ISBN 978-984-35-5024-8

CES White Paper | October 2023

STARTUP VALUATION AND THE PERSONALITY OF FOUNDERS

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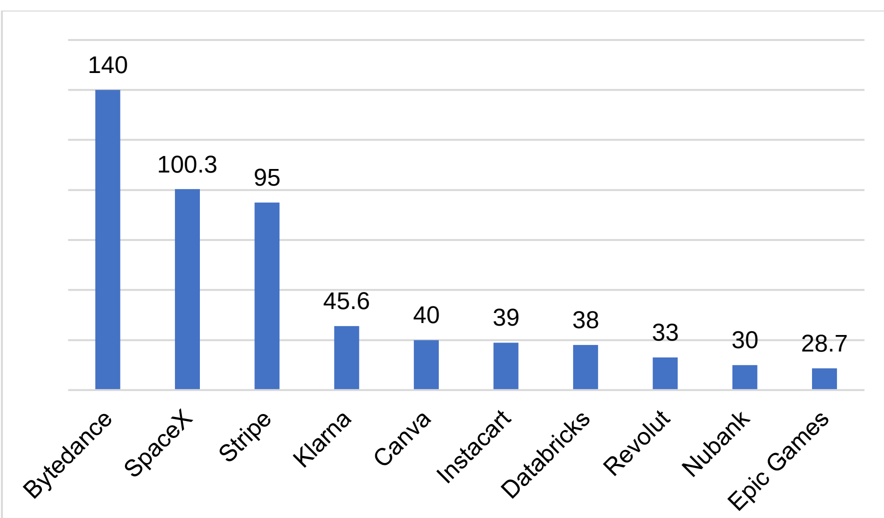
Overview

Startups in Bangladesh and across the world have become a recognizable force in terms of their size and growth and the value they offer to both investors and customers. Unlike in the olden days, the biggest organizations in terms of valuation or market capitalization are no longer oil companies, but rather startups that are termed unicorns. The largest startups in the US are SpaceX ($100.3 Bn) and Stripe ($95 Bn), while in China it is Bytedance ($140 Bn), the developer of the video network platforms Douyin and TikTok (Wallach, 2021). In India, Flipkart ($37 Bn) and BYJU's ($22 Bn) are the ones with the highest valuation (Jain, 2022).

Figure 1: Top 10 Unicorns with the Highest Valuation (in Billion US$)



Source: The World's Biggest Startups: Top Unicorns of 2021, Wallach, 2021

Closer to home, the scene is more embryonic. There are approximately 1,200 active startups in Bangladesh while 200 new ones are formed every year on average. The Bangladeshi startups have been able to raise investment and funding of around $804 Mn so far with around 82% coming from Venture Funds (LightCastle Analytics Wing, 2022). The first-ever unicorn of the country is bKash with a valuation of over $2 Bn (LightCastle Analytics Wing, 2022). Over the past six years, the startup ecosystem has grown six folds supporting approximately 1.5 million jobs directly and indirectly, and over 750,000 small and medium-sized enterprises (SMEs) across the country.

Figure 2: Startup Funding Raised in Bangladesh

Source: Bangladesh Startup Ecosystem Assessment Report, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), 2022.

The role of startups in value creation, innovation, and employment generation is undeniable and needs to be acknowledged. The Government of Bangladesh has also played an important role in promoting and supporting startups through its Digital Bangladesh Campaign, the National Perspective Plan 2041, the iDEA Project (a pre-seed grant platform), and its flagship venture fund – Startup Bangladesh Limited (ESCAP, 2022). The latter two have been launched to catalyze and develop a robust startup ecosystem.

While the recent statistics of the startup ecosystem in Bangladesh are quite positive and indicative of growth, it is also true that to grow sustainably, Bangladeshi startups need to address the structural weaknesses that they face. One of the key weaknesses is the intrinsic ability of startup founders to attract funds and achieve a higher valuation for their firms. Tina Jabeen, the CEO of Startup Bangladesh Limited mentioned at the 2021 Sankalp Global Summit that “most of the investors are concerned about who is operating and regulating the system, and whether it is reliable or not” (TBS Report, 2021).

The goal of this whitepaper is to see how the personality of a startup founder can help them attract more funds and achieve better valuation. On one end of the continuum, the paper looks at the charismatic leadership traits that enable a startup founder to achieve a better valuation. The charismatic leadership style is based on the charm and persuasiveness of leaders, who are skilled communicators; they are verbally eloquent and can communicate to followers on a deep, emotional level (Riggio, 2012). They are also inherently driven by their conviction and commitment to their cause (Cogner & Kanungo, 1998; Raelin, 2003; Riggio, 2012).

