VCs have an entire service dedicated to legal matters. For example, the VC could assist the entrepreneur in his company creation and the redaction of the necessary contracts.

Furthermore, investors often mention their experience in the management of a company. They clearly bring their know-how in the governance of a venture. Their presence in the board of directors is a good way for them to transmit their vision of good governance. Most of them stated that they actually act as a coach and advisor for the founding partners and managers by bringing an external look at what is going on with the company's activity. One VC even told us that their only presence could play a positive role in the entrepreneur's mood by encouraging them during difficult moments.

A major domain where VCs consider that they can positively affect the new venture is their networking capabilities. For example, one governmental VC we met regularly organizes networking events with the goal to put their portfolio companies on the map. One of the investor took as example his ability to bring entrepreneurs and banks together. The investors' network can also be really useful on other aspects, for example if a startup is extending to the US and needs contacts there to find an office. An important competence linked to their ability to create a sustainable network is the management of the human resources. Indeed, recruiting is a critical element for the success of a startup and a good network is often what is missing for the entrepreneurs. 5 of the 8 persons interviewed precisely mentioned that their network could be useful for their portfolio companies.

Finally, a VC will often insist on operational indicators. Indeed, some of the investors we interviewed always encourage the entrepreneurs to set up reliable and realistic operational indicators providing information about for example the accounting, disposable cash, or recurrent revenues.

To conclude, 100% of the interviewed VCs consider themselves as useful for the company and think that their expertise and advisory position has a positive impact on the venture performance. This leads us to the conclusion that investors perceive their investment way beyond the financial aspect. Even if at the end it always depends on the situation, 4 of them answered that it was their network that was the most useful for the venture. 2 others answered that their help for the next fundraising process was the most useful for the

company. The strategic advisory, legal and commercial aspects were also mentioned by investors as domains in which they have a positive impact.

5.1.3.2. Divergences and conflicts

The hardest thing for this section was for us to understand if a certain situation is actually a divergence of opinions or a real conflict. Knowing that a conflict between these two stakeholders was very often the consequence of a divergence of opinions, we always began this section by the divergence of opinions.

Divergence of opinions: positive or negative impact on the venture?

100% of the persons we interviewed had at least one example of situation where there was a divergence of opinions between the entrepreneur and the VC. Most of the time, these divergences happened at a critical moment for the company, whether it is when the company delivers a negative diagnostic or when it is necessary for the venture to take an important decision.

While analyzing the answers given by the investors, we identified several subjects that provoked a divergence of opinions among the board of directors. The first conclusion we can draw is that most of the divergences of opinions our interviewees have met concern either the results delivered by the company or an important choice that has to be made concerning the strategy. None of the 8 investors interviewed mentioned any divergence of opinions concerning the operations management.

Most of the persons we interviewed clearly emphasized the importance of choosing a project with a team able to listen and to be coachable. A few investors took the opportunity while answering our question to remind us the importance of the team while making an investment decision. Not only the entrepreneurs must have a good knowledge of the industry, interesting skills, be complementary, but they must also be able to question themselves and be challenged.

Moreover, we have realized that the intensity of these conflicts within our sample often depended on the extent to which these investors were financially involved in the company. For example, some VCs propose convertible loans to the entrepreneurs. Most of the time it implies that the investor does not get a seat in the board of directors but a role of observer. Just as the investors having a significantly lower stake in the capital, this limits the probability of a divergence of opinions.

To the question *“has a divergence of opinions a positive or negative impact on the venture performance?”*, most of the investors answered by saying that it depends on the entrepreneur’s attitude. In every case we analyzed, either the relationship between the investor and the entrepreneur is constructive and it ends up being positive for the venture performance or the divergence of opinions provokes a conflict that deteriorates the company’s performance. In the first case, divergence of opinion could be a good way to improve the venture performance. In certain situations, it is even necessary especially with young and inexperienced entrepreneurs. This can even generate new ideas.

Conflicts: positive or negative impact on the venture?

5 investors mentioned a situation that we can qualify as a conflict between the entrepreneur and the VC. It seems clear among all the investors that a conflict is something to avoid. A conflict can damage the company’s reputation and at the end what matters for the investor is the company’s value. In most cases, the investor will try to find a solution, whether it is by selling his shares or simply by reorganizing the management team. As explained by one of the governmental VCs we interviewed, *“it is really difficult for a CEO to admit his bad performance because he spent a lot of time and energy on the project”*.

To conclude, what emerges from this section is that investors usually see the entrepreneurs as partners more than anything else. It seems that the interests are perfectly aligned especially since the team is a major criteria taken into account while making the investment decision. Divergences of opinions often arise, but it is part of a necessary debate that positively influences the venture performance. Conflicts are very occasional and never influence the company in a positive way.

5.2. The entrepreneur perspective

5.2.1. Overview of the digital industry in Belgium

5.2.1.1. Motivation to be an entrepreneur in the digital industry

In order to make them feel comfortable we first asked entrepreneurs what was their motivation to have launched a business in the digital industry. Their answers need to be divided in two; first the reason that lead them starting up and then their interest for the digital industry.

Firstly, 50% of the interviewees recognized that they had the wish to be an entrepreneur before thinking to specialize in the digital industry. From what we observed, their decision to start their own business lies in their personality and experience. Indeed, the 9 entrepreneurs we interviewed were all dynamic persons that have always been active in their life and involved in numerous projects not necessarily related to their education (scouts, sport, non-profit, entrepreneurial contests...). One of the founders told us that *“at the end, starting your company is to go beyond and get out of your comfort zone which is similar to what he used to do so far”*.

Moreover, 25% of the interviews acknowledged being let down by a previous work experience where they have not blossomed. The only alternative they had was to be autonomous by starting their company. Working for themselves and building a team of talents with a similar personality to theirs was energizing them. *“I think that the best way to feel committed for something in your professional life is to work for yourself and to contribute at getting always closer to your dream”* said of them.

Then, regarding their choice for the digital industry, the reasons were more disparate. Five out of eight told us that it was linked to their age and the environment in which they grew. They developed a certain attraction for software and the technologies around it, which lead some of them to follow educations such as engineering, web designer or developer. And

some added that digital was a requirement if you want to grow with ambition nowadays. In that sense, they consider it was a good opportunity to build a business around it.

Furthermore, they all highlighted that the digital industry attracted them because of the scalability that goes with. This industry has the potential of reaching millions of people with a team of ten. *“Starting up in the digital industry is entering a project where sky is the limit and where there are some risks but when it works, it is quickly scalable”* said one of the interviewees. In addition to the scalability, they think that this industry is suited to disrupt other industries, which represents a motivating challenge. In addition, a large part of their motivation come from the low barrier to enter this industry. Indeed, as highlighted by the interviewed VCs, it is one the few industries that requires less resources to provide but delivers a much higher return.

5.2.1.2. Distinctive characteristics of a digital startup investment proposal

We asked entrepreneurs how they would describe the digital investment proposals and the characteristics making them specific to the digital industry. They based their answer on their fundraising experience as well as on their overall expertise of the sector. When addressing these two first topics of the interview we realized that the key differentiating elements of digital investment proposals are representing their motivation to do business in this market.

Firstly, the element that every entrepreneur mentioned is the scalability of a digital venture. Tech businesses have the advantage of offering a tremendous potential through the opening to a broader market. This is mostly due to the force of the distribution channels they use. Indeed, non physical channels such as the internet allow them to reach millions of people anywhere in the world and it also constitutes an efficient promotion method allowing them to precisely target prospects. Also, this scalability is leading to higher expected returns as well. In the same way, two entrepreneurs added that *“this attracting potential return due to the scalability is driving investors crazy and definitely making them eager to invest more and more in this kind of businesses”*.

Secondly, 50% of the interviewees highlighted the low capital requirements of digital ventures. Most of them compared it with traditional industries such as manufacturing or retailing that require high fixed costs at the beginning such as a factory, warehouses or labor. Whereas all of the ventures we interviewed started with a team of about four young guys with laptops and development skills. Some of them linked this low capital requirement to higher margins that are usually appealing investors.

This is leading to a third point that 50% of the entrepreneurs also mentioned namely a short time-to-market. Indeed, the low startup capital needs and the accessibility of coding knowledge (open source, blogs, education) for anyone is engendering a relatively short time-to-market for tech ventures.

Moreover, what is also typical to digital investment proposals is the consumer traction. One of them acknowledged that digital entrepreneurs have the tendency to emphasize the growth in terms of users and customers rather than the short term profitability leading some founders to look for funds without any business model. One of the entrepreneurs explained it by the fact that *“since digital ventures have only few limits and can literally skyrocket at some point, we will mostly look at the creation of value for the end user at the beginning whereas the way we will capture this value comes secondary”*.

5.2.1.3. The environment for digital entrepreneurs in Belgium

We ended the first part of the interview by asking entrepreneurs how they perceive the entrepreneurial environment for digital entrepreneurs in Belgium. In general, we can say that they recognized some improvements in the last past years and a globally better situation than when they started their activities.

First, they all underlined the efforts in terms of infrastructures and initiatives that have put Belgium on the European map even if we stay far from hubs such as San Francisco and New York. They explained it by the creation of more and more incubators, accelerators, organizations and various initiatives aiming to promote entrepreneurship. However, 50% of the interviewees acknowledged that it is getting too much and not necessary. One of them for

example expressed *“More and more cities and public institutions want to create their own structure for entrepreneurs but I think it actually spreads the energy in a way that is not efficient”*. Another one added: *“There are more and more accelerators and it is getting too much. Tons of private organizations and public initiatives are flourishing because it is well seen to talk about entrepreneurship. When you start as an entrepreneur, that is sometimes difficult to know where to go in order to have a support because there are so many opportunities. There are things that are worth but unfortunately also others that are not. So it can create quite a substantial loss of time for entrepreneurs.”*

Second, when we asked their thoughts about the access to capital, they divided their appreciation in two parts. On the one hand, they globally think that there is enough first round capital such as business angels. Even if two of them underlined that it is necessary to have a good network to have a connection with these investors, the others added that if you cannot manage to find this first round of capital it means that your business plan is not ready yet. On the other hand, there is a common agreement that it is difficult to have a large ticket at serie A with VCs and that for further series it is necessary to look abroad in cities such as Berlin, London or Paris. Moreover, two entrepreneurs shared that a lot of investors (BAs and VCs) were not inspiring them because *“they did not see them as skilled enough to add value in their venture through advises nor expertise”*.

Third, they agreed that we have access to a highly skilled workforce in Belgium that remains payable by comparison with London or San Francisco for example. So, they think it is easy to constitute a decent tech team and most importantly, to retain it. One of them observed that in hubs such as London or San Francisco, tech and business developers are frequently poached by competitors which is not yet the case in Belgium. He further added that even though we have talented people, however, we are missing profiles combining talent and experience. He correlated his observation with the lack of scale-ups and success stories in Belgium.

Furthermore, some identified Belgium as *“a small country with a lot of complications”*. We can interpret it by the fact that the Belgian market is pretty limited in terms of size and opportunities. This leads a significant amount of startups expanding pretty fast internationally

even before having a sizeable market share in Belgium. The interviewees told us it was a way to *“reach a critical customer basis and therefore have more credibility at VCs”*. In addition, the complexity of Belgium makes it even more difficult to succeed and also pushes entrepreneurs to start abroad. The reasons most frequently spotted were the 3 languages and the complexity of the political institutions’ organization.

Then, when addressing the regulatory environment, the opinion was also converging. The common opinion was that the economy and the technology is evolving too fast for the regulations. They most often quoted the case of startups surfing on the fintech and sharing economy trends. One of them told us that *“things are going too fast for decisions makers and institutions; many of them do not even understand everything. So I have the feeling that instead of collaborating and finding consensus they prefer stopping us and putting obstacles on our way to prevent us getting bigger”*. However, they recognized some improvements especially with Alexander De Croo’s who is actively working on making the environment more favorable for digital startups. One of the entrepreneurs confessed having contacts with the Minister and other tech entrepreneurs to share with him their propositions in order to promote the Belgian entrepreneurial environment. Then, improvements have been made with the tax shelter or the lower labor costs for young entrepreneurs. They see it as positive signals but it needs to be carried on.

