Integrating Organizational Culture in the VC Evaluation Process

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Integration av Organisationskultur i Utvärderingsprocessen för Riskkapitalister

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Abstract

Assessing the team is an essential part of the evaluation process conducted by venture capitalists before an investment opportunity. In turn, the team is completely influenced by its organizational culture. Therefore in this study, I investigate how organizational culture can become an integral part of the VC evaluation process to improve this procedure. This is done by exploring how the culture assessment is performed and what culture factors that are considered important. For this purpose, semi-structured interviews have been conducted with seven investment managers from five different VC firms. My findings indicate that the investors lack a structured methodology to assess culture. The assessment is mainly focused on the founders and management team, and performed through interactions with their network, personality tests and discussions. Except from the founders and management team, the investors also highlights the importance of assessing the degree of teamwork and consensus, diversity and inclusion, receptivity and adaptability, talent attraction ability, employee turnover, defined and shared responsibility and focus within the venture. Ultimately, this thesis suggests an assessment framework regarding organizational culture for venture capitalists.

Keywords: Venture capital, Investment process, Management team, Founders, Team evaluation, Organizational culture, Startup culture, Culture assessment
Sammanfattning


Nyckelord: Riskkapital, Investeringsprocess, Management team, Grundare, Teamutvärdering, Organisationskultur, Startup kultur, Kulturutvärdering
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Foreword

This thesis was written in the autumn of 2018 at KTH Royal Institute of Technology by Nora Larosei. It was written to achieve a Master of Science in Industrial Engineering and Management.

Firstly, I would like to express my gratitude to Johann Packendorff, Professor of Industrial Economics and Management and supervisor of this research, for his thoughtful feedback and support throughout the whole thesis project. Secondly, I would like to thank all the investment managers who took their time to participate in the interviews, and provide additional information when needed. Lastly, I would also like to thank my classmates for the discussions and constructive criticism during the seminars of this course.
1 Introduction

This section begins with a presentation of the background and problem formulation of this study. This is followed by a presentation of the purpose and research question that was identified. Lastly, the delimitations and expected contribution is outlined.

1.1 Background

Entrepreneurship is an essential factor for long term economic growth. It transforms economic resources from low productivity to high productivity area with higher yield. Thus, entrepreneurship is crucial for the economic progress of any nation. However, several entrepreneurial firms might lack financial resources and the right competences to manage and develop a startup company. This is particularly true for startups within the tech industry (Gans & Stern, 2003). Therefore, to maintain the development of the entrepreneurial economy it is critical that the business environment is as helpful as possible.

Venture Capitalists (VCs) have important roles in driving the entrepreneurial economy. They provide financial and operational support in exchange for equity stakes in their ventures. By their operations, VCs facilitate the entrepreneurs’ possibilities to launch and run their businesses successfully (Zider, 1998). They monitor their ventures and provide value-adding support such as coaching and access to a great network. It has been shown that ventures, that receive VC support, becomes more successful than firms without this support in that way that they grow faster, have higher productivity and patent more (Croce et al., 2013).

VC mainly target young and emerging startups, which commonly are very risky (Kaplan & Strömberg, 2009). Therefore, VCs aim for high return investments to compensate for the risk they undertake. These companies can have a unique business concept and major growth opportunities and be associated with high uncertainty. Thus, evaluating these startups is usually a significant challenge for VCs (Seppä & Laamanen, 2008). In order to accomplish successful investments, it is of great importance that VCs manage to evaluate their potential investments accurately. The considerable uncertainty in measuring the prospects of a young venture requires that a thorough evaluation is performed by the VCs. This enhances their possibilities of achieving their targeted return. As a result of the relatively large percentage of failing investments, a minor increase in successful investments through attentive analysis could improve the total returns of the funds considerably.