On the other end, the paper ponders on a cult of personality that startup founders often display in their pursuit of funding and investors. By the cult of personality, the paper indicates the salesmanship extremes that founders often indulge in through storytelling or speech-making to exert an overt influence on their institution, followers, and community. This influence may not necessarily always originate from the service provided by the leader but more from the image or brand they create for themselves.

Global academic literature as well as findings from our expert interviews indicate that the personality of a startup founder plays a key role in attracting funds. In fact, most investors look for certain traits while choosing a firm to invest in (Sanders & Boivie, 2004; Brandt & Stefansson, 2018). But research also suggests that there can be an alternative side to the scenario whereby the ecosystem's push for rapid growth can exacerbate some of the personality traits, leading to either certain types of people prevailing in the field or by promoting certain extreme behavior.

This white paper is structured as followed. First, the global literature on this topic is reviewed, and then to validate the hypotheses, provide qualitative findings from the local startup ecosystem derived from primary research, mainly expert interviews. The expert interviews have been conducted with angel investors, Startup and Entrepreneurship Researchers, Startup Mentors and Accelerators, and Startup Founders. The data and analysis presented in this paper have been organized as answers to the following research questions:

- What are the personal traits of startup entrepreneurs that investors look for while making their investment decision?
- How does the entrepreneur's personality affect the valuation of their firm?
- Are there any extreme sides of the personality traits of startup entrepreneurs? If yes, what are the consequences of those traits?

The Entrepreneurial Personality

The literature on entrepreneurship believes that the "entrepreneur" or founder is not just a key driver of the firm but is a far more dynamic force of nature bridging ideation, planning, and execution through their leadership skills and style. Research (Sanders & Boivie, 2004; Brandt & Stefansson, 2018) shows that the personality of entrepreneurs seeking finance is one of several factors a venture capitalist (VC) takes into account before determining whether or not to invest in a startup. Besides, there have also been cases where the seemingly larger-than-life personality of serial entrepreneurs has attracted massive funding for their startups.

Entrepreneurs' personalities, which are a collection of features or qualities that together make up their unique character, are discovered to function as indicators of how someone would behave. Personality traits are described as enduring propensities to act in particular ways (Allport, 1961; McElroy et al., 2007; Rauch & Frese, 2007). Since personality signals a propensity for innovation, autonomy, competitiveness, aggressiveness, and risk-taking (Allison et al., 2013), as well as agreeableness and openness (Thies et al., 2016), research to date has demonstrated that personality is highly relevant in day-to-day business activities.

Brandt and Stefansson (2018) state that all venture capitalists respect entrepreneurs who are passionate about their work and have the aptitude to succeed. The majority of venture capitalists also place a high value on entrepreneurs that are coachable, adaptable, visionary, and have strong communication skills. However, the decision of whether to invest or not is also frequently influenced by the preconceived notions of the VC. For instance, a VC might choose founders who share their experience and résumé or who are more sympathetic to the VC (Barnett & Finnemore, 2004).

Nofsinger and Wang (2011) researched the factors influencing early start-up financing in 27 countries and concluded that "institutional investors rely on entrepreneurs' start-up management expertise and the effectiveness of investor protection to prevent moral hazard." Informal investors, on the other hand, are more "attracted to the type of products in the new firm" and "more likely to have a social contact with the entrepreneur" when evaluating start-up ideas. Consequently, the entrepreneurial experience is viewed as being less significant (Skalicka, Dusatkova & Zinecker, 2016). According to the authors, "the entrepreneur matters most" when it comes to making decisions. But opportunity matters when angels evaluate whether “a deal matches their own investment goals as the deal progresses through the funding process" (Miloud et al., 2012).

Numerous authors (such as Peemöller et al., 2001) have brought up the issue of a lack of pertinent information for the valuation of start-ups, including the absence of historical data, uncertainty regarding the variables influencing their future, unclear future cash flows, etc. They have also emphasized the need for a method that will assist both the entrepreneurs and the investors (VCs) in reaching an agreement during negotiations on the price of their funding. The authors relied on earlier research that examined the parameters that VCs consider when choosing which investments to make. They claim that entrepreneurs' personality attributes like zeal, credibility, and experience are what investors are most interested in, along with potential sales (Van Osnabrugge & Robinson, 2000).

Another aspect of the entrepreneurial personality is that there exists a perceived hubris or a somewhat severe personality trait that is characterized by excessive pride, exaggerated confidence, and an inflated sense of self-worth (Judge et al., 2009; Owen & Davidson, 2009; Petit & Bollaert, 2012).

First, according to the hubris theory of entrepreneurship, these characteristics are especially important in startup environments because hubristic startup founders are better able to deal with high levels of uncertainty, time restraints, and high failure rates (Bollaert & Petit, 2010; Hayward et al., 2006; Ranft & O'Neill, 2001). Second, it has been demonstrated that concentrating on distinct, well-defined features has stronger predictive validity when compared to wider traits, such as the "big five model" (Aldrich, 1999; Barrick & Mount, 2005).