Finally, some added that there was a problem of mentality in Belgium. According to them, people do not see entrepreneurs as the life force of the economy. Some justified it by the role of the media *“drawing entrepreneurship as a funny game or even immature”*. And one the entrepreneurs also mentioned that Belgian founders only have few ambitions to disrupt things and to become dominant players.

5.2.2. The investment process

5.2.2.1. The selection process

Among the entrepreneurs we have interviewed, most of them met multiple investors before entering into a negotiation process with a specific investment fund. Some of them already had a precise idea of the investors they wanted to meet, but a large majority usually

met as many investors as possible. Since there are not that many VCs investing in the digital industry, most of the entrepreneurs met a maximum of 10 Belgian investors before entering into a negotiation process with a specific one. The most experimented entrepreneurs or the ones looking for a higher amount of capital usually extended their meetings beyond the Belgian frontier. In general, it is the founding partners of the venture that are involved in the fundraising campaign.

What we really felt during our interviews with these entrepreneurs is that the fundraising period is really demanding, requires a lot of time and energy. Most of the companies we analyzed would not have survived without the intervention of external capital.

In fact, it seems that the fundraising period is also a time when entrepreneurs question their business model and strategy from A to Z. In our sample, two entrepreneurs admitted that they had to rethink their business model by going from an only B2C business to a more B2B, or from a B2C and C2C to a C2C only business model. As explained by one of the interviewee, *“the first pitches were really like a wake-up call for us”*.

We noticed that there were quite obvious differences between experimented entrepreneurs and first-time entrepreneurs in the way they operated during their fundraising campaign. For example, experienced and well-advised entrepreneurs often took the time to select the right investors depending on their skills and the fit with their industry. A lack of experience often resulted in a loss of time, with meetings with as many investors as possible. These interviews have clearly highlighted the fact that a fundraising is not only about money but also about the knowledge that the investors can bring to the venture. Having investors with a good network and knowledge of the industry might sometimes be even more valuable than the money they actually bring on the table.

Each case is different, but it generally took 2 to 7 months to the entrepreneurs we met to complete their fundraising campaigns, from the first meeting with the investors to the conclusion of a deal. A majority of the entrepreneurs told us that according to them the quicker the better for a fundraising campaign. Regarding the time needed to raise funds in Belgium, we received completely opposite answers. For example, one of the interviewed

entrepreneurs told us that *“the fundraising process must absolutely be faster. Having a really active and quick VC eco-system is a real competitive advantage. By being slow, Belgian VCs are shooting themselves in the foot, especially in the digital industry where the ambitions must be global”*. On the other hand, many of them nuanced this necessity to be quick by saying that every case was different. Sometimes the startup is simply not ready and it is useful for the entrepreneur just to take a bit more time. Time is also giving the chance for the entrepreneurs to see if the relation goes well or not with the investor. The stage of development and especially the presence of initial investors will also impact the time needed to raise funds due to the legal terms to be introduced. In fact, every product and every market is different which means that the time-to-market is different in every domain and so the necessity to be fast is not necessarily the same for every company. Some entrepreneurs in certain industries would like to get funded as quickly as possible, other do not really see the point in being as quick as possible. The timing also depends on the stage of development. Dealing with an angel investor is often way faster than when raising funds on a Serie B.

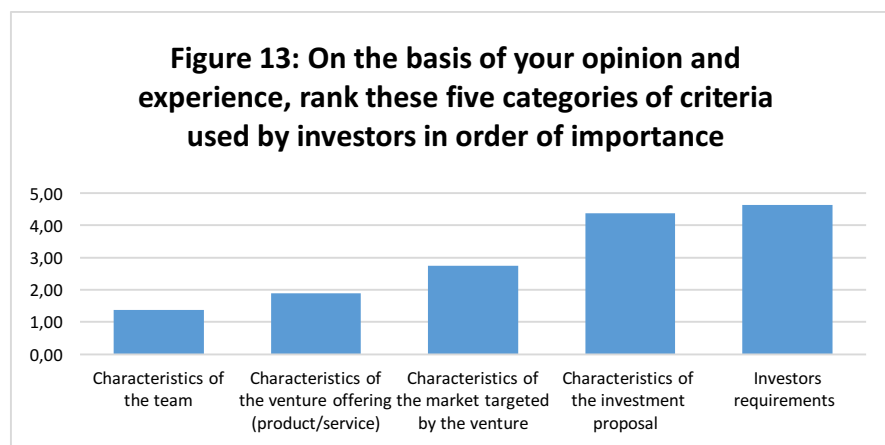
Almost every entrepreneur proceeded in the same way. First the entrepreneurs usually make a list of potential investors. They contact them by email, telephone or in the best case thanks to their network. In most of the cases, entrepreneurs see the second interview as a quick meeting with a quick pitch and presentation of the product. When asking the entrepreneurs what was the time needed for the investors to decide whether or not they want to invest in the project, they all answered us a few seconds or minutes. Some of the founders we met also worked with governmental VCs and the approach is often different since the requirements are different. For example, most of the Governmental VCs have the objective to create jobs through their investments. The pitch must then be oriented towards the creation of value for the region. Some of the interviewee also dealt with Belgian investors speaking different languages, which sometimes may complicate the negotiation.

One of the venture we have interviewed called out a fundraising specialist to help them in their fundraising process. This solution might be useful, especially for the inexperienced entrepreneurs. As explained by the entrepreneur himself, working with such organizations is not well seen in England, but quite common in France.

5.2.2.2. Criteria

We asked entrepreneurs what criteria they think are important for VCs when they consider investing in a digital startup. We collected answers through unprompted questions during the interview as well as through the online questionnaire.

First, we asked entrepreneurs to rank the five categories of criteria presented in appendix 8 based on what they think relatively important in VCs investments decision. It appeared that the characteristics of the team is the category they think as most important for VCs when judging the potential of a digital venture. Followed in order of importance by the offering, the market, the investment proposal itself and the investors requirements (see figure 13).



During the interview we were able to collect deeper thoughts about it. Those who judge the team as the most important criteria justified it by the fact that it is necessary to have a solid team able to deliver results and to support the evolution and the steep growth of a scalable startup. At the end, they think that the idea is secondary since it all depends on how the team is articulating it. Then, having an entrepreneurial experience before; whether it was a success or a failure is also key since you learn ways of improvements and you know how to conduct a fundraising as well. In addition, they highlighted the importance of having a complementary team mixing one business guy and one developer so that one can build it and the other sell it. Finally, the team should ideally have a knowledge of the industry either from a previous work experience or an interest.

Then, they expressed that VCs consider the venture offering as the second most important category for several reasons. What they globally underlined is that understanding

what your users are asking is pivotal. With good developers and coding knowledge there are no limits in the scope of the product and it is possible to add any feature. However, matching consumer's expectation is a challenge but it is determinant for your service acceptance. Then, they also pointed out the importance for VCs to understand the venture offering.

Thirdly, they also mentioned the market as key at the eyes of the investors. They, all recognized that VCs have a high consideration for the potential of the market. This potential consists of a large market with an appealing growth rate. They were also conscious that VCs want a certain scalability of the company. Therefore, it is important to show, the VCs that your service is stimulating a certain amount of consumers and that this traction is matching your forecasts throughout the negotiation with them.

In addition, they considered timing of the market entry as important. Especially in the digital industry where the technology is evolving so quickly. It is essential to follow the market trends. It will not workout if the entrepreneurs want to add value to consumers while surfing on outdated trends that other players with comfortable market position already addressed.

Furthermore, they consider the distribution as crucial. Indeed, they think it is important for entrepreneurs to show VCs they are aware of how they are going to get the product to the hands of millions people since the profitability of digital firms rely on its scalability and therefore an exponential distribution.

5.2.2.3. Valuation and deal structuring

While interviewing entrepreneurs, we tried to understand the techniques they use to value their business and construct an investment proposal. Usually, entrepreneurs consider that the counterparty for an investment is around 20 to 40% of the firm value in equity. Of course, the terms included in the terms sheet can involve a different valuation. Some really strict terms for the entrepreneur can lead to a more comfortable valuation.

About half of the entrepreneurs affirmed that they used calculations methods during their fundraising process. Different valuation methods exist and were used by entrepreneurs such as the classic Discounted Cash-flows Method, the use of relevant multiples (such as EBITDA) or even the use of Key Performance Indexes (KPIs) based on the disposable cash or

growth rate. However, according to every entrepreneur mentioning these methods, such calculation methods often lack precision and are often used to justify their proposition more than to provide an actual and objective value. As one of the most experimented entrepreneurs we met said during his interview, *“you should make the calculations in order to support your demand, but not necessarily the other way around”*. In fact, out of 8 entrepreneurs interviewed, all of them agreed to say that subjective factors played a consequent role in the valuation of their business. However, most of them still try to rely on as many objective data as possible not to find the exact valuation but to justify their investment proposal and enter the deal negotiation with a valuation that they consider as reasonable.

The subjective factors playing a role in the valuation of a venture are numerous and variable. For each interview we tried to identify the subjective elements produced by the entrepreneurs to justify their valuation.

First of all, 50% of the entrepreneurs we have interviewed mentioned that they used similar deals recently made within their industry as a comparison to evaluate the economic value of their company. For example, the fundraisings made by competitors clearly influenced their expectations on their venture valuation, despite the obvious uniqueness of every fundraising.

In addition, we also realized that the amount of money that needs to be raised often plays an important role in the way they approach the valuation. What does that mean? We actually recognize a clear correlation between the funds needed and the valuation given by entrepreneurs. In the cases we analyzed, the more funds the company needs, the higher the valuation will be. This presupposes that the amount of investment needed represents the potential of the company and that the more potential there is the highest the valuation is. This seems logical, but the potential of a company remains a very subjective concept.

Furthermore, every entrepreneur seemed to agree that they would modify the economic valuation of their venture depending on the number of investors interested to invest in the project. This makes sense, but confirms our assumption that competition

between investors is one more subjective element influencing the entrepreneur's valuation without modifying any aspect of the venture itself. Entrepreneurs use the word **TRACTION** to describe the situation where your project gets attractive to multiple investors. The goal is of course to get as much "*traction*" as possible in order to enhance the valuation. Similarly, the valuation an entrepreneur will propose will be different if the venture actually needs investment or not. As said by one of the entrepreneurs interviewed, "*at the end, the best situation is when you actually do not need them*".

A majority of the entrepreneurs agree that the share of subjectivity in the valuation process will be reduced depending on the stage of development in which the company is. The more developed it is (e.g. growth or expansion stage) the more objective metrics will support the economic valuation. This means that the evaluation process gets easier and easier as the company is developing and evolving to the next stage.

To conclude, entrepreneurs usually follow the same steps in order to evaluate their venture's economic value. First they try to define what their needs are in terms of capital and what would be satisfying for them. After that, they usually try to build up a solid argumentation to justify their investment proposal. In order to do that, most of them try to use objective data and observations. Then they try to impact the importance of subjective elements by improving their traction. One of the entrepreneurs we met told us that "*being a startup looking for investments from VCs is like being bimbo, you have to be the most beautiful possible in the eyes of investors. You have to bluff*". This leads to the conclusion that the fundraising process and the way the campaign is conducted by the entrepreneur will influence the economic valuation perceived by these entrepreneurs.

Negotiation

100% of the entrepreneurs we met agreed to say that the negotiation between the entrepreneur and the investor is a fundamental element of the process. After the valuation and in order to structure a deal, investors and entrepreneurs usually begin the negotiation process. 100% of the 8 entrepreneurs interviewed qualify this negotiation as very important. This means that they all consider that this step is often the time where either the valuation or the terms can be modified in order to align the different interests.

3 of the most experimented entrepreneurs we met had the same recommendation for every startup willing to raise funds: *“You do not have any interest to propose your own valuation to the investor at the beginning of the negotiation”, “At the end of the day, it is always the investor who comes up with a valuation and negotiates”*. Indeed, we noticed that most of the young entrepreneurs usually came up with a valuation before any move from the investors. One entrepreneur even told us that he proposed a valuation to an investor by saying that it was another investor’s estimation.

The negotiation step is also really often the moment when every stakeholder tries to protect himself. Many of the entrepreneurs affirm that the economic valuation had been modified (or not) in return for some additional clauses in the term-sheet.

As stressed by one of the really experimented entrepreneurs we interviewed, the entrepreneur should consider the negotiation period as the best moment to demonstrate your ability to deliver results. Indeed, the investor will probably look at the results compared to what was promised by the entrepreneur and use it as an argument to turn the negotiation in his favor. The negotiation is a test period.