The VC investment process can generally be divided in two phases, namely the pre-investment phase and the post-investment activities. The post-investment activities concerns backing and coaching ventures during their development (Zider, 1998). As for the pre-investment phase, it involves evaluating the investment criteria regarding four broad aspects, namely market prospects, financial factors, product differentiation and team (Smart, 1999).
The significance of each element has been discussed by many researchers over the years. Various researchers have demonstrated that VCs assign the team the largest weight in their evaluation process. In a research conducted by Gomper et al. (2016) on 885 institutional VCs, 47% of the respondents considered the team to be the most important factor. Thus, the idea of this element being the most essential has received a great deal of attention in recent years (Miloud et al., 2012). This is based on the presumption that regardless of the potential of the market and product, there is only a slight probability that the venture is successful within these aspects with a dysfunctional team.

1.2 Problem Formulation

The evaluation of the team of a startup concerns various factors. According to Finger and Samwer (1998) the team is completely influenced by the organizational culture. They claim that culture decides what people that gets hired, the behavior of the people and eventually how decisions are made. Thus, the organizational culture should be assessed accordingly. One of the reasons to assess culture is to address growing opportunities, which is the main focus of a startup company (Stanford, 2011c).

There are several findings suggesting that organizational culture is crucial for running a successful venture (e.g. Finger & Samwer, 1998). It determines how employees perceive their workplace, to what extent they understand the business and how they identify themselves within the organization. Thus, culture becomes a driving force for actions, decisions and ultimately the overall organizational performance. In addition, the responsibility to create the culture lies within the management. (Finger & Samwer, 1998).

However, culture is a difficult phenomenon to achieve and measure appropriately. It is a changing target and includes abstract factors that are interpreted differently by different people. Moreover, it emerges by the actions and interactions of an association.

Recognizing the importance of organizational culture for the future outlook of a startup, it becomes of big importance to both evaluate culture in the pre-investment process, and improve this aspect during the post-investment activities. Smart (1999) argues that investors that manages the team assessment receive higher returns. However, VCs often miscalculate this factor and focus on ventures that fail. Thereby, they miss opportunities to raise money, create jobs and let new technologies to be innovated.

1.3 Purpose

The purpose of this research is to investigate how VC firms could improve their investment process regarding the assessment of organizational culture. By gathering knowledge about their current evaluation process and its strengths and limitations, the aim is to provide an analysis framework that makes it possible to identify essential factors, regarding organizational culture, from a VC perspective.
1.4 Research Questions

Given the research problem and the aforementioned purpose, the following research question have been stated:

*How can organizational culture become a part of the VC evaluation process?*

In order to answer this research question, two sub-questions have been formulated.

- How is the organizational culture assessed in the investment process used by Swedish VC firms?
- What factors regarding organizational culture is considered essential?

1.5 Delimitation

This research has been bounded by a few delimitations. The first delimitation was to solely cover Swedish-based VC firms, and one state-owned incorporated company. Firstly, this was done because a research gap was identified. While exploring this area in the pre-study, it was found that there is limited research on Swedish-based VC firms. Secondly, the focus was determined due to limited time and resources and because of practical reasons for my own geographical location. However, the state-owned company was included as its business activities are similar to a VC firm, with the difference that they are state-owned. Their views and assessment methods regarding culture is therefore considered of equal contribution as the VC firms’. Thereby, it allowed me to gather sufficient data, from more case companies, by including them.

The second delimitation is that only one aspect of the investment process is explored. That is the assessment of the team, and more specifically the organizational culture. This area was targeted as my pre-study revealed that the team is considered as one of the most important factors for VC firms. Moreover, researchers claim that VCs generally has a lacking ability in assessing the human capital (e.g. Zacharakis & Meyer, 1998). In addition, it was found that there is little research both regarding organizational culture within startups in general, and regarding the assessment of this phenomenon.