Hubris is a potent signal that enables startup founders to mitigate information asymmetries and thereby influence the investment intentions of potential backers in the absence of trust-building determinants that have been demonstrated to be effective in routine online retailing transactions. The personality shown in a pitch video acts as a signal for the evaluation of company founders' dependability by drawing on signaling theory. We find that when hubris is recognized, certain aspects of trust are activated, such as legitimacy and ability, whereas other elements, such as compassion and empathy, only appear when hubris is not observed (Sundermeier & Kummer, 2022). The ability dimension for company entrepreneurs relates to their talents, skills, and knowledge (Gefen et al., 2003; Guo et al., 2018).

As a result, entrepreneurship researchers keep looking for psychological characteristics or hereditary tendencies that are "special to the entrepreneur's psyche" and that could be used to support the idea that people like Bill Gates should be treated differently from regular people. The general population wants to hear about great entrepreneurs in the hopes of one day joining them in their success (Brandl and Bullinger 2009; Gerpott & Kieser, 2020). Indeed, a common notion among entrepreneurship researchers is that traits such as overconfidence (Salamouris 2013) or narcissism (Mathieu and St-Jean 2013) positively link to entrepreneurship. This raises the question of whether people with mental disorders might have a better chance of succeeding as entrepreneurs than people who are considered mentally sane (Gerpott & Kieser, 2020).

When an investor provides funding for a young firm, they invest in both the entrepreneur who will lead the business idea and the business idea itself (Balachandra, 2011). Many angel investors seek to develop a long-term, personal relationship with the entrepreneur and spend not only their money but also their time. Here, reliability is a crucial consideration. According to Balachandra's (2011) research, investors judge economic variables more favorably when they believe the entrepreneur to be trustworthy. Whether the angel investor conducts due diligence on the startup may depend on how trustworthy they find the entrepreneur to be (Roaldsnes, 2017).

Balachandra (2011) states that the entrepreneur's character (personality) is up to three times more essential to an angel investor than his or her level of ability. The degree of "openness" displayed by the entrepreneur was the trustworthy feature that contributed the most to the assessment of character (Balachandra, 2011; Mitteness et al., 2014). One of the most significant non-economic determinants for angel investment is shown to be coachability (Balachandra 2011; Balachandra, Sapienza & Kim, 2014; Roaldsnes, 2017).

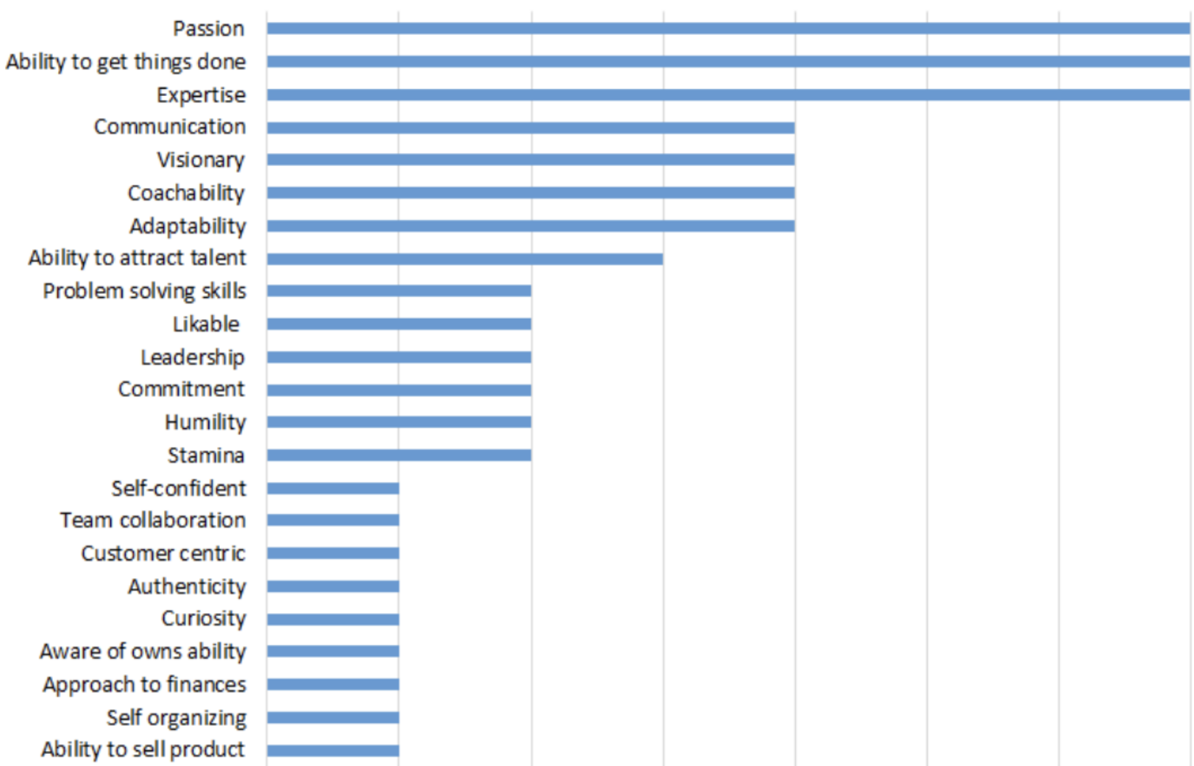
Angel investors primarily assess an entrepreneur's level of "openness" to evaluate whether they are coachable (Balachandra, Sapienza & Kim, 2014; Mitteness, Sudek & Baucus, 2010). Although the term "openness" for a personality trait has a broad definition, in this context, it usually means "available," "receptive," and "transparent." Entrepreneurs may come across as inauthentic if they are overly ecstatic and act on every suggestion and demand (Mitteness, Sudek, and Baucus, 2010). When an entrepreneur compromises on essential beliefs, it gives the impression that they are overly eager to win over others. This makes the business owner appear "weak" and "phony," which may delay the angel investor from performing due diligence (Roaldsnes, 2017).