5.2.3. The post-investment relationship

5.2.3.1. The post investment role of the investor perceived by the entrepreneur

We surveyed 8 entrepreneurs about the post-investment relationship between them and the investors. Many entrepreneurs mentioned different elements for which the investors are useful to the venture. However, depending on the entrepreneur’s experience their perception of the entrepreneur-investor relationship often differs.

A large majority of the entrepreneurs we have interviewed clearly understood the importance of the post-investment relationship. However, we can clearly see a difference between the first-time entrepreneurs and the most experienced ones. The later ones will more often tend to see a fundraising campaign as a way to find a partner while the younger

ones often see money as the number one objective. As explained by one of the most experienced entrepreneur, *“What most of founders overlook is that they are looking for an investment because they need money, but at the end of the day they end up with a partner”*. Among our sample of 8 entrepreneurs, at least 4 of them have mentioned the importance to choose consistent investors while raising funds.

That being said, all the entrepreneurs we have met agreed to say that the investors' skills and knowledge could be benefic for the venture performance. Among others, many entrepreneurs talked about the positive impact of their investor's network, not only in terms of recruitment but also in terms of commercialization. 100% of the entrepreneurs that we met talked about the investor's experience and the positive impact it can have on the company's strategy. Depending on the entrepreneur's level of experience, some mentioned the usefulness of their investors in precise domains such as accounting or law. Furthermore, one important contribution of the VCs pointed out by the most experienced entrepreneurs is their ability to stimulate the company in the creation of relevant metrics and Key Performance Indexes (KPIs). We often noticed that entrepreneurs would adapt their monthly reports to the investor's requirements. This helps them to structure their organization and as one of the interviewee said, *“the investor provides you with money and keeps you sharp”*. Moreover, it seems that VCs are often called by the entrepreneurs to solve a problem within the company. They could consider the investor as the right external person to judge a situation. In fact, 8 out of the 8 investors interviewed relied at least one time on their investor's advices with an intensity often depending on the founders' maturity.

To conclude, we can see that the investors' usefulness varies depending on each situation. There is also a clear difference in the perception of the investor's impact before and after the investment depending on the entrepreneur's experience. 100% of the entrepreneurs interviewed consider that their investors have a positive impact on the venture performance. 2 of the founders mentioned the positive impact of the investor in the next fundraising campaign as one of the most useful contribution. 2 entrepreneurs quoted the VCs' network as one of the most useful aspect an investor can bring. The rest of the interviewees emphasized on their strategy thinking, ability to challenge the entrepreneur and the product, and operational skills.

5.2.3.2. Divergences and conflicts

Divergence of opinions: positive or negative impact on the venture?

In the examples we gathered, we noticed that divergences of opinions mainly arise when the entrepreneur's beliefs are not aligned with the investors. Debates between founders and VCs rarely occur based on factual data but rather on convictions and intuitions.

Obviously, first-time entrepreneurs have known less divergences of opinion than the experienced ones. At our opinion and from the few cases we have analyzed, a young entrepreneur will probably consider the investor as a mentor, more than the experienced one that will tend to act more independently. This could mean that conflicts are less likely to arise with the youngest, less experienced entrepreneurs. On the other hand, and as explained above, it seems that the experienced entrepreneurs will really take care of choosing the right investor for them.

To conclude, a majority of the interviewed entrepreneurs still pretends to be the final decisions-maker. As noticed by one of the person interviewed, *"Having a VC above you reminds you that you are not the only master on board"*.

Conflicts: positive or negative impact on the venture?

Since most of the entrepreneurs we met are pretty young and inexperienced, only a very few of them have known a conflict within a board of directors. However, what they all have in common is their willingness to keep a good relationship with the investors and to avoid any conflict with him. As an example, the only situation we can consider as a conflict turned out to be solved. The entrepreneur even described us the situation and admitted during our interview that looking backward the investors was right. A sample with older investors would have given us the chance to analyze more conflict situations.

6. Implications

The previous section addressed the results emerging from the interviews and questionnaires successively from the VCs and entrepreneurs' perspective regarding our three research fields: the typical characteristics of digital startup investment proposal as well as the digital industry in general, how VCs deal with these distinctive characteristics in their selection process and finally the observed VC - entrepreneur post-investment relationship at the light of the governance and conflict literature. This section aims to identify the implications concerning these three topics by confronting VCs and entrepreneurs' results.

6.1. Digital industry in Belgium

6.1.1. Distinctive characteristics of a digital startup investment proposal

Digital investment proposals have typical characteristics identified by VCs and entrepreneurs differentiating them from other industries. These characteristics also represent the reasons why investors are eager to invest in these businesses as well as then entrepreneurs' motivation for launching a tech business.

First, there is the scalability of digital startups allowing them to reach new records that traditional business have not been able to get. Indeed, digital startups with a small team have access to a way broader market without being constrained by natural resources nor human capital. What is driving this scalability are two other typical characteristics of digital proposals. On the one hand, there is the power of their distribution channel – the internet – that is not costly and physical anymore. This channel allows entrepreneurs to reach billions of people twenty-four seven at no cost. On the other hand, digital startups mostly rely on intangible assets. Therefore, the capital requirement is way lower than traditional industries needing huge investments such as factories or warehouses.

Then, digital investment proposals commonly present two kind of business models. First, there are those offering recurrent revenue streams such as software as a service (SaaS). Then, there are others without any monetization method focusing on attracting as many users as possible in a first step and where finding a way to capture the value comes secondary. However, ventures presenting this second type of business model face huge difficulties to be

funded in Belgium and often needs to move abroad such as in the US where VCs invest easily without revenue stream requirements.

In addition, the low capital requirements and the easiness of developing a digital venture due to the knowledge access lead them with a pretty short time-to-market. However, it has the consequence of stimulating the competition within this market which underlines the necessity for digital entrepreneurs to act quickly and efficiently by differencing their offering from their competitors.

Consequently, the low R&D costs, the intense rivalry on the digital market and the constant evolution of the technology engenders a short innovation cycle and therefore the impossibility to protect the idea with a patent for example. Thus, it makes more sense to protect innovation in other industries such as biotech which presents innovation cycle of several years and where R&D costs are way more significant.

However, VCs highlighted something that has not been touched by entrepreneurs: the young age of digital founders. The youth of the team generally implies two characteristics. On the one hand their young age generally means a certain business immaturity and naivety causing a lack of preparation, structure and accuracy of their business plan. For example, one VCs told that young entrepreneurs often expect a very important growth of their business but underestimate the efforts needed to generate it. But on the other hand their young age may be a force in the sense that they have a lot of energy and motivation to invest in their business. Therefore, it is necessary for investors to set boundaries to entrepreneurs to be able to guide them properly.

6.1.2. The environment for digital entrepreneurs in Belgium

Our observations made on both samples converge with the results of the European Digital City Index and the European Commission expressing that Belgium exhibits a supportive environment for digital entrepreneurship. However, it also allowed us to underlined potential explanations of the low rate of digital success stories in Belgium. The following paragraphs will highlight the positive and negative factors in the Belgian entrepreneurial environment.

First, it is clear that Belgium displays many infrastructures and initiatives supporting digital entrepreneurship. Indeed, entrepreneurs have a large choice of incubators, accelerators and various other coaching structures to be supported when starting an entrepreneurial experience. However, both interviewed entrepreneurs and VCs judge that our country may be wandering its efforts by offering such a panel of opportunities. Indeed, some of them are worth more than others which in turns may makes the entrepreneur's task more difficult by making him lose an important time on non worthwhile opportunities.

Then, it was commonly agreed that the Belgian access to capital was pretty good at the first stages of the venture (seed and startup). This is to say that Belgian entrepreneurs can easily find funds under 500K € as long as they have a decent project. This capital is provided in turn by the 3 F's, public subsidies, business angels and early stage VCs. However, it is not possible to get large investments at VC rounds in Belgium (i.e. several million €). Therefore, Belgian digital entrepreneurs have no other choices than either quickly expand their activities abroad or start from scratch in another country than Belgium to directly get foreign investments.

Moreover, Belgium provides a highly skilled workforce (i.e. developers, engineers and sales) while remaining payable which makes the country more interesting than the UK or US from that point of view. These talents are also easier to retain once they are enrolled. However, as **Bosma, Holvoet and Crijns** observed in 2014, what is missing within this workforce is a pronounced entrepreneurial mentality. The fact that we still do not know so many Belgian digital success stories is not contributing to the development of entrepreneurial mindsets. Also, as one of the interviewee said, Belgians has a mentality of *CEOs* rather than *cofounders*; which means that Belgians look more at having a comfortable job than a risky but potentially more profitable experience such as entrepreneurship.

Furthermore, Belgium remains a tiny market with loads of difficulties. First, the size of the market being rather small quickly limits the scalability of digital firms which do not want to expand abroad directly. Then, it is difficult to do business in our country due to 3 national languages and the complexity of the public institutions.

Finally, interviewees reported a negative regulatory environment especially with high wage costs, taxes and regulations not aligned with technological changes. However, it is important to underline the improvements realized recently with Minister Alexander De Croo in charge of the digital agenda. Indeed, in July 2015 the *Start-up Plan* aiming to support startups development in Belgium was in effect. It consists of a tax shelter for startups, lower wage costs for entrepreneurs, a more favorable tax framework for crowdfunding and a deductibility for digital investments. Moreover, in June 2016 the Belgian government also approved a favorable tax framework for the sharing economy which clearly shows the willingness of the government to support digital entrepreneurship in Belgium.

6.2. The investment process

6.2.1. The selection process

The investment processes described by VCs and entrepreneurs are structured pretty much the same. It should be expected to consist of 5 stages: deal origination, screening, evaluation, deal structuring and closing. This observation meets what we had highlighted in the existing literature. What may sometimes differ are the procedures followed within these stages (i.e. number of meetings, number and type of due diligences...).

Then, regarding the length of the investment process, we observed that it could vary from 2 months to 9 months. We noticed that it actually depends on several factors. First, there is the degree of structure of the proposal. Then, the attitude of the entrepreneurs towards the investor requirements are determinant. Indeed, investors constantly ask additional information and documents that may take time to come if the entrepreneur is not reactive enough. Thirdly, there is the profile of the investor in charge of the proposal. Some investors need a lot of meetings with the entrepreneurs to be convinced whereas others take their decision after only two. Fourthly, we saw that the urgency of being funded impacts the length of the deal. In the digital industry, the competitive environment may force investors and entrepreneurs to quickly close a deal. Also, the fundraising experience of the entrepreneur positively impacts the speed of the deal since he knows the key points where to focus on. Then, the more there are VCs involved in the fundraising, the longer it will take because it

requires cross VCs negotiations additionally to the ones with the entrepreneur which accounts for the major part of the entire process.

Finally, entrepreneurs should be aware of how demanding a fundraising is. It requires a lot of energy because entrepreneurs need to be balanced between working on the business development during the day and answer to investor demands at night.

6.2.2. Criteria

We asked VCs to rate a multitude of criteria relative to their importance in their overall investment decision. Similarly, we have asked entrepreneurs to rate the same criteria according to the relative importance they think it has in VCs' decision. In this section of our research, we will compare the rates given by VCs and entrepreneurs and we will develop their implications.

The results of our research are aligned with previous ones (i.e. Wells, 1974; Poindexter, 1976; Macmillan et al., 1985) as it comes out that VCs consider characteristics of the team as the most important criteria when evaluating investment proposals. Indeed, both entrepreneurs and VCs considered team-related criteria as the most important ones (figure 12 and 13). This is confirmed by the fact that 8 out of both VCs' and entrepreneurs' 10 highest rated criteria are related to the team (figure 14 and 16). Furthermore, both entrepreneurs and VCs spotted the entrepreneurs' motivation and commitment to success as the most important criteria (Figure 14 and 16). This attests both shareholders' conscience of the impact a result-driven team has on the success of their new venture. In addition, it is essential for the team to be complementary and encompassing more than one entrepreneur for the development of the startup. If VCs pay so much attention at the team it is because investing in a company is like a wedding; VCs and entrepreneur are entering a long-lasting relationship where cooperation and understanding is pivotal. It is confirmed by the score of 6 given by VCs to the entrepreneurs' ability to work and cooperate with the investor making from this criterion the fifth one. However, entrepreneurs did not rate it that high (4.68). Therefore, it seems that if entrepreneurs are aware that a team with qualities is a requirement to bring the startup at a top level, they may neglect that VCs are more than a money-box and that human aspects are driving the cooperation as well. Another

interesting dissimilarity is that entrepreneurs suppose the investor's ability to influence venture's management decision as relatively not important (3.29, bottom 5) whereas VCs highly consider this criteria (5.63, ranked 17th). It shows that entrepreneurs may not be aware of the importance of being coachable by VCs. Indeed, VCs touched upon this point during the interviews and mentioned that entrepreneurs are generally stubborn which makes it difficult to resonate them sometimes.