Lastly, this research was delimited to VC firms that target technology ventures that are in an earlier stage of a venture life-cycle. More specifically, VC firms that target technology ventures funding stages Seed or Series A. An organizational culture is a phenomenon that can differ greatly across different countries, industries and corporate sizes amongst other factors. Therefore, this delimitation was done to avoid too much variations in the results and increase feasibility for one specific size and industry focus. The funding stages Seed and Series A can be compared to the creativity stage in Greiner’s model for organizational growth. In this model, Grainer claims that the culture at this stage is represented by informal communication and unspecified roles, while a strong organizational structure emerges in the next stage. The VC funding stages and Greiner’s growth model are explained further under the section Literature Review.
1.6 Expected Contribution

This paper is expected to contribute to the academic literature on the VC arena by increasing understanding of the organizational culture assessment during the investment process. With this being under-researched, I expect to contribute with insights into how the case companies assess culture and what they consider important regarding this matter. Based on that, my aim is to provide an analysis framework for how organizational culture could be assessed in a structured manner. This will hopefully help VCs, and investors with similar business activities, improve both the assessment of culture during the pre-investment phase and help them target relevant areas during the post-investment phase.
2 Literature Review

Firstly, this chapter presents the literature review in two parts. The first part gives a brief overview of the venture capital business. This contains a description of the VC stakeholders and investment process, together with the perspective of the entrepreneurs regarding VC funding. The second part, outlines a theoretical overview of organizational culture. Lastly, I provide a culture assessment framework that is based on the literature in this section.

2.1 Venture Capital System

2.1.1 VC Stakeholders

A company that is established to seek for a scalable business model, is one of many definitions of a startup (Blank, 2010). A startup normally consists of only a few people in its initial phase, with little resources. In this phase, it might for example need more capital or access to industry expertise and a greater network to launch the right product or find the right employees. When a startup is confronted with these challenges, it might turn to various external investors for support. Some of the common investors are Business Angels (BA), banks and Venture Capitalists (VCs) (Cohen, 2013).

VCs, who are in the focus of this research, direct their whole business on investing in startups. They search for small companies with great business opportunities and growth potential, but need managerial, financial or strategic support. They offer financing from their fund to these ventures. In turn, they will obtain equity stakes and often take a seat on the board of directors (Fried, 2006). The VC operation structure can be viewed in Figure 1 below.
The different stakeholders that are involved in the VC operation structure are the General Partner, Limited Partners, VC fund and the portfolio companies. The general partner is represented by the VC firm. They mainly receive funds from external investors called limited partners. These external investors are, for example, insurance companies or pension funds. Moreover, they can be wealthy individuals or governments. This capital is, in turn, used to invest in different portfolio companies (Fleischer, 2008; Sahlman, 1990). By investing in risky businesses such as startups, the ambition, of the general and limited partners, is to receive larger returns (Kollmann & Kuckertz, 2010).

The difference between VCs and other financers, such as banks or BAs, is that they normally are more active in the development of their portfolio companies. Moreover, VCs are generally more closely affiliated with their ventures. Except from monitoring the activities of their ventures, they also provide support and governance (Hellmann & Puri, 2000). Other types of investors are normally not as actively involved in their portfolio companies. VC firms resemble Private Equity (PE) firms. They are dissimilar, however, in that way that VC firms normally target ventures in the earlier stages of their organizational life cycle (Kaplan & Strömberg, 2009). Moreover, VCs normally specializes in ventures in a certain maturity phase, in a specific industry or with a certain technology.

### 2.1.2 Funding Types

VC companies are often specialized in investing in startups that are in a certain maturity phase in their development. There are different criteria by which startups can be categorized into different phases. This categorization is based on whether the company has, for example, completed a product, started generating revenues or which to
pursue an initial public offering. In other words, the different phases concern separate requirements for the ventures (Caselli & Gatti, 2004). Thus, the type of funding that a venture receives depends on which phase it has reached. The different funding types are referred to as seed capital, series A, series B and series C (Donch et al., 2017). Below follows a brief description of each funding type.

*Seed Capital*
Seed capital concerns funding that is generally used early in the life-cycle of a venture for business initiation. The funding is normally used before the venture has started generating revenue to launch an idea. This idea could be an initial prototype of a product or service. Ventures in this initial phase are often associated with a high degree of uncertainty. In addition, the capital is mainly received from family, friends and crowdfunding.