Authentic-transformational leadership is an effective leadership style that boosts new venture success in a dynamic setting (Mitteness, Sudek & Baucus, 2010). Charisma, inspiration, and stimulation via problem-solving are traits of transformational leaders (Bass, 1900). Entrepreneurs that exhibit transformative leadership qualities frequently attract investors and stakeholders who are more fervent. Genuine leadership emphasizes trusting bonds with followers (Gardner et al., 2011). Positive attitudes and the promotion of transparency and honesty are traits of true leaders. Positive emotional connections or emotional states are produced by authentic-transformational leaders (Gardner et al., 2011). They probably show passion, which gets passed on to important stakeholders. Stakeholders place a great value on this passion, which is seen as motivating business owners to overcome challenges and continue working on the project (Roaldsnes, 2017).

Out of these factors, two key traits of leaders emerge: the capacity to inspire others without pushing things upon them and the capacity to coordinate and unify both individual and group behavior in a manner necessary for the organization's success. Some specialists look for particular "ingredients" in leadership (e.g. Kouzes and Posner, 1997 as quoted in Fowler, 2000). A charismatic leader can win over their followers' trust. He uses the apparatus to "get the masses behind him," and the constituents are "for him nothing more than political spoilsmen enrolled in his following" (Weber, 1947: 107).

In another research by Joshi (2020), charismatic leadership can be both advantageous and detrimental. Charismatic leadership, more so than other prevalent leadership philosophies, is dependent on the leader's actions and personality, not on a method or structure (Riggio, 2009). In contrast, some theories of charismatic leadership consider charisma to be a quality that is largely influenced by how followers perceive their leader (e.g., Conger, Kanungo, & Menon, 2000; Howell & Shamir, 2005; Joshi, 2020). Leaders with charismatic personalities can make their strengths seem outstanding. They frequently perform admirable deeds of personal risk and acts of selflessness. Followers must believe these actions require a lot of personal risks, expense, and effort (Conger, 1987). This became a model for many charismatic business leaders, including Sergey Brin of Alphabet Inc., Elon Musk of Tesla, Jerry Yang of Yahoo, Meg Whitman of HP, Steve Jobs of Apple, Larry Ellison of Oracle Corporation, and Larry Page of Alphabet Inc. (Isaac, 2012; Joshi, 2020). The perceived credibility of leaders increases as the personal cost or sacrifice increases.

Figure 3: Essential Personality Traits of Startup Founders & the Degree of Importance



Source: The Personality Venture Capitalists look for in an Entrepreneur, Brandt & Stefansson, 2018.

Factors affecting Startup Valuation

The process of investing in venture capital is reasonably well defined, beginning with the origination of the deal and concluding with the exit of the investment (Tyebjee and Bruno, 1984; Ge, 2003). One of the most significant and difficult problems that entrepreneurs and venture capitalists must deal with in this phased process is the valuation of an entrepreneurial organization. The valuation of a new venture is particularly crucial for venture capitalists since it influences their relationship with their fund providers and the proportion of shares they will receive in return for their investment and, ultimately, their returns (Manigart et al., 1998; Blaydon and Hovarth, 2002; Ge, 2003).