Then, after the team, VCs' main point of interest is the market. They look at its size, growth and most importantly if the offering has a certain customer attraction and if they are growing at the expected rate. Indeed, the market size will determine the revenue of the venture and therefore will catalyze VCs' return on investment. This is confirmed for instance by the rate of 5.75 given by VCs to the market acceptance and return on investment criteria. As attested by the score of 5.63 given to this criterion, entrepreneurs were totally aware of the importance of the consumer traction as well. In this regard, some of them mentioned during the interview that it was crucial to show to the potential investors during the negotiation process that they are signing new contracts and getting more consumers.

Consequently, VCs will look at the product afterwards. Of course, they value importantly the venture offering and its quality but as a matter of fact they mostly care about how this offering is fulfilling customers needs (5.88) and how it is different from the competitors (5.75). Entrepreneurs are aware of the importance of this criteria at VCs' eyes (respectively 5.38 and 6.13). And some of them added that consumers need to be questioned constantly to know what are the new requirements they have and how the product can be improved to serve them better. Indeed, digital technologies allow to easily get in touch with the final users whoever and wherever they are in order to get their expectations.

Also, we realized that the characteristics of the investment proposals are not really contributing to the investment decision. VCs agreed during the interview that the data they can find in it and especially financials are not reliable and generally too optimistic. They will need to conduct deep evaluation and due diligence to get their own calculations anyway. So this lead us to what Macmillan et al. asked in 1985; *why is the business plan considered that important since it mostly concerns financial aspects and not much the entrepreneur-related*

facts which are the most important one? We think that the quality of the proposal will give VCs insights on how structured are entrepreneurs ideas as well as the advancement degree of the venture. In addition, the business plan will attest how entrepreneurs are confident about their venture which is essential for VCs who want to see entrepreneurs trusting in their project. Indeed, if VCs ranked the investment proposal category as the least important one we still see that 4 criteria related to the business plan appear in their top 20 which shows the impact the business plan has on their overall impression of the venture. However, it seems that entrepreneurs may neglect the business plan. Indeed, we observe that they rated three criteria related to the investment proposals pretty low (a clear emphasis on the key points, the reliability of the financial projections and the quality of the customer analysis each with a score of 3.75). On the opposite, VCs highly value the customer analysis (6.00).

In addition, by looking at VCs' and entrepreneurs' top 10 least important criteria we can observe a common conscience of the competitive environment and the fast evolution of the industry. Therefore, low importance has been given to criteria such as the evolution of the technology and market factors, the competition during the three first years and the possibility to protect the offering with a patent.

However, after having discussed with VCs, our analysis meets Tyebjee and Bruno one in the sense that the decision of investing was taken essentially by balancing the positive and negative expressions of the different factors respectively. VCs do not have any check list where all boxes need to be ticked to invest. Addressing all the criteria will give them the tools to make their opinion of whole venture situation and its potential. At the end, the final decision will be taken according to the overall personal feeling and appreciation of the investors and the board.

Figure 14: VCs' top 20 criteria

<i>Criteria</i>	<i>Rating Average</i>
<i>The entrepreneurs' motivation and commitment to success</i>	6,50
<i>The entrepreneurs' familiarity with customer requirements</i>	6,13
<i>The team complementarity</i>	6,13
<i>The entrepreneurs' managerial capabilities and business awareness</i>	6,00

<i>The entrepreneurs' ability to work and cooperate with the investor</i>	6,00
<i>Quality of the customer analysis</i>	6,00
<i>The entrepreneurs' ability to sustain an intense effort</i>	5,88
<i>The entrepreneurs' ability to accept criticism</i>	5,88
<i>The venture will satisfy an existing customer need</i>	5,88
<i>Quality of the proposal</i>	5,88
<i>The venture offering is significantly unique and differentiated from its competitors</i>	5,75
<i>The venture offering demonstrated a certain market acceptance</i>	5,75
<i>Expected rate of return on the investment</i>	5,75
<i>The entrepreneurs' sales force and/or distribution skills</i>	5,63
<i>The entrepreneurs' ability to put a balanced management team in place</i>	5,63
<i>Size of the investment</i>	5,63
<i>The investor's ability to influence venture's management decisions</i>	5,63
<i>Clarity of the communication</i>	5,63
<i>Quality of the competitor analysis</i>	5,50
<i>The relevancy of the entrepreneurs' track record</i>	5,38

Figure 15: VCs' 10 least important criteria

<i>Criteria</i>	<i>Rating Average</i>
<i>The entrepreneurs' research and development skills</i>	3,75
<i>The venture will create a new market or niche</i>	3,63
<i>The familiarity I have with the entrepreneur reputation</i>	3,38
<i>The venture offering can be protected by a patent</i>	3,38
<i>The targeted technology is changing rapidly</i>	3,38
<i>Market factors are changing rapidly</i>	3,38
<i>The venture presents a certain business cycles sensitivity</i>	3,38
<i>The customer needs are changing rapidly</i>	3,25
<i>The entrepreneurs were referred to me by a trustworthy source</i>	3,13
<i>There's a little threat of competition during the first three years</i>	3,13

Figure 16: Entrepreneurs' perception of VCs' top 20 criteria

<i>Criteria</i>	<i>Rating Average</i>
<i>The entrepreneurs' motivation and commitment to success</i>	6,88
<i>The team complementarity</i>	6,25
<i>The venture offering is significantly unique and differentiated from its competitors</i>	6,13
<i>The entrepreneurs' ability to present and articulate about the venture</i>	6,00
<i>The entrepreneurs' ability to sustain an intense effort</i>	5,88
<i>The entrepreneurs' managerial capabilities and business awareness</i>	5,75

<i>The venture offering demonstrated a certain market acceptance</i>	5,63
<i>The entrepreneurs' ability to put a balanced management team in place</i>	5,50
<i>The entrepreneurs' familiarity with the industry targeted by the venture</i>	5,38
<i>The entrepreneurs' familiarity with customer requirements</i>	5,38
<i>The entrepreneurs' ability to accept criticism</i>	5,38
<i>The venture will satisfy an existing customer need</i>	5,38
<i>Cash out potential</i>	5,38
<i>The entrepreneurs' familiarity with business drivers</i>	5,25
<i>The venture offering has a higher quality compared to competing products</i>	5,25
<i>The market has an attractive growth rate</i>	5,25
<i>The entrepreneurs' ability to anticipate the need for change</i>	5,13
<i>There's a competitor having a strong dominant position in the market</i>	5,13
<i>The equity share held by the investor</i>	5,13
<i>A functioning prototype has been developped</i>	5,00

Figure 17: Entrepreneurs' perception of VCs' 10 least important criteria

<i>Criteria</i>	<i>Rating Average</i>
<i>The entrepreneurs were referred to me by a trustworthy source</i>	3,75
<i>The technical aspects of the venture offering are clear</i>	3,75
<i>Clear emphasis on the key points (through an executive summary for example)</i>	3,75
<i>Reliability of the financial projections</i>	3,75
<i>Quality of the customer analysis</i>	3,75
<i>The venture will create a new market or niche</i>	3,38
<i>The investor's ability to influence venture's management decisions</i>	3,29
<i>The product offering is proprietary</i>	3,25
<i>The targeted technology is changing rapidly</i>	3,25
<i>The venture offering can be protected by a patent</i>	2,38

6.2.3. Valuation and deal structuring

The goal in the valuation part of the interview was to confront the method used by the entrepreneurs and investors we interviewed with the ones addressed in the long-lasting discussion present in the literature and therefore to know how emotional factors are contributing to the valuations, how important the negotiation is for these two stakeholders and finally see if the Belgian companies and investors in our sample demonstrate specific characteristics in terms of valuation methods.

First of all, we tried to identify the different quantitative methods used by both investors and entrepreneurs. Among the startups and investors we interviewed, the most popular methods are the Discounted Cash Flows method and the methods based on comparable and multiples. Two conclusions can be drawn from our case studies. First the different methods available often provide with different results. Therefore, using different methods allows the investor or entrepreneur to get a reliable range on which they can rely for the negotiation. Secondly, we have noticed that most of the interviewees using these quantitative methods actually use them to justify their initial intuition. In fact, our initial skepticism about such valuation methods has been confirmed by the different testimonies. If we actually have a closer look to these methods, we see that for example the discounted cash flows method relies on the estimated future cash flows on a 5-year basis. We then can ask ourselves if it really makes sense to rely on something we can barely predict, especially in the digital industry where the growth potentials are more difficult to forecast.

That being said, whether they are investors or entrepreneurs, 100% of the persons interviewed admitted that a major part of the valuation process was influenced by subjective factors. One variable to this subjective/objective ratio is the size of the venture itself. Indeed, and as pointed out by several experienced entrepreneurs and investors, the more developed the venture is the more objective metrics can be used and so the less subjective the valuation process will be. From the information we have gathered during the interviews, we realized that both the entrepreneurs and investors would modify their valuation in function of the amount that has to be raised. The higher the need in capital, the higher the valuation will be. Furthermore, the valuation will highly depend on the traction the venture gets both from the customers and the investors. The more investors are interested in the project, the higher the valuation will be. In addition, the valuation will obviously be different depending on the stage of development. This makes sense since the valuation method itself will vary with the maturity of the project.

This rather significant part of subjectivity in the valuation process is raising some questions though. Is this lack of methodology affecting the valuations of digital startups in a good or in a bad way? For example, one of the elements that will play a role in the venture valuation is the comparison with other companies and similar deals in a similar market. It

seems that the entrepreneurs and investors will take similar deals as reference points to value their own venture. We might then wonder if this tendency affects the Belgian startups in terms of valuation compared to other countries like the United States. The question is then: will the same venture be evaluated at a different value (lower) in Belgium than in the US? This is a complex question and we recognized 2 opposite explanations for such a gap in valuation between Europe and the US: either there is a real market failure and the use of comparable deals in the US to value an American startup tends to push the venture values upwards, or the American VCs are right and European countries like Belgium simply do not produce startups with as much customer traction and potential than in the US. Many people support that the American tech startup industry is actually a bubble, but many others also believe that these valuations are explained by real objective facts. For example, people say that the American market is simply more mature, has the most efficient stock market in the world, or has a bigger initial market. To conclude, we can say that the valuation of a startup will depend on many factors and that it is really difficult to compare Belgium with other countries. Among the many factors influencing the venture valuation, we will remember that the low competition between VCs, the small market size, or even the lack of successful exits can partly explain the lower valuations in Belgium.

100% of the entrepreneurs and investors we met agreed to say that the negotiation between the entrepreneur and the investor is a fundamental element of the process. In fact, it seems that the negotiation is what is driving the venture valuation. Depending on the relation, the environment and many other subjective factors, the negotiation will bring together investors and entrepreneurs around the table and define the venture value.

During our discussions with entrepreneurs and investors, we gathered some precious advices from the most experienced professionals in order to get the best valuation as possible. First of all, entrepreneurs should not give their valuation to the VCs first, but wait for a proposition and react to this one. Secondly, sometimes a lower valuation may be worth it if the VC can bring interesting knowledge and skills to the venture. In the period between the first meeting and the next one the entrepreneur should demonstrate that he is capable of meeting the growth objectives he promised. In addition, the entrepreneur has to build his traction both with the customer and the investors. Showing that the product stimulates

customers' interest and that several investors are interested in investing in the project will significantly improve the venture valuation. Throughout the entire process, the entrepreneur should always follow up and keep the attention of the VC. Finally, the most important aspect in order to get the desired valuation is to be able to justify your demand by knowing exactly what your need is and how to support your reasoning process.