*Series A*
Series a financing is generally used to develop and complete a product or service. Additionally, it is used for marketing to establish themselves in a specific market, with a particular customer base. The external investors that are involved in this phase are normally angel investors and venture capitalists.

*Series B*
In this phase, the company has started generating revenue. The investment is normally used to build the company. This may involve expanding their workforce and market share or developing an improved product or service (Donch et al., 2017; Metrick & Yasuda, 2010).

*Series C*
External investors invest series C capital to support their ventures to grow their business. This could mean helping the firms to go through with an IPO, an acquisition or entering into international markets. This type of funding usually involves venture capitalists and private equity firms (Donch et al., 2017; Baker et al., 2015).

### 2.1.3 VC Investment Process

The investment process used by VCs can generally be divided into two phases, namely the pre-investment phase and the post-investment phase. Various researchers suggest different understandings of the activities that this process consists of (Lahti & Lehtonen). Bruno and Tyebjee (1984) developed a model that describes five different stages of the investment process. The first four stages, deal origination, screening, evaluation and structuring, in this framework, represents the pre-investment phase, whilst the fifth and last stage, the post-investment activities, represents the post-investment phase. Below follows an illustration and a brief description of each stage.
Deal origination
The first step in the pre-investment process is the deal origination. The deal origination concerns the time when the potential investments are discovered by the investors (Tyebjee & Bruno, 1984). Either the potential investees present themselves for the investors, or the investors actively make themselves known for the companies (Fried & Hisrich, 1994). Ventures are normally presented by old calls from the entrepreneurs, or through the network of referrals of the VCs (Tyebjee & Bruno, 1984). However, VCs seldom invest in the ventures that have presented themselves through a cold call. A majority of the deals that the VCs invest in has been introduced by their network. Two reasons for this is that these investors trust their network, and that the referrals are aware of the VCs preferences (Fried & Hisrich, 1994). This network of referrals can be everything from professional consultants and investment bankers to family and friends (Hall & Hofer, 1993; Fried & Hisrich, 1994).

Screening
According to Bruno and Tyebjee (1984), a deal screening is initiated after an investment opportunity is found. During this stage, VC firms make a shorter assessment of the potential investment based on both firm-specific requirements and general requirements. These requirements can, inter alia, be related to industries or geographic locations (Fried & Hisrich, 1994). Here, the investors eliminate the startups that lie outside their focus area since they usually have limited time and resources (Tyebjee & Bruno, 1984).

Evaluation
If a potential investment meets the criteria during the deal screening, a more careful assessment will be carried out in the evaluation stage. Evaluation activities concern interviewing the management team, reviewing the business proposal and investigating comparable firms (Fried & Hisrich, 1994). This evaluation involves investment criteria that cover four main aspects, namely financial factors, market prospects, product/service differentiation and team. As for the financial factors, it concerns the outlook of the venture’s short- and long-term financing ability. When evaluating the market prospects, the investors investigate external factors such as potential customers, industry growth potential and the market need. Regarding the product, or service, the investors examine factors such as the technology and design of the product that the entrepreneurs have planned to sell. The product should be unique, create a competitive
advantage and be protected by patents. The last aspect, the team, involves examining the team composition. This concerns evaluating if there are relevant individual characteristics, such as industry experiences or competences, and a good basis for teamwork. (Smart, 1999; Tyebjee & Bruno, 1984).

Regarding the assessment of the team, there are large differences in what each VC searches for. Every VC have their own methods and preferences when assessing team related factors. Investors looks for team attributes that are in harmony with their own thoughts and values (Macmillan et al., 1985). Moreover, less experienced investors have a tendency to aim their attention at individual attributes of the team members, while more experienced investors are more interested in the team as a whole (Franke et al., 2008).