The majority of founders and CEOs reported having comparable perceptions of their personalities. Resilient, visionary, and charismatic were identified by both groups as the top three qualities that people would use to characterize them. However, only "methodical" demonstrated a statistically significant bivariate connection with valuation outcomes out of the twelve qualities examined (Eisenmann, 2020).

For both investors and founders, the startup's valuation is of utmost importance (Cumming and Dai, 2011; Hsu, 2004; Engel and Keilbach, 2007; Hochberg et al., 2010; Gompers et al., 2010). Given the lack of previous data and the uncertainty surrounding numerous factors that could affect a firm's future, it is generally harder to value a young company (Peemöller et al., 2001).

Because the majority of the proposals they get do not meet their investment criteria, Mason and Harrison (2002a) have observed that Business Angels are generally searching for more investment options. For instance, in the business and technological sectors, the location or firm stage may not meet their requirements. A lengthy selection procedure, limited access to university experts, and high search costs make it difficult and expensive to find a good opportunity (Mason and Harrison, 1992; Mason and Harrison, 1995). Numerous academics have done extensive research on how investors base their decisions on various frameworks (Fried and Hisrich, 1994; Mason and Harrison, 1996a; Paul, et al., 2004; Zheng, et al., 2010; Van Osnabrugge, 2000; Festel et al., 2013). In addition to factors like financial risk or the company's business plan, the engaged VCs in turn have a significant impact on the attraction of additional outside funding in later stages (Festel et al., 2013).

Van Osnabrugge and Robinson (2000) rated the 27 most important characteristics for European angel investors, with the entrepreneur's excitement and his credibility coming in first and second, respectively, and the product's sales potential and the entrepreneur's skill coming in third and fourth. In a similar study on American angels, Sudek (2006) came to different conclusions. Trustworthiness came in at the top, followed by the management team, enthusiasm, and then viable exit strategies. Only taking into account the management team's passion and perceived sense of survival, coachability was ranked third and the experience of the adviser and the team came in last (Festel et al., 2013).

Fraud in Startups

Some of the most well-known companies in the world have come through venture capital investments; for example, Google, Facebook, and Airbnb were all little startups before being catapulted by VC money to become some of the most successful businesses ever. However, a well-known Silicon Valley investor claimed that contemporary startup funding isn't nearly the same as it once was. He also used some strong language to make his point (Team, 2018). Modern venture capital investing, according to Chamath Palihapitiya, a former employee of early Facebook and investor in firms like Slack and Palantir, is a massive Ponzi scheme. When asked about startup financing in an interview, Palihapitiya, who is now worth over $1 billion, responded, "We are in the middle of a massive multi-variate sort of Ponzi scheme. According to Palihapitiya, the structure of the investment sector provides incentives that may not be in line with what is desirable for business owners (Team, 2018).

Various examples and analyses of startup fraud were described in the Journal of Financial Crimes, by authors Gleason K., Kannan Y.H., and Rauch C. (2022). Imbierowicz and Rauch (2021) report that over an average investment horizon of 2.5 years, 98 Unicorns in their sample were sued 1,723 times in total. This equates to an average of seven lawsuits per Unicorn per year, with the great majority of claims including fraudulent behavior. The relationship between VC investors and companies serves as the background for this dishonest behavior. Attracting cash is essential for startups at all stages of their life cycle to build their businesses and products and acquire customers. This lifecycle has numerous critical phases that line up with getting finance (Gleason et al., 2022). Investors demand that a startup develop a product or service after it is founded, demonstrate proof of concept, show there is a market for the product or service, and display signs of extraordinary market growth, including several key performance indicators (KPIs), relied upon by startup investors. The startup must hit these benchmarks to get funding over its lifespan. If this isn't done, more money can't be raised, which inevitably leads to the startup failing and all previous investments being lost. Therefore, it is imperative for both the entrepreneurs and the current VC investors to constantly raise new cash and maintain the startup's growth (Gleason et al., 2022).

As a result, companies frequently turn to dubious or dishonest means of achieving these milestones while pursuing development. In particular, fraud is a problem because startup stakeholders, like employees, creditors, suppliers, and potential shareholders when the startup goes public or is acquired in an exit, frequently interact with startups without having a thorough understanding of these dynamics and without requesting and verifying information before engaging with the startup.

Gleason et al. (2022) describe how the startup environment increases fraud risk to stakeholders using the "Fraud Triangle" theory. In doing so, they also detail how an extra fraud vulnerability is created because stakeholders fail to demand an external audit before engaging with the startup. This is particularly important as third-party stakeholders and post-venture startup owners, such as retail investors in venture-backed IPOs, are typically the victims of such fraud. An important catalyst for dishonest behavior in startups is the implicit or overt agreement between VC investors and entrepreneurs to develop firms as quickly and aggressively as feasible. The phrase "fake it till you make it" refers to the practice of, at best, cutting corners or, at worst, intentionally using illegal activity in the pursuit of business growth. VC investors may tolerate or foster this culture in startups rather than denouncing unethical or illegal behavior on the part of the entrepreneurs (Gleason et al., 2022).