During the negotiation, investors will often try to insert specific terms such as drag-alongs, liquidation preferences, pro-rata rights or anti-dilution provisions in function of their needs and risk aversion. These elements could of course influence the deal structure. One term in specific retained our attention: the liquidation preferences. The introduction of liquidation preferences in term sheets is a good way for the investors to protect themselves against bad scenario. We might wonder if this tendency to use liquidation preferences is not influencing the venture valuation though. Indeed, if an investor protects himself with such a provision it means that the valuation given for the entire venture will not matter that much for this investor and that the potential entrepreneur's return will be affected since the VC will receive the first returns. Knowing how much the startup is valued today is just not important for the VC, what matters is to know if the company will still be worth the amount invested by the protected investor. Many people consider this trend as a really bad thing for entrepreneurs since the risk is simply shifted from the investor to the entrepreneur and that the probability for an entrepreneur to end up with a successful cash-out is declining. Is that really a bad thing? Should Belgian investors go on with these clauses and is it benefic for the digital startup eco-system? We think so, because what really matters is the presence of as many investors as possible. As one experienced entrepreneur told us, *"Such a provision will lower the risk and attract more investors. Since we already lost the banks as investor in the digital industry, it really makes sense to adapt. The entrepreneur by the way needs investment and the financing industry must operate"*. Among the governmental investors we met, some of them also use convertible loans which is another way to protect and diminish risks. We think that this approach is positive for the Belgian tech startup industry. Not only it attracts more investors in the digital sector, but also facilitates the negotiation and accelerates the fundraising process.

6.3. The post-investment relationship

6.3.1. Governance

The study made by **Kaplan and Stromberg (2000)** states that in 14% of their investments, VCs play a role in shaping the management team and that in 50% of the investments VCs expect to play a role after investing. In our case studies, 100% of the VCs told us that they expect to play a role after investing in the startup. Without trying to draw any general conclusion, we might wonder if the Belgian VCs have this particularity to systematically play a role in every company of their portfolio. It is important to mention that we could only rely on the entrepreneurs and investors' perception rather than on clear metrics.

The conclusion of **Garg (2013)** saying that boards of directors in young venture backed companies not traded on an open market are a primary governance mechanism is verified in our study. With 100% of our VC sample playing a post-investment role in the ventures, and a large amount influencing the strategy, the cases we analyzed confirm **Fried et al. (1998)**'s statement saying that *ceteris paribus*, boards of directors in companies funded by VCs are more involved in the strategy than boards with a larger amount of investors.

Fried & Hisrich (1995) found that several characteristics of the VC – entrepreneur relation are associated with a higher involvement in the company's board. In most of the cases we analyzed board size were rather small, the insider membership was quite low, the ventures were very often characterized by their young age and the VCs sizes were rather small. The high involvement of VCs in their portfolio companies confirms that the industry practice among VCs in Belgium is to be active in the companies' boards.

Since every entrepreneur and every investor consider that the VCs impact on the venture is positive, it was quite difficult for us to confirm **Khanna et al. (2013)** and **Minichilli et al. (2012)** statement saying that a higher level of capital within the board sensibly improves the board's effectiveness and impact on the venture's performance.

An excessive board monitoring could also have a negative effect on the venture performance by preventing any sort of innovation or by constantly interrupting venture executives in the venture management (Garg, 2013, p. 101). However, we did not identify any situation in which a VC seemed to restrict the entrepreneur in his innovative projects.

Among the domains considered by both entrepreneurs and investors as being the most useful for the venture, two fields clearly stand out: the investors' networking contribution to the venture and the investors' skills and advices for the next fundraising. Indeed, many of the entrepreneurs and investors we met both considered that the investor's network could bring a clear added value to the venture performance, whether it is with the banks or in terms of human resources management. On the other hand, both the investors and entrepreneurs pointed out the investor's utility for the preparation of the next fundraising campaign. The entrepreneurs often benefit from the VCs' experience in terms of fundraisings. This seems logical since fundraising negotiation is the core activity of any VC. Secondly, if the investor is involved in the company's capital it makes sense for them to maximize the next fundraising in terms of valuation and deal structuring. It is a way for the VCs to make sure that their investment will provide them with a high return in the mid-term.

Moreover, we have noted a divergence among the investors regarding their implication in the companies' operations. A part of the VCs does not intervene in the operational activities of the company, while another part wants to be involved in precise activities such as commercial expansion or metrics creation. Different observations help us to understand that difference in the investor's implication. First of all, the few investors being closely linked to a specific incubator or accelerator often delegate the coaching on operational matters to these structures and focus on their advisory position. In addition, the investors' implication also depends on the extent of their investment. For example, some of the most implicated VCs we have interviewed usually take the lead and want to be the major investor anyways. Thus, a minority shareholder will naturally tend to be a bit less involved than an investor with a more significant stake in the company. Finally, and as explained by one of the most experienced investor we interviewed, *"In the beginning, we are always involved in the management of operations because the entrepreneurs are young, they have no idea how to*

develop sales, how to attract customers or develop metrics, but the more the company grows, the less necessary it will be to advice them on their operations”.

To conclude, after having analyzed 8 entrepreneurs and 8 investors and having asked them about their perception of the investor’s impact on the venture performance, we can say that our case studies confirm the conclusion drawn by **Garg (2013, p. 101)** stating that it is very likely that board monitoring has a positive effect on venture performance.

6.3.2. Internal conflicts

During our analysis, we have separated divergences of opinions from conflicts. Indeed, most of the entrepreneurs and investors consider that they have already faced a divergence of opinions within the board of directors, but only very few of them stated that these divergences ended up in a conflict. Therefore, we decided to address the internal conflicts by analyzing first the divergences of opinions ending up in a debate that had a good impact on the venture performance and then the divergences ending up in a real conflict that affected the company.

Among the advices on the fundraising process given by the few experienced entrepreneurs and the VCs we interviewed, one in particular came back many times. According to them, it is really important for the entrepreneur/investor to choose an investor/entrepreneur that will fit with his work ethic and vision. Any divergence of opinions or even conflict would in fact reflect a situation where the investor’s interests are not perfectly aligned with the entrepreneurs. However, **Johnson et al. (1993)** demonstrated that an alignment of interests between VCs and stockholders often justifies an active involvement of the investors within the board. This emphasizes the importance for both the entrepreneur and the VC to make a choice that goes beyond money.

In our literature review, we identified 3 main types of conflicts: the tasks-related conflicts, the relationship conflicts and finally the processes conflicts. Throughout our case studies, we realized that most of the divergences of opinions are related to specific tasks or processes. This usually ends up in a debate with a positive outcome for the venture. On the other hand, the very few conflicts we analyzed are often relationship conflicts. This seems

logical and is consistent with our previous ascertainment that investors and entrepreneurs should better choose the right entrepreneur/investor on a relational perspective. According **Forbes et al. (2010)**, “*task conflicts*” can have a positive impact on decisions quality but “*relationship conflicts*” have destructive effects on the quality of a group’s decision and its functioning. The results we collected are then suggesting that most of the divergences of opinions between the entrepreneurs and investors are improving the venture performance.

Forbes et al. (2010) proved that down rounds are associated with more relationship and task conflicts, especially for the original founders. The valuation associated with the decision (higher or lower price) would be likely to affect conflict in the venture board, above and beyond the conflict that may be explained by board structure. Indeed, an entrepreneur we interviewed attracted our attention on the fact that there is certainly a difference between angel investors or small investment firms and larger investment firms. The entrepreneur – angel investor might be more intense since you actually deal with a person rather than with an investment group. This means that the angel investor’s personal feelings, intuitions or even problems will impact the entrepreneur-investor relationship. For example, if the business angel has a personal problem and absolutely needs money then a conflict will be more likely to arise. So as one really experienced told us, “*my advice would be to work with structured organizations as early as possible*”. What we can say about that is that opposite is also true: a large investor will have a diversified portfolio and a failure would be less important for him. Compared to large venture, the business angel will maybe invest more of his person to make the project a success. Provisions such as convertible loans simply put the valuation debate away and limit the risk of internal conflict.

In their study, **Collewaert & Sapienza (2014)** reached the conclusion that conflicts between entrepreneurs and early-investors about the managing of the organization have a negative impact on innovation and this negative effect is getting more important when opinions diverge, when the level of diversity of the team is low or also when the team has a lack of experience. Unfortunately, our sample does not follow **Collewaert & Sapienza’s** assumption since we did not identify the negative impact of a divergence of opinions on the venture innovation. However, we definitely can say that the level of diversity and the level of experience were two elements taken into account by both the investors and the

entrepreneurs while creating partnerships. In addition, this negative effect of divergence of opinions has certainly been mitigated by a good communication between the different actors in general.

To conclude, we can say that despite the fact that divergences of opinions are frequent among entrepreneurs and VCs within the boards of directors, conflicts resulting in a bad influence for the venture performance are really uncommon. Task-related divergences of opinions will most of the time have a positive impact on the venture performance while conflicts (related to personal relationships) often result in a bad outcome for the company performance. This tendency could be explained by the alignment of interests between the two stakeholders. In fact, the presence of outsiders within the boards we analyzed has most of the time been positive for the venture performance.

7. Limitations

Despite providing a contribution to the existing literature, our study presents some limitations that we would like to underline.

Firstly, we could not survey all the Belgian VCs backing digital startups neither all the Belgian digital entrepreneurs and limited ourselves to specific case studies (8 investors and 8 entrepreneurs). Therefore, this study aimed more at exploring the Belgian VC and digital industries without attempting to draw any general conclusion valid for the whole Belgian VC market.

Secondly, even if questionnaires and interviews are still commonly used among VC studies, some scholars highlighted limitations of these methods. These are actually post-hoc methodologies consisting in gathering data regarding a decision that has been made before the collecting period by for example asking the interviewee to self-report his decision-process. However, the fact that the event happened in the past may cause some biases in the results (Huber & Power, 1985; Golden, 1992). These errors may arise from the interviewees willingness to bias the results of the survey, from perceptual and cognitive limitations to recall the past or the lack of information regarding the event (Shepherd & Zacharakis, 1999, p.203). Also, the fact that we asked VCs to describe their own decision-making process consists in self-reporting which may results in a divergence between the decision policy they think they used and the actual one (Zacharakis and Meyer, 1998). This can be expressed through the overstatement of the least important criteria and the understatement of the most important ones.

Thirdly, analyzing the criteria was actually a tricky part. We based our analysis on two sets of data; the interview and the online questionnaire. However, we sometimes observed a few inconsistencies between the way entrepreneurs were filling the questionnaire and the answers they gave us during the face-to-face interview. It seems that in some cases entrepreneurs have the tendency to recognize the high importance of specific criteria when they rate them in a list, but the way they behave and answered during the face-to-face interviewed showed us that they intrinsically do not support these judgments.

Furthermore, it is widely recognized that every entrepreneur - VC relationship is unique and that it is really difficult to draw any conclusion from a sample of 16 interviewees since a lot of factors such as the region, the city and the individuals are making every fundraising process different. Every investor has different investment objectives and purposes. A governmental VC will not have the same goals and expectations than any other type of investors.

In addition, many of the entrepreneurs we have met were first-time entrepreneurs. Having interviewed more experienced entrepreneurs would have significantly improved the sample quality. For example, we could not extract many examples of conflicts from our sample. Since most of the companies we analyzed were early-stage startups, the sample was very homogeneous at this level. We did not interview any bank VC, neither any corporate VC which might also have distorted our conclusions.

To conclude, even if our research presents some limitations in the methodology and sampling, we are truly convinced by its relevance. Indeed, this thesis covers an unexplored field which is one of the most dynamic and growth-oriented market namely the Belgian digital industry. Then, as previous scholars, we are sure that the usage of a small sample composed of case studies makes sense in the context of an exploratory research of a small market. In definitive, we believe our analysis of the interview and the implications resulting from it will help Belgian digital entrepreneurs in the elaboration of their proposal by having a better understanding of Belgian VCs' investment decision process.