To evaluate the team, VC firms usually rely on their network of referrals (Fried & Hisrich, 1994). The network is important for improving the deal flow (Gompers et al., 2016). Moreover, they perform quantitative discussions with the management team. These discussions can be about business related issues with the management team, which Smart (1999) defines as work sample discussions. These aim to capture the individuals’ present or hypothetical behavior. In addition, these can be past-oriented and focus on the individuals historical events and actions. These types of discussions usually follow a structured interview process (Smart, 1999). Ultimately, the VC investors rely on their gut feeling when assessing and making decisions about the team (Hisrich & Jankowicz, 1990).

**Structuring**

The final stage in the pre-investment activities is the deal structuring. During this stage, the price of the deal is negotiated between the concerned parties. In other words, the VC firm and the entrepreneur agree on the equity share that the venture is prepared to sell for the VC support. The VCs form a detailed agreement for the entrepreneurs to sign. When money is transferred, the post-investment activities begin (Fried & Hisrich, 1994; Tyebjee & Bruno, 1984).

**Post-investment activities**

After the VCs have decided to invest in a certain venture, they are actively involved in the development of that venture (Berglund, 2011). This involvement can be divided into two main activities, namely monitoring and value adding activities (De Clercq & Manigart, 2007). While monitoring, VCs attempts to counteract damaging actions and behaviors by the employees in the venture. This could involve continuously checking time plans and making sure the entrepreneurs focus on launching one instead of several products. The value adding activities is about increasing the potential and value of the investees. This can mean that VCs provide industry expertise and a relevant network to their ventures, or supporting them with recruiting new employers with relevant competencies.
2.1.4 The Perspective of the Entrepreneurs

Regardless of the good influence that VC funding has proved to have on early-stage ventures, the optimal solution for entrepreneurs is often to be able to carry through their business idea without the help of external investors. Paul et al. (2007) imply that entrepreneurs prefer to use internal resources rather than receiving funds externally in accordance with the pecking order theory. One of the most important factors for many entrepreneurs, when starting a startup business, is namely to be their own boss. Excepting funds from VCs, or other external investors, means giving away ownership and control of their startup company (Fried, 2006). According to Greiner (1997), entrepreneurs are often reluctant to give up their control and responsibility. In addition, it is a time-consuming process to build up the relationship with the external investors. These factors make entrepreneurs less motivated to use finance provided from VCs (Begmuratova & Tancharoen, 2014).

If entrepreneurs give up parts of their control over their startup business to external investors, they must consider the interests and thoughts of these investors. Thus, if the interests of the VCs and entrepreneurs are not aligned, this could lead to a rather problematic relationship. The conflict of interest that can arise between the investor and entrepreneur is referred to as the principal-agent problem (Eisenhardt, 1989b). For example, VCs may have a more short-term goal to find an exit opportunity and maximize return. Entrepreneurs, on the other hand, might be interested in pursuing a long-lived family business (Fried, 2006). Consequently, it is not only important for VCs to choose the right startups. It also becomes critical for entrepreneurs to initiate a relationship with the right VCs. According to Finger and Samwer (1998), entrepreneurs should see to understand the motivations of the investors, and choose the ones who’s thoughts are aligned with themselves. Thus, a culture assessment becomes of even greater importance, to ascertain that the culture of the VCs and entrepreneurs are in agreement.

There are various well-known examples of companies where organizational culture is a fundamental factor of the business, and strong preferences about the firm’s culture exist. IKEA, for example, is known for its unique and strong culture that is built on narratives and myths about its history (Edvardsson & Enquist, 2002). Another example is Google, who relies on its academic culture (Girard, 2009). As for startup companies, Borgefors and Lahlou (2017) found that entrepreneurs within tech ventures believe culture is essential for the development of a startup. Two examples of these ventures are Fyndiq and Boxman. The entrepreneurs of these ventures are, for example, not particularly positive about having a too hierarchical organization. Consequently, if the VCs ought to have a successful relationship with these ventures, they should be aware of the fact that they should not take too much control over the decision-making. In other words, it is of great value that the investors have an understanding of the startups’ specific cultures.
2.2 Organizational Culture

2.2.1 Greiner Growth Model

Greiner’s growth model suggests that the development of an organization can be divided into five serial stages (see Figure 4). Each stage is permeated by a certain organizational culture and eventually results in a crisis. In order to grow and proceed to the next stage, an organization must resolve the crisis. The different stages are creativity, direction, delegation, coordination and collaboration (Greiner, 1997). Below follows a more detailed description of each stage.