In the research from Gleason et al. (2022), the authors state that since every new investor requires past growth to invest, founders are under intense pressure to develop their businesses from founding to exit. Because of the staged fundraising process, founders are under tremendous pressure to develop quickly—within 12 to 15 months—by whatever means necessary. This results in a strong desire for the firm to develop as quickly as possible between fundraising rounds, disregarding any long-term view. If these objectives cannot be met through routine company operations, startups may turn to dishonest behavior to either appear to have met or exceeded the established milestones, like in the cases of WeWork and Zenefits (Gleason et al, 2022; Gleason, Kannan & Rauch, 2022).

Findings from Bangladesh Startup Ecosystem Expert Interviews

The number of experts interviewed for this white paper is 10. These experts ranged from angel investors, startup and entrepreneurship researchers, startup mentors from accelerator programs, and startup founders. Due to potential conflicts of interest, the identities of the interviewees have been kept anonymous except for the cases where we have received written consent to publish identities. The interviewees were asked questions regarding personality traits that VCs and other investors look for in startup founders, the degree to which an entrepreneur's personality affects a startup's attractiveness or ability to receive funding, the downside of certain extreme behavioral traits, the factors that render a startup a unicorn and what role the personality of the founder plays in that, and about the threats of startup fraud. The findings from the expert interviews have been organized and outlined below according to the research questions mentioned in the overview section.

Traits sought by Investors

The expert interviews revealed that the personality of a founder or entrepreneur is a key decision-making criterion in the process of selecting startups for investment. In discussing the personality traits, most of the respondents identified skills, experience as well as behavioral characteristics that they associate with the personality of a founder. The following traits have been specifically mentioned by one or more of the respondents.

- Confidence: All the respondents identified the level of confidence of a founder as an essential trait. The level of confidence projected through verbal and body language are equally important along with the presentability of the founder. It has been noted that the level of confidence is often correlated with the ability to speak and communicate well and along with their personal belief in the value proposition of the startup. It has also been mentioned that the confidence of the co-founders and the team in the founder/CEO is also essential in projecting a confident outlook for the firm.

- Experience Profile: The second most agreed-upon factor that investors look into while making the investment decision is the experience of the founder. The experience criterion has been discussed thoroughly by individual respondents reflecting on different aspects ranging from work experience to savings/investment experience and fundraising experience. Respondents have mentioned that for angel investors, it is essential that the founder has relevant work experience in the field or industry where the startup belongs. VCs and accelerators also look into the personal investment experience and fundraising experience of the founders to analyze their ability to utilize funds effectively. It has also been mentioned that the level of experience can also correlate with their industry knowledge and network which is essential for the survival and sustainability of the startup.

- Leadership Style: The third most agreed upon trait is the leadership style of the founder. The respondents mentioned that a charismatic leadership style is most preferred and how that should be evident in the team management of a founder. The respondents mentioned that startup founders need to be team-oriented leaders as they are preferred by investors. It is also recommended to have cofounders who can share major responsibilities. A charismatic leader is also a visionary with a clear line of sight and alignment within the team. They have to play multiple roles and wear alternate hats for different purposes. They need to be an analyst, a coach, and an administrative person simultaneously. Their treatment of the cofounders and team members should showcase trust but with an authoritative attitude about the goals, deliverables, decisions, and KPIs of the team. The founder must also be a good mentor, evaluating the performance of the team and identifying individual training needs where applicable. The founder’s ability to attract and retain talent is also seen as a measure of leadership skills.

- Knowledge Level: The level of knowledge of the founder about the industry, market, value proposition, and internal data (accounts and forecasts) is another key factor. The respondents mentioned that work experience often correlates with industry and market knowledge. However, the founders must possess extensive knowledge of their organization’s internal and external relevant data, starting from financial data like sales, accounts, and growth forecasts to the target market, scalability opportunities, and industry dynamics.

- Network or Networking Skills: All the respondents have mentioned that the ability to network has a direct impact on how the founder is projected in the eyes of the investor. This criterion can to some extent be correlated with extraversion but it is also true that introverted founders can also have strong networking skills as it is seen as a necessity to get the job done. A founder with a strong network will often be able to convert their network into either clients or suppliers or investors. This also enables them to have a well-known advisory body of the startup, which is often seen as a measure of a strong network and along with access to industry insiders with key information.