8. Conclusion

The present paper aimed to analyze the relationship between entrepreneurs and VC in the Belgian digital industry. In order to do so, we summed up the entire theoretical knowledge available about the relationship between VCs and entrepreneurs. We first carefully defined the different aspects of a VC, compared it with other sources of funds, explained its importance for the economy, compared its investment timing with a new venture life-cycle and finally analyzed the concepts of governance and internal conflicts within these organizations. Then, we reviewed the literature concerning VCs' selection process by addressing the criteria, the valuation methods and the deal structuring. We came to the point that every VC was different and that there was a low convergence between the studies conducted in the field of VCs' decision process. This absence of consensus is due to a lack of studies taking into account the characteristics of each private equity market. Also, it appeared that there is a reasonable part of subjectivity in VCs' decisions and valuation methods which at the end appear to be more of an art than a science since emotional factors, intuition and "*gut feeling*" clearly influence their investment choice. In this way, addressing a small amount VCs independently in the perspective of case studies made more sense than attempting to draw conclusions for the entire market. Further analysis of the existing literature revealed a gap we wanted to address. Indeed, previous researches concerned only the investment criteria from the VCs point of view. However, it appeared that entrepreneurs and VCs may have differing opinions regarding the investment decision. Therefore, we decided to send questionnaires and conduct semi-structured interviews with 8 VCs and 8 entrepreneurs regarding the fundraising process in the Belgian digital environment.

Our research globally confirms what the European Digital City Index stated; Belgium exhibits a pretty enabling environment for digital entrepreneur due to supportive initiative, an easy early access to capital and a talented workforce. However, our research also highlighted a few drawbacks. It seems that the efforts in terms of entrepreneurship supports are wandered through a too large offering of opportunities such as incubators, accelerators and other initiatives. Therefore, concentrating all efforts on a country-level incubator for digital startups would be more convenient and would contribute to the creation of a digital

hub for instance. Then, despite the negative regulatory environment assimilated to our country, it is clear that there are numerous signs of improvements with Minister Alexander De Croo. The startup community and the VCs we met salute these ameliorations and encourage the government to keep bridging the gap between inappropriate regulations and new technologies. However, Belgium does not offer sufficient capital opportunities to scale up and make startups to look abroad for large series A and B investments (i.e. several million €). This expresses the necessity of building a stronger VC market able to compete with European markets such as Paris, Berlin or London.

Then, we clearly observed that VCs consider first the team when evaluating the proposals. It seems to be related to the nature of digital startup being scalable. Indeed, VCs want complementary, committed, motivated and efficient teams able to rock their business and make the sales skyrocket. However, what entrepreneurs should not neglect, which is typical to the digital industry and linked to the young age of the teams, is the importance of being coachable. After the team, VCs consider the attractiveness of the market, a venture offering differentiating from the competition and satisfying an expressed consumer need. Even though we observed that the investment proposal is not crucial in the final decision, however, we think it is important to structure it, articulate well the offering and emphasize the quality of the team.

In order to value the ventures, entrepreneurs and investors both use quantitative methods to support their reasoning. Indeed, we can conclude that subjective factors are playing a major role in the venture valuation depending on the development stage and that the negotiation between the two stakeholders is a fundamental element of the process. This underlines the importance of building a strong and homogeneous VC market, boosting both the offers and demands of investments and allowing fair valuations.

Regarding the post-investment relationship, we can easily draw the conclusion that both entrepreneurs and investors consider that the VCs involvement in the board of directors has a positive impact on the venture performance. This is aligned with the current literature and we highlighted that investors are mainly useful in some areas such as the networking contribution or the fundraising assistance. Moreover, we found out that the potential task-related divergences of opinions will most of the time have a positive impact on the venture

performance as described in the literature. Despite the fact that divergences of opinions were frequent among entrepreneurs and VCs within the boards of directors analyzed, conflicts resulting in a bad influence for the venture performance are really uncommon. We can explain that by bringing out the alignment of interests existing between VCs and entrepreneurs.

Finally, we are convinced that our results are important for policymakers. Indeed, digital companies are considered as important drivers of our economy. VCs represent an important source of funding for the development of digital companies. Our study offers important recommendations to policy makers in order to bring VCs and digital entrepreneurs closer together. First, more coherence is needed at a European and Belgian level. The existing VC market fragmentation due to differences in regulations, capital availability and political visions are barriers that are especially difficult to overcome for Belgian entrepreneurial tech companies. Due to the relatively smaller size of investments made in the digital industry, Belgian Tech companies are at a competitive disadvantage compared to their American competitors. We think that this heterogeneity should therefore be tackled. Our research also gives the opportunity for the different other stakeholders such as VCs and entrepreneurs to clearly understand the Belgian situation.

9. Appendices

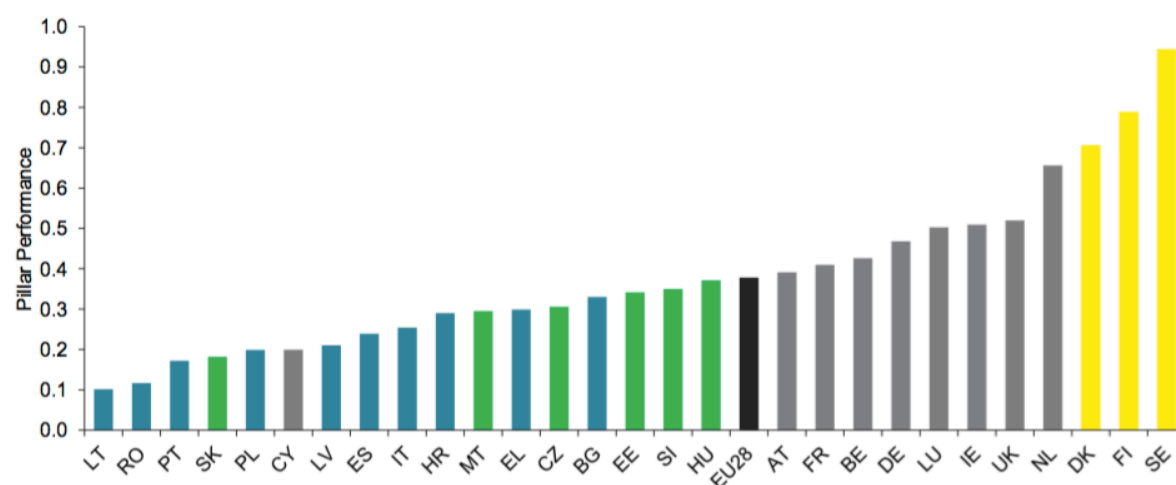
Appendix 1: Summary of Past Researched About Venture Capitalist Evaluation Criteria

[illegible]

- Size of investment	x		x					x				x
- Profit margin				x								
- No participation in subsequent investment rounds						x						
- Cash out potential/liquidity					x		x	x	x			
Entrepreneur/team - related criteria												
- Management skill/experience/quality	x	x	x	x	x	x	x	x	x	x	x	x
- Venture team					x	x	x	x			x	
- Management stake in venture		x	x							x		
- Team motivation	x							x				
- Entrepreneur personality					x							x
Product/service -related criteria												
- Product attributes	x				x	x						
- Technology	x			x								
- Product differentiation			x	x					x			x
- Proprietary product /Patentability	x			x	x	x						
- Growth potential			x					x	x	x		x
- Market acceptance					x				x			
- Prototype					x							
Others												
- References	x			x				x				
- Developpment stage		x	x									
- Location			x									
- Fit with lending guidelines											x	

Source: Made by the authors based on their review of previous studies

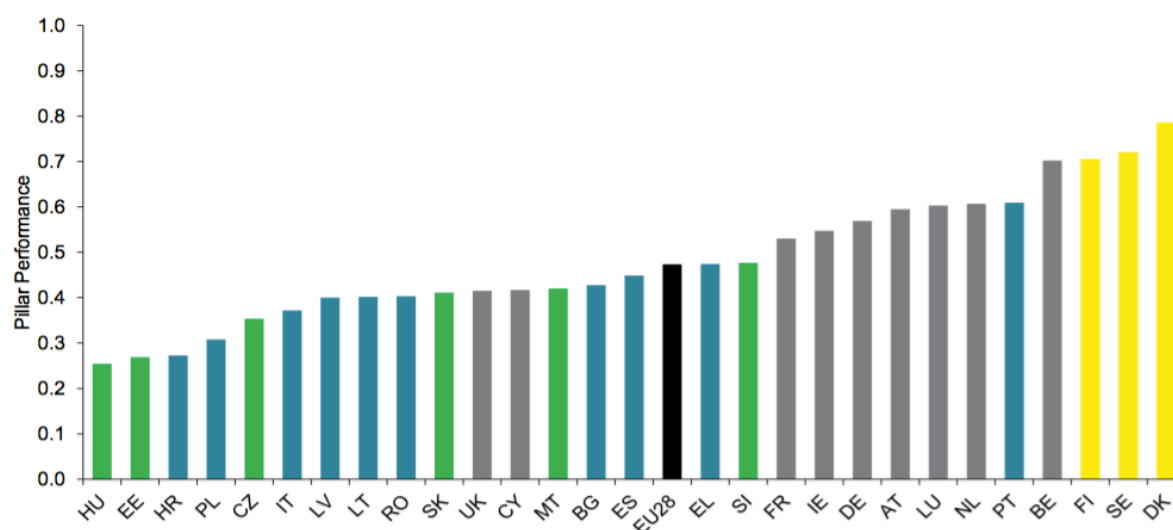
Appendix 2: Average performance of the Pillar I (Digital Knowledge and ICT market) for the EU-28 in the period 2010-2012



Note: Pillar I performance is measured using the 2010-2012 average score of a composite indicator based on five standardised indicators ranging from 0 to 1. The five indicators are: European high technology patents per million inhabitants, number of enterprises within the IT sector in clusters, business enterprise R&D expenditure in all NACE activities from high- tech sectors, ICT sector value added as a percentage of GDP and FDI in the reporting economy (inward) in the Information and communication sector. The EU-28 average is indicated in black

Source: European Commission (2015), p.21, Figure 6.

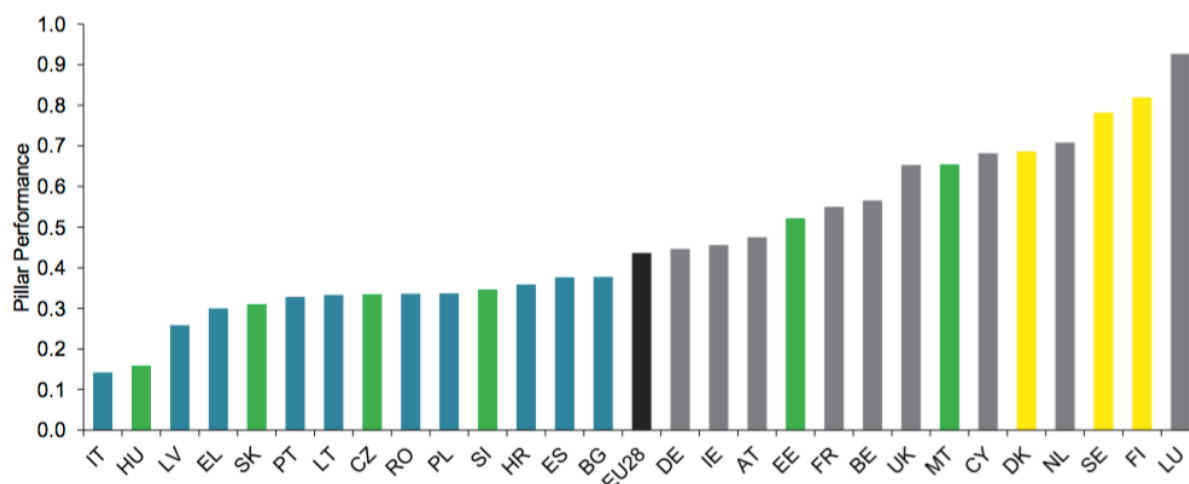
Appendix 3: Average performance of the Pillar II (Digital business environment) for the EU-28 in the period 2010-2012



Note: Pillar II performance is measured using the 2010-2012 average score of a composite indicator based on six standardized indicators ranging from 0 to 1. The six indicators are: ease of doing business, investments of telecommunications sector in networks as percentage of revenues, percentage of enterprises who have ERP software package to share information between different functional areas, percentage of enterprises using Customer Relationship Management to analyse information about clients for marketing purposes, internet bandwidth and share of enterprises' total turnover from e-commerce. The EU-28 average is indicated in black.

Source: European Commission (2015), p.22, Figure 7.