![Figure 3: The different stages of the organizational life-cycle (Greiner, 1997).](image)

**Stage 1 - Creativity**
The first stage represents growth through creativity. The characteristics of an organization at this stage is that it is young and relatively small. The entrepreneurs are busy with creative activities to find new products and markets. The organizational culture is represented by informal communication and unspecified roles. However, as more personnel join, and production expands the lack of formal communication leads to a leadership crisis. To handle these challenges the company might need more capital, experienced leadership and daily working routines.

**Stage 2 – Direction**
The second stage is described as growth through direction. At this stage, a strong leader is managing the organization through clear directions. Following, a clear organizational structure emerges. At a certain point, products and processes become so numerous that a company normally needs to adapt a functional structure. Business activities are then separated into different business areas such as production, finance and marketing. Moreover, a more definite hierarchy tends to emerge. This leads to a sense of a top-driven management and an autonomy crisis appears.
Stage 3 – Delegation
At this stage, growth is attained through delegation. The autonomy crisis is resolved through decentralization, where a greater responsibility is assigned to mid-level managers and employees lower in the hierarchy. Top managers start to focus on more strategic issues, such as new product or market entrance opportunities, and are less involved in operational activities. The model implies that the increasing independency of the mid-level managers in the delegation stage leads to a control crisis, where top managers perceive that they lose control of the organization.

Stage 4 – Coordination
The growth at this stage is represented by coordination. More formal systems for communication and decision making are implemented. Organizations often obtain a more divisional structure, where separate divisions emerge for separate products. It becomes important to plan carefully and integrated computer systems are often used to enable management to the whole business. The increasing amounts of bureaucracy often makes the division leaders feel powerless and less enthusiastic to taking orders from top managers who have lesser insight in the local operations. Moreover, the employees experience that the administrative work increases, and less time is spent on creative work. The coordination stage leads to a red-tape crisis where a new culture and structure is needed.

Stage 5 – Collaboration
The fifth and last stage is characterized by growth through collaboration. At this point, the organizational culture has become more flexible, where different tasks are solved when they emerge. Work is performed in teams consisting of individuals from different functions and divisions within the company. The focus shifts from strict and formal procedures to self-discipline and interpersonal relationships. An organizational matrix structure often emerges. Managers and project leaders are trained in team leading and relationship management. Moreover, creativity, initiative and innovation are encouraged.

2.2.2 Symbolic perspective
Bolman and Deal (2014) discusses four different perspectives, by which an organization can be observed, namely the structural perspective, political perspective, HR-perspective and the symbolic perspective.

From the symbolic perspective, the organization is represented as an ambiguous cultural assembly. A worker’s most essential need is the need for meaning. Therefore, symbols are created to engender various feelings like faith, joy and meaning.

The organizational culture is permeated by various underlying norms and artifacts. Norms can be described as unwritten rules derived from different types of values. For example, a norm within a company might be that only family members of the employ-
ees are hired. This would be based on the values that family comes first. Artifacts are concrete expressions that emerge from these values. In other words, they are created to fulfill a certain purpose.

Cultural expressions can be described as the attentive phenomenon where a culture is manifested. Symbols can be viewed as meaningful objects that occurs as physical phenomena or verbal expressions (Alvesson, 2009). Subsequently, these can then be linked with the artifacts.

A behavioral cultural expression is, for example, that either people from different countries or the most competent people are recruited to a company. The first case indicates that the organization values diversity, while the other demonstrates an aspiration to be the most competent. Similarly to hiring staff from different countries, a physical object such as a spinning globe can likewise demonstrate multiculturalism.