- Personal Story: The story of a founder’s personal journey and what led them to build the startup is one of the cornerstones of a startup pitch. The importance of this is widely acknowledged so much that the personal story has become a part of the pitch template. However, the respondents say that there is often a certain degree of predictability in the story of most startup entrepreneurs which indicates fabrication or exaggeration. As a result, credibility or authenticity is given importance in the personal storytelling of the founders. Then again, there is no specific way to measure the credibility of a story, and is highly subjective to the experiences and biases of the investors.

- Flexibility: Investors also look for flexibility and the ability to accept feedback or criticism in startup founders. It is essential that they have a learning mindset and engage in regular brainstorming with their teams.

- Risk-taking Attitude: Investors try to assess if the startup founder can take calculated risks based on reliable data. They try to ascertain this through their money management skills and response to opportunities. Given that startups are essentially high-risk investments, founders need to have a high threshold for risk tolerance as they are often seen bootstrapping and doing more with less.

- Ability to meet KPIs: Investors expect the founders of startups to be able to meet KPI-based or milestone-based deliverables. Startup founders need to be able to meet the deliverables in time even if the outcome is a failure. They must have an analytical mindset to be able to dissect their failures and learn from them but not fail to deliver since that indicates weakness in executing essential tasks.

- Passion: The respondents mentioned that the founders should be passionate about their work and the value proposition of their startups. However, it is important that they are not obsessed with their ideas as it makes them less flexible and responsive to feedback.

- Extraversion: This criterion is subject to debate among the respondents. Some of the respondents believe that extraversion is a key personality trait of startup founders and is necessary for networking and communication. However, many others disagree saying that most of the interactions with investors are one-on-one in-person discussions that do not require a high degree of extraversion. Besides, many successful introverted startup founders are also known to have significantly strong networks developed over the years.

- Personal Branding: This is another criterion that most respondents agree upon. Startup founders need to be good salespeople. They need to be able to sell themselves, their brand, and their idea to investors, customers, and other stakeholders. Flamboyance with words, aggression, and having their own personal style is deemed necessary. They need to pay attention to neatness and corporate minimalism in clothing. Besides, in the age of social media, it is essential that they have an active presence on social media platforms to mindfully build their brand.

The traits and criteria mentioned above are mostly congruent with the ones identified by Brandt and Stefansson (2018). This validates the findings and enables the conclusion that investors across the world have similar expectations of startup founders which indicates that there might be a skewed deviation in the type of people that can exist and sustain in the startup ecosystem. However, given the high rate of failure of startups, it is also important to see if successful startups (in terms of high valuation) are an outcome of certain traits prevalent in their founders.

Traits influencing Valuation

Although it is hard to ascertain a direct correlation between the personality traits of a startup founder and the valuation of their firm since there are several factors beyond the entrepreneur that directly affects the valuation of a firm, there is an indirect relationship as mentioned by the respondents. The personality of the founder is an important factor that influences fundraising since most investors believe that they invest in the people as much as in the idea. This indirectly influences the valuation of a startup over subsequent series of fundraising and investment. The buy-in of famous VCs or Angels often increases the perceived value of the firm which can influence sales and growth forecasts positively, and in turn, increase the valuation of the firm. The same is true for the talent it attracts building public and investor confidence in the firm.

Extreme Traits, Consequences, and Recommendations

Since start-up founders need to create avant-garde or novel solutions through their value proposition, they generally engage in disruptive high-risk environments. They mostly need to be aggressive in their pursuit of resources and funding for their enterprise and in the process they often tend to be myopic in their ideas. This creates a tendency to be overconfident or disregard other peoples' views and if accompanied by success, tends to reinforce self-belief, which is often reflected in the form of narcissism. Besides their constant engagement in personal branding and marketing to create a brand image for themselves and their start-up also reinforces the public perception of narcissistic behavior. This being said, there are a number of key factors/traits that have been identified as extremes by the respondents.

I. Fabrication of Personal Story: Since the personal story has become part of the pitching template, every start-up entrepreneur needs to engage in the process of creating one, whether or not they have a compelling story. This is a common practice in the ecosystem and is not necessarily a flaw of the individuals. Sometimes the story is over-emphasized and tends to overpower the value proposition of the start-up or the ideas and decisions of the investors. Such an extreme can backfire for smaller start-ups and prove to be unsustainable for the bigger ones.

One particular way to avoid the fabrication of one's personal story is by regular journaling. On one hand, it provides the day-to-day details of one's life and struggles with the new venture, while on the other, it helps to practice writing. Good writers are often better storytellers. Reading and consuming content can help but it's always better to record your own story as gives you a better grasp on the missing dots that can project a compelling story.

II. Overstatement of Projections or Non-disclosure of Essential Data: Since the start-up ecosystem emphasizes hyperbolic growth in extremely short periods, founders are often encouraged or pushed to meet the KPIs by overstating financial or growth projections. This is also a common practice, however, there is an acceptable range of inflated numeric projections specific to different industries. However, continued practice of this behavior poses the risk of cooking the books or even hiding essential data from the investors, which is a critical red flag in the ecosystem.