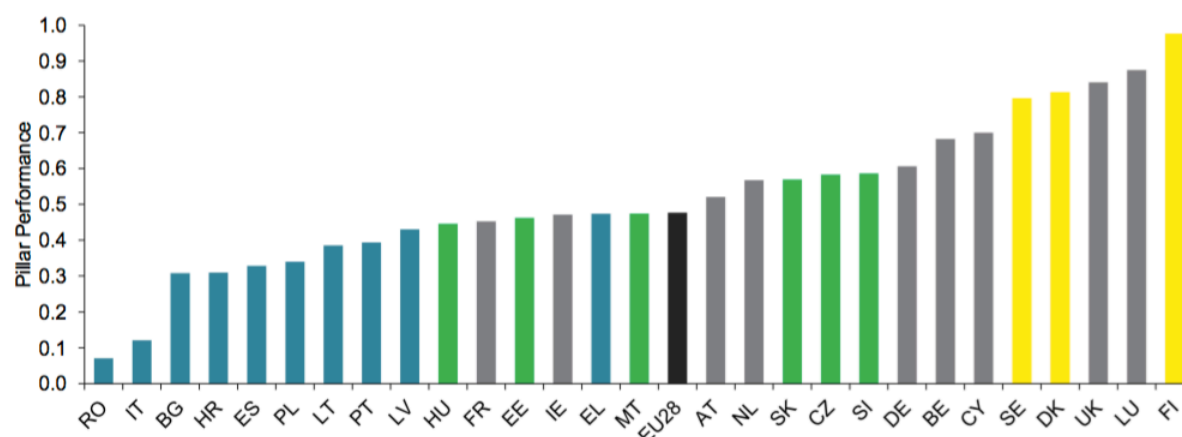
Appendix 4: Average performance of the Pillar III (Taxation & financial environment) for the EU-28 in the period 2010-2012



Note: Pillar performance is measured using the 2010-2012 average score of a composite indicator based on five standardized indicators ranging from 0 to 1. The five indicators are: cost of tax compliance, total tax rate, venture capital availability, ease of raising money through local equity markets and ease of access to loans. The EU-28 average is indicated in black.

Source: European Commission (2015), p.23, Figure 8.

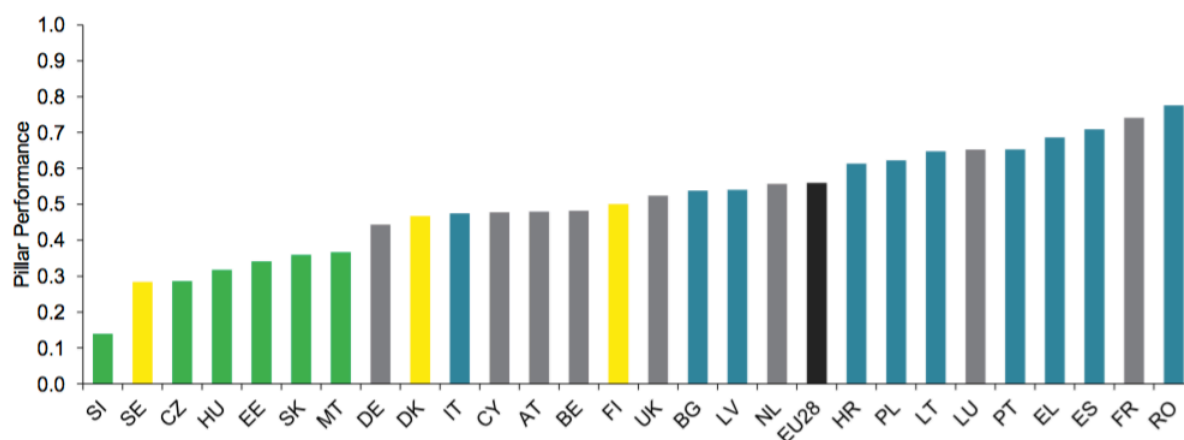
Appendix 5: Average performance of the Pillar IV (Digital skills and e-leadership) for the EU-28 in the period 2010-2012



Note: Pillar performance is measured using the 2010-2012 average score of a composite indicator based on four standardized indicators ranging from 0 to 1. The four indicators are: the percentage of total persons employed that have ICT specialist skills, the percentage of enterprises that provided training to ICT/IT specialists to develop/upgrade their ICT skills, the percentage of enterprises that had no hard-to-fill vacancies for jobs requiring ICT specialist skills and the percentage of individuals who have obtained IT skills through formalised educational institution (school, college, university, etc.). The EU-28 average is indicated in black.

Source: European Commission (2015), p.24, Figure 8.

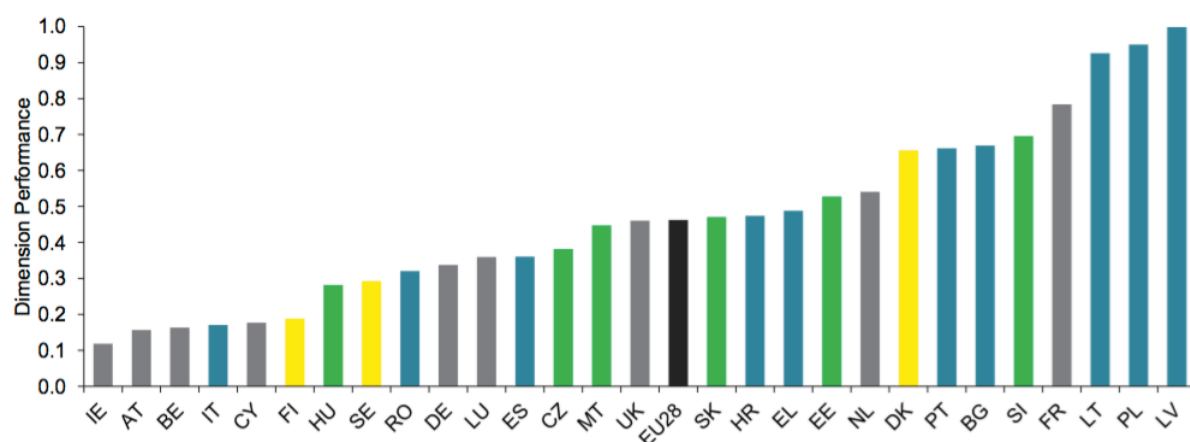
**Appendix 6: Average performance of the Pillar V (Entrepreneurial Mindset) for the EU-28
in the period 2010-2012**



Note: Pillar performance is measured using the 2010-2012 average score of a composite indicator based on three standardized indicators ranging from 0 to 1. The three indicators are: the percentage of respondents that would prefer to be self-employed if they could choose between different kinds of jobs, the percentage of respondents that would set up a new business or take over an existing one if they had the means to start their own business, including sufficient funding and the percentage of respondents that have a broadly favourable overall opinion about the entrepreneurs. The EU-28 average is indicated in black.

Source: European Commission (2015), p.25, Figure 8.

Appendix 7: The average performance of ICT Startups in the EU-28 in the period 2010-2012



Note: Dimension performance is measured using the 2010-2012 average score of a composite indicator based on two standardized indicators ranging from 0 to 1. The two indicators are: the Information and communication technology birth rate and the employment share of information and communication technology enterprises births. The EU-28 average is indicated in black.

Source: European Commission (2015), p.30, Figure 14.

Appendix 8: Investment criteria used by VCs

Characteristics of the team
The entrepreneurs' familiarity with the industry targeted by the venture
The relevancy of the entrepreneurs' track record
The entrepreneurs' demonstrated leadership ability in the past
The entrepreneurs' managerial capabilities and business awareness
The entrepreneurs' familiarity with business drivers
The entrepreneurs' sales force and/or distribution skills
The entrepreneurs' marketing skills
The entrepreneurs' financial skills
The entrepreneurs' familiarity with customer requirements
The entrepreneurs' ability to sustain an intense effort
The entrepreneurs' motivation and/or commitment to success
The entrepreneurs' ability to present and articulate about the venture
The entrepreneurs' attention to details
The entrepreneurs' ability to evaluate and react to changing risk
The entrepreneurs' research and development skills
The entrepreneurs' ability to accept criticism
The entrepreneurs' ability to anticipate the need for change
The entrepreneurs' ability to work and cooperate with the investor
The compatibility between the entrepreneur and the investor personalities
The entrepreneurs were referred to me by a trustworthy source
The familiarity I have with the entrepreneur reputation
The entrepreneurs' ability to put a balanced management team in place
The team complementarity
Characteristics of the venture offering
The venture offering is innovative
The venture offering is significantly unique and differentiated from its competitors
The venture offering has a higher quality compared to competing products
The venture offering demonstrated a certain market acceptance
A functioning prototype has been developed
The product offering is proprietary
The venture offering can be protected by a patent
The technical aspects of the venture offering are clear
Characteristics of the market
The venture will satisfy an existing customer need
The venture will stimulate an existing market
The market has an attractive growth rate
The existing size of the market is attractive
The venture will create a new market or niche

The customer needs are changing rapidly
The targeted technology is changing rapidly
Market factors are changing rapidly
The venture presents a certain business cycles sensitivity
I am familiar with the industry targeted by the venture
There's a little threat of competition during the first three years
There's a competitor having a strong dominant position in the market
There's an intense price competition in the market
The venture will be protected by certain barriers to entry
Investor requirements
Cash out potential
Expected rate of return on the investment
Size of the investment
The expected risk for the investor
Financial provisions for investor rights
The equity share held by the investor
Venture performance after first round of investment
Venture's long-term sales will impact on the investor's performance
The investor's ability to influence venture's management decisions
Characteristics of the investment proposal
Quality of the proposal
Clarity of the communication
Clear emphasis on the key points
Reliability of the financial projections
Quality of the product description
Quality of the customer analysis
Quality of the market analysis
Quality of the competitor analysis

Source: Adapted from MacMillan et al. (1985), Bachher & Guild (1996) and Simic (2015)

Appendix 9: Interview guide – Venture capitalists

Before starting the interview, we ask their consent to record it and tell them they should not hesitate to ask us a clarification for the definition of certain elements.

Part 1 – Overview of the typical characteristics of a digital startup investment proposal and general questions about the digital industry

- 1) What is your motivation to invest in the digital industry?
- 2) What are the typical characteristics of a digital startup investment proposal?
 - a. Product development process? Long/Short path to market?
 - b. Failure probabilities?
 - c. Major risks on this market? And risk for the investor
 - d. Competition on the market?
 - e. Barriers? Regulations?
 - f. Amount of investing? Large? Comparison with hi-tech?
- 3) What are the returns you expect on your investments? By comparison with other industries
- 4) What do you think about the environment for digital entrepreneurs in Belgium? (Infrastructure, access to capital, regulations...)

Part 2 – How do VCs deal with the distinctive characteristics of a digital new venture in their selection process?

- What is your investment strategy ?
 - o Target in terms of digital industry ? (100%, divers)
 - o Are there certain segments of the digital industry you do not invest in ?
 - o Why do you choose to invest in these specific venture stages? *(question based on the questionnaire they filled-in prior the interview)*

For this part of the interview, we ask you to use the most recent experience of digital investment you have been involved in.

A. Process

- 1) Describe your investment process. (The different stages)
- 2) How many people were involved in the investment decision?
- 3) What was the time needed to treat the proposal from the deal generation to the deal structuring?
 - a. Get his thoughts about it: too long? Fast?
- 4) When you read the proposal how long did you need to decide that you will invest in the specific venture?

B. Criteria

- 1) Rank the categories of criteria in terms of importance
 - a. Team

- b. Market
- c. Venture offering
- d. Requirements
- e. Proposal

C. Valuation method and deal structuring

- 1) How do you proceed to determine the economic value of a new venture?
 - a. Important question → Let them talk so we can actually see if they are using a real process or simply following their intuition
- 2) Would you say that you are using more verifiable and objective data or more your intuition and emotion in order to value the startups?
 - a. See if the answer is relevant regarding the question #1
- 3) How important is the negotiation with the entrepreneurs for you?
- 4) To what extent can the negotiation impact the initial deal you proposed?

Part 3 – The observed VC / entrepreneur relationship

- 1) After the investment, what is the role you have in the new ventures?
 - a. Operational?
 - b. Decisional?
 - c. Coach?
- 2) Do you consider that your role within the company has a positive impact on its performance?
- 3) In which domain(s) do you see yourself as the most useful for the venture?
- 4) Do you think that a divergence in opinions between you and the entrepreneurs have a positive or negative effect on the company's performance?
- 5) Have you already faced a conflict between you and entrepreneurs?
- 6) Do you think that such a conflict had a positive or a negative impact on the venture performance?