Myths are verbal expressions, with an underlying symbolism, that helps us connect our present-day our past. They aim to bring forth cohesion and solidarity, justify unconscious wishes and clarify ambiguities (Cohen, 1969). It could be a story about how the founders managed to finalize their idea with hard efforts and excellent collaboration. This would express that commitment and teamwork both made them successful in the past and will make them remarkable in the future. In this way, an organization would anchor these values.

Another action that has a symbolic meaning is rituals. This type of symbolism expresses feelings, empathy, common interpretations and imagination (Hornberg, 2005). Rituals can be performed in various ways. On one hand it could be reading the newspaper every morning, on the other hand it could be visiting a church every Sunday.

In organizations, a ritual could be that remarkable performances are honored once a month or that the employees have weekly meetings during which they have breakfast together. The first example demonstrates a company that encourages participation. Moreover, it can be viewed as an artifact that expresses values based on commitment and reward. The second case shows that the company for example ensures that the personnel is informed about the current situation and new reforms. This can be viewed as an artifact that anchors values of awareness and inclusion. The weekly meeting can also be considered as a kick-off event where newcomers are able to integrate with the rest of the team.

In many times, organizations have meaningless values that are useless. Some are ambiguous and cause confusion, while others resemble future business goals, which makes them unreachable for the individual. In those cases, a cultural transformation can be necessary.
2.2.3 Schein’s Model

Edgar Schein developed a model for organizational culture. The organizational culture is viewed as a dynamic phenomenon that is constantly constructed through interactions between individuals. The model consists of three levels, where each level has a different degree of visibility for the observer (Schein, 2010). These levels include a broad spectrum of characteristics that describes the culture. The first and most visible level consists of the artifacts, which are obvious and concrete expressions. The second level consists of espoused beliefs and values, which are common goals and ideals. The third and most hard identifiable level includes underlying assumptions. These characteristics lies in the unconscious and controls the thoughts and behavior within the organization. These constitutes the essence of culture since the artifacts and espoused beliefs and values cannot be interpreted without understanding the basic assumptions. Below follows an illustration of the three major levels of culture, in Figure 5, and a more detailed explanation of each level.

![Figure 4: Schein's model for culture assessment.](image)

**Artifacts**
- Tangible and visible
- Easy to observe – difficult to interpret
- Gain insight through interaction

**Espoused beliefs and values**
- Ambition, values, goals
- Part of organization’s ideology
- Behavior taken for granted regardless if it is good or bad

**Underlying assumptions**
- Deeply imbedded in the organization
- Unconscious – cannot be confronted
- Provides identity to the group – controls behavior and interaction within the group

_Artifacts_

The first level constitutes the artifacts, which exist on the surface of an organizational culture. Every phenomena that one can hear, see and feel is related to this level. Examples of artifacts are technology, architecture, clothing, language, stories and myths. Schein argues that although the artifacts are easily observed they are difficult to interpret. This is due to the fact that the observer is not familiar with the underlying intentions. Trying to understand the underlying assumptions by studying this level would solely lead to an individual’s own reactions and feelings. Thus, it is not sufficient to only analyze the artifacts in order to understand the overall organizational culture. To gain a deep understanding of the artifacts, one must side with a group for sufficient
amount of time. However, by conversations with people belonging to a certain organizational culture one can gain an insight into the artifacts more quickly. This can in turn lead to an understanding of the beliefs and values that permeates the organization.

**Espoused beliefs and value**

When a group faces a new task or problem it is the espoused beliefs and values that reflects how the situation is handled and solved. These characteristics are conscious but not necessarily clearly documented as the artifacts. Moreover, they guide the actions of the organizational members during unpredictable situations. In due course, this leads to the espoused beliefs and values becoming a part of the organization’s ideology. According to Schein, these beliefs and values may in some cases be contradictory. One example is when a company advocated teamwork but provides individual rewards, which leaves parts of the individual behavior unclear. In order to gain a deeper understanding, knowledge about the fundamental assumptions that controls the organization is needed.

Schein advocates that some beliefs and values survive through social validation. Social validation is the process where certain values are confirmed solely by the social experience of the team. If some group members reinforce a certain behavior, they come to be taken for granted regardless if this behavior is good or bad. Those who does not accept these beliefs and values run the risk of being excluded from the team. Thus, the exposed beliefs and values need to be generally accepted rather than being positive.