There is no remedy to the purposeful hiding of data and cooking the books. However, startup founders can learn to be more data-centric and record internal data with greater clarity for the accounts and financial projections to be trustworthy. Investors on the other hand can use their due diligence teams to cross-check the feasibility of the startup idea and the validity of projections. Individual angel investors need to be more cautious as they have limited resources for due diligence compared to VCs. However, they can make the effort to visit the team, meet the cofounders, check the coding (for apps and software) and check bank records or even ask for an independent audit before making investment decisions. Industry knowledge and investment experience also come in handy to carry out personal due diligence for angel investors.

III. Development of a Cult of Personality: The start-up ecosystem tends to promote a certain type of personality over others, and is characterized by great salesmanship and communication skills along with an aggressive brand image of a 'go-getter'. However, this often puts too much emphasis on the founder themselves instead of the start-up/idea/solution they represent. The cult of personality indicates a leadership style that has an overt influence over the community they belong to through speech-making or storytelling or through social media presence but is not always based on the service they are providing. Social media also plays a dominant role in promoting such a cult of personality since the founders can enjoy unrivaled success with their millions of follower base.

The plethora of literature available on successful startup founders and their personalities and life stories are a handy tool for investors to learn from. Categorizing the traits that are red flags and actively looking out to avoid them can be a risk-hedging mechanism.

IV. Overselling Innovation: This is a global phenomenon and sociologists believe that technology is being oversold with subsequently smaller hardware in storing data and making decisions easier/better with AI, which is more of an evolution than a revolution. Most of the value propositions of start-ups seen nowadays are tech-based and app-based, automating aspects of everyday human life. It is not to say that these services are in any way not useful or less relevant. Still, the marketing that goes behind these innovations claiming to be revolutionary is an exaggeration. However, there are a number of homegrown grass-root solutions to critical problems like climate change, poverty, or education that are beyond this category and do possess the potential to be revolutionary. That being said since a majority of the value propositions are derivatives of existing innovations, most start-up founders also engage in overselling their innovation. This often leads to a negative public image when the value provided cannot meet the value expected or the hype created.
Due diligence, industry knowledge, and innovation check can be effective in avoiding the risk of getting overselling innovation. While it’s important to create hype for a new product or solution, it is also important to let the value speak for itself. Simple solutions can sometimes be life-changing and it is on the marketing team to decide the ideal and effective level of promotion required for a product/solution/technology.

V. Engagement in Dubious Activities and Fraud: This is the most extreme outcome of the previous issues discussed. Whether it is Theranos or WeWorks or FTS or Zenefits, the engagement of the founders in dubious activities, cooking the books, disregarding scientific data, and exaggerating innovation was the core of their fraudulent activities. The respondents expressed that this is a real threat to investors and the entire startup ecosystem. However, they also discussed some remedies to the challenges mentioned above including certain red flags that can indicate potentially fraudulent activities. Failing to meet deliverables or KPIs, driving too much change through their value proposition/idea, or engaging in too much storytelling are some red flags to be wary of. Besides, investors should also have their own risk-hedging mechanism to avoid falling prey to startup fraud.

Limitations and Conclusion

This study is simply the first in a lengthier, multi-year research project that will examine a variety of startups with different valuation ranges and the personality of their founders/entrepreneurs. A mix of quantitative and qualitative correlation between the two can lead to a better understanding of the causal relationship between the personality traits of founders and the valuation of their startups. This study aimed to involve stakeholders in the startup ecosystem and communicate their perceptions of the personality traits of startup founders that influence investor attractiveness and firm valuation with a wider audience, particularly the ecosystem of startup founders and investors who can address the structural weaknesses.

This research is a combination of extant academic literature and findings from expert interviews. However, the limited sample of interviews may include certain biases of opinion. Subsequent research will seek to widen the sample of interview respondents both within Bangladesh and globally to generate a more rigorous analysis of the findings while eliminating perception biases that may arise from a smaller sample size.

The main takeaway from this study is that the personality of startup founders is a cornerstone of investment decision-making. Investors look for experienced and charismatic entrepreneurs, confident communicators with strong networking skills, passionate yet flexible, and capable of meeting KPIs and delivering results while taking calculated risks. However, there is a tendency of promoting similar kinds of people in this ecosystem which can generate extreme personality traits that pose the risk of overselling innovation and fraudulent activities. But it does not mean, most entrepreneurs display such extremes. Rather, it indicates that the entire startup ecosystem and its stakeholders can learn from these tendencies and take prudent measures to avoid falling prey to undesired outcomes.

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