Appendix 10: Interview guide – Entrepreneurs

Before starting the interview, we ask their consent to record it and tell them they should not hesitate to ask us a clarification for the definition of a certain term.

Part 1 – Overview of the typical characteristics of a digital startup investment proposal and general questions about the digital industry

- 5) What is your motivation to be an entrepreneur in the digital industry?
- 6) What is the growth rate you expect for your venture? And by comparison with other industries?
- 7) According to you, what are the typical characteristics of a digital startup **investment proposal**?
 - a. Product development process? Long/Short path to market?
 - b. Failure probabilities?
 - c. Major risks on this market? And risk for the investor
 - d. Competition on the market?
 - e. Barriers? Regulations?
 - f. Amount of investing? Large? Comparison with hi-tech?
- 8) What do you think about the environment for digital entrepreneurs in Belgium?
 - a. Infrastructures
 - b. Access to capital
 - c. Mentalities
 - d. Regulations

Part 2 – How do you deal with the fundraising process?

A. Process

- 5) Describe your fundraising process. (The different stages)
- 6) How many people are involved in the investment decision?
 - a. Number of co-founder taking care of that
 - b. Number of VCs you meet
- 7) What was the time needed from the deal generation to the deal structuring?
 - a. Get his thoughts about it: too long? Fast?
- 8) When the VC read the proposal how long do you think he needs to decide that he will invest in your project?

B. Criteria

- 2) Rank the categories of criteria in terms of importance

C. Valuation method and deal structuring

- 5) How do you do to evaluate your venture value? How do you think Venture Capitalists proceed to determine the economic value of a new venture?
 - b. Important question → Let them talk so we can actually see if they think VCs are using a real process or simply following their intuition

- 6) Would you say that you and VCs are using more verifiable and objective data or more their intuition and emotions in order to value the startups?
 - b. See if the answer is relevant regarding the question #1
- 7) How important is the negotiation with the Venture Capitalist for you?
- 8) To what extent can the negotiation impact the initial deal initially proposed?

Part 3 – The observed VC / entrepreneur relationship

- 7) After the investment, what is the role Venture Capitalists have in the new ventures?
- 8) Do you consider that their (VCs) role within the company has a positive impact on its performance?
- 9) In which domain(s) do you see them as the most useful for the venture?
- 10) Do you think that a divergence in opinions between you and the VC have a positive or negative effect on the company's performance?
- 11) Have you already faced a conflict between you and VCs?
- 12) Do you think that such a conflict had a positive or a negative impact on the venture performance?

Appendix 11: Questionnaire – Venture capitalists

Venture Capitalists Investment Decisions

Welcome

Hello,

Thanks for your agreement to help us in our master thesis.

We are Benoit Fortpied and Simon Polet, two master students at the Louvain School of Management (UCL) and as part of our final year, we are working on a thesis about the investment decisions of venture capitalists in digital startups in Belgium under the supervision of Professor Gerrit Sarens. The objective of our master thesis is exploratory, we want to describe how investments in the Belgian digital startups are made. You already agreed to help us by giving us the opportunity to interview you about your investment process.

First, we would like to ask you to fill in this form regarding the characteristics of your fund as well as the criteria you use to evaluate digital ventures.

Venture Capitalists Investment Decisions

Characteristics of your fund

* 1. What is the name of your fund?

* 2. What type of venture capitalist is your firm?

* 3. What is/are your preferred industry/ies?

* 4. To what extent do you invest in the following stages?

A response of "1" means that you don't invest in that stage. "5" means that it represent you entire capital.

	1	2	3	4	5
Seed	☐	☐	☐	☐	☐
Start-up	☐	☐	☐	☐	☐
Rapid Growth/Expansion	☐	☐	☐	☐	☐
Later stage	☐	☐	☐	☐	☐

* 5. What is the size of your fund? (in million €)

* 6. How much did your fund invest in 2015? (in million €)

* 7. How many digital firms did you fund back last year?

* 8. What is the name of the last digital start-up you invested in?

* 9. What was the amount invested in this last deal?

Venture Capitalists Investment Decisions

Investment criteria

For this part of the questionnaire, you may use the most recent experience of digital investment you've been involved in as a reference.

We have classified the most frequently used investment criteria among five categories:

- Characteristics of the entrepreneur(s)
- Characteristics of the venture offering (product/service)
- Characteristics of the market targeted by the venture
- Investors requirements (e.g. Expected rate of return on the investment, expected risk for the investor, equity share held by the investor...)
- Characteristics of the investment proposal (e.g. Quality of the proposal, reliability of the financial projections, quality of the customer analysis...)

* 10. Rank these five categories of criteria in order of importance to your overall decision making

	Characteristics of the entrepreneur(s)
	Characteristics of the venture offering (product/service)
	Characteristics of the market targeted by the venture
	Investors requirements
	Characteristics of the investment proposal

* 11. According to you, what is the degree of importance of each criteria when considering an investment opportunity in a digital company?

A response of '1' on this scale means that the criteria was not important at all in your decision, '7' signifies that this criteria was highly important in your decision, and '4' on this scale implies that the criteria was influential without being deterministic in your decision making.

	1	2	3	4	5	6	7
The entrepreneurs' familiarity with the industry targeted by the venture	☐	☐	☐	☐	☐	☐	☐
The relevancy of the entrepreneurs' track record	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' demonstrated leadership ability in the past	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' managerial capabilities and business awareness	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' familiarity with business drivers	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' sales force and/or distribution skills	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' marketing skills	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' financial skills	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' familiarity with customer requirements	☐	☐	☐	☐	☐	☐	☐

	1	2	3	4	5	6	7
The entrepreneurs' ability to sustain an intense effort	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' motivation and/or commitment to success	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to present and articulate about the venture	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' attention to details	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to evaluate and react to changing risk	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' research and development skills	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to accept criticism	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to anticipate the need for change	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to work and cooperate with the investor	☐	☐	☐	☐	☐	☐	☐
The compatibility between the entrepreneur and the investor personalities	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs were referred to me by a trustworthy source	☐	☐	☐	☐	☐	☐	☐
The familiarity I have with the entrepreneur reputation	☐	☐	☐	☐	☐	☐	☐
The entrepreneurs' ability to put a balanced management team in place	☐	☐	☐	☐	☐	☐	☐
The team complementarity	☐	☐	☐	☐	☐	☐	☐
The venture offering is innovative	☐	☐	☐	☐	☐	☐	☐

	1	2	3	4	5	6	7
The venture offering is significantly unique and differentiated from its competitors	☐	☐	☐	☐	☐	☐	☐
The venture offering has a higher quality compared to competing products	☐	☐	☐	☐	☐	☐	☐
The venture offering demonstrated a certain market acceptance	☐	☐	☐	☐	☐	☐	☐
A functioning prototype has been developed	☐	☐	☐	☐	☐	☐	☐
The product offering is proprietary	☐	☐	☐	☐	☐	☐	☐
The venture offering can be protected by a patent	☐	☐	☐	☐	☐	☐	☐
The technical aspects of the venture offering are clear	☐	☐	☐	☐	☐	☐	☐
The venture will satisfy an existing customer need	☐	☐	☐	☐	☐	☐	☐
The venture will stimulate an existing market	☐	☐	☐	☐	☐	☐	☐
The market has an attractive growth rate	☐	☐	☐	☐	☐	☐	☐
The existing size of the market is attractive	☐	☐	☐	☐	☐	☐	☐
The venture will create a new market or niche	☐	☐	☐	☐	☐	☐	☐
The customer needs are changing rapidly	☐	☐	☐	☐	☐	☐	☐
The targeted technology is changing rapidly	☐	☐	☐	☐	☐	☐	☐
Market factors are changing rapidly	☐	☐	☐	☐	☐	☐	☐
The venture presents a certain business cycles sensitivity	☐	☐	☐	☐	☐	☐	☐
I am familiar with the industry targeted by the venture	☐	☐	☐	☐	☐	☐	☐

	1	2	3	4	5	6	7
There's a little threat of competition during the first three years	☐	☐	☐	☐	☐	☐	☐
There's a competitor having a strong dominant position in the market	☐	☐	☐	☐	☐	☐	☐
There's an intense price competition in the market	☐	☐	☐	☐	☐	☐	☐
The venture will be protected by certain barriers to entry	☐	☐	☐	☐	☐	☐	☐
Cash out potential	☐	☐	☐	☐	☐	☐	☐
Expected rate of return on the investment	☐	☐	☐	☐	☐	☐	☐
Size of the investment	☐	☐	☐	☐	☐	☐	☐
The expected risk for the investor	☐	☐	☐	☐	☐	☐	☐
Financial provisions for investor rights	☐	☐	☐	☐	☐	☐	☐
The equity share held by the investor	☐	☐	☐	☐	☐	☐	☐
Venture performance after first round of investment	☐	☐	☐	☐	☐	☐	☐
Venture's long-term sales will impact on the investor's performance	☐	☐	☐	☐	☐	☐	☐
The investor's ability to influence venture's management decisions	☐	☐	☐	☐	☐	☐	☐
Quality of the proposal	☐	☐	☐	☐	☐	☐	☐
Clarity of the communication	☐	☐	☐	☐	☐	☐	☐
Clear emphasis on the key points (through an executive summary for example)	☐	☐	☐	☐	☐	☐	☐
Reliability of the financial projections	☐	☐	☐	☐	☐	☐	☐
Quality of the product description	☐	☐	☐	☐	☐	☐	☐
Quality of the customer analysis	☐	☐	☐	☐	☐	☐	☐

	1	2	3	4	5	6	7
Quality of the market analysis	☐	☐	☐	☐	☐	☐	☐
Quality of the competitor analysis	☐	☐	☐	☐	☐	☐	☐

Venture Capitalists Investment Decisions

Any comment?

12. If you have any additional comment, please do not hesitate

Appendix 12: Questionnaire – Entrepreneurs

Venture Capitalists Investment Decisions - Entrepreneurs' point of view

Welcome

Hello,

Thanks for your agreement to help us in our master thesis.

We are Benoit Fortpied and Simon Polet, two master students at the Louvain School of Management (UCL) and as part of our final year, we are working on a thesis about the investment decisions of venture capitalists in digital startups in Belgium under the supervision of Professor Gerrit Sarens.

The objective of our master thesis is exploratory, we want to describe how investments in the Belgian digital startups are made. You already agreed to help us by giving us the opportunity to interview you about your fundraising process.

First, we would like to ask you to fill in this form regarding the characteristics of your company as well as the criteria you think are important to evaluate digital ventures.

Venture Capitalists Investment Decisions - Entrepreneurs' point of view

Characteristics of your company

1. What is your company name?

2. Since when do you exist?

3. Have you already received Venture Capital investments?

4. At which stage of your development did you receive your last investment?

5. What was the amount received on this last round?

6. What is the name of the VC fund that invested in your project?

Venture Capitalists Investment Decisions - Entrepreneurs' point of view

The importance of investment criteria

For this part of the questionnaire, you may use the most recent experience of fundraising you've been involved in as a reference.

We have classified the most frequently used investment criteria among five categories:

- Characteristics of the entrepreneur(s)
- Characteristics of the venture offering (product/service)
- Characteristics of the market targeted by the venture
- Investors requirements (e.g. Expected rate of return on the investment, expected risk for the investor, equity share held by the investor...)
- Characteristics of the investment proposal (e.g. Quality of the proposal, reliability of the financial projections, quality of the customer analysis...)

7. On the basis of your opinion and experience, rank these five categories of criteria used by investors in order of importance

⋮		Characteristics of the entrepreneur(s)
⋮		Characteristics of the venture offering (product/service)
⋮		Characteristics of the market targeted by the venture
⋮		Investors requirements
⋮		Characteristics of the investment proposal

8. On the basis of your opinion and experience, what is the importance level that should be given to each criteria by VCs considering an investment opportunity in a digital company?

A response of '1' on this scale means that you think that the criteria is not important at all in the investor decision, '7' signifies that this criteria is highly important in the VC decision, and '4' on this scale implies that the criteria is influential without being deterministic in the investor decision making.

	1	2	3	4	5	6	7
The entrepreneurs' familiarity with the industry targeted by the venture	☐	☐	☐	☐	☐	☐	☐

→ The criteria used are the same for the entrepreneurs and the venture capitalists

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