**Underlying assumptions**

When organizational structures and processes are successfully used on a daily basis, they start being taken for granted and become a part of the underlying assumptions. These assumptions are so deeply imbedded in the organization that only little variation between the group members’ actions can be observed. Moreover, they are non-debatable and cannot be confronted since they are unconscious. Following this, it makes them very difficult to change. At this level, culture provides identity to the group members and guidance to how they should interact with each other. As the underlying assumptions are shared between the team members, they are constantly reinforced and becomes a powerful aspect of a culture.

Schein argues that in order to be able to understand which underlying assumptions that controls an organization, outsiders must put their own assumptions aside. This is because of the fact that the assumptions of an outsider differ from those of an organization’s members. If outsiders make their own assumptions, it will hinder them from understanding what actually controls a certain organizational behavior. When elemental assumptions are taken for granted, they specify the team’s behavior, and the rules and norms that permeates their environment. The rules and norms make it possible for people to find meaning in an association, predict social behavior and get along with each other. These rules and norms are taught to new members through a socialization process. In order to define a certain organizational culture, one must be able to part everyday behaviors as these may not be dominated by the organizational culture (Schein, 2010).
2.2.4 Culture in Startups

Understanding the Cultural Setup

In order to understand the culture that permeates a startup company, one must understand the role of the founders and management team. The most essential success factor of a venture is its people. Initially, a venture normally consists solely of the founders of the company. Thus, the development of the venture will mainly be influenced by the founders (Finger & Samwer, 1998). Schein (1983) implies that founders often bring an initial culture, where they have reached a consensus about how to view things, that originates from each of their previous experiences. Moreover, the founders create a team that share the same goal and, by force of their personalities, start shaping the group’s culture. Ultimately, however, the culture is a result of the complex interaction between two aspects. The first aspect is the assumptions and believes that the founders bring to the team from the start, and the second aspect is what the team learns from its own experiences afterwards. The organizational culture will develop ”around” the founders.

Therefore, it is important to understand the features of the founders to be able to understand the embedded culture of a newly created company. Schein (1995) mentions several ways of how culture is established in a company. Three of these is how the leaders act as role models, what they pay attention to and how they react in critical situations. We can only understand why the team members behave and act as they do, if we examine the leader actions.

The founders of a company have a very unique set of characteristics. These characteristics partly originates from their personality, and partly from their position as owners. However, they usually have a difficulty in how to express and spread their beliefs and values (Schein, 1995).

Eventually, professional managers are brought into key positions in a venture. Together with the founders, they normally constitute the management team. These professional managers are often specialized in how to manage a company, rather than being fully educated in the specific business that the startup has targeted. The managers are frequently mistrusted as they are considered to be less dedicated to the founder’s original beliefs and values, and more focused on short-term financial performance (Schein, 1995).

The function of the management is to identify and control the determinants that influence culture. Additionally, the management should motivate the employees to revise their own values and beliefs (Munteanu & Păun, 2017). Thus, it is essential to make sure that the leaders share the same goals to ascertain they will head to the same direction and create the best possible foundation for the development of the company (Finger & Samwer, 1998). If the leaders are conflicted, it might lead to conflicted directives (Schein, 1995).

By building their business, the management team should strive to create value. The
purpose cannot be ego driven if the venture is ought to be successful (Finger & Samwer, 1998). Important aspects for a startup company is to develop a consensus on the core mission and concrete goals on how to reach that mission (Schein, 1983). There is no culture that is compatible for every organization, but it is important that every member of the organization believes in the culture and complies with it (Stanford, 2011).

**Qualities of Management Team**

The management team can be evaluated individually and as a team (Keeley and Roure, 1990). As for the individual characteristics, Finger and Samwer (1998), claim that entrepreneurship is not a single-man job. An entrepreneur must be aware of personal abilities, work with people that complement oneself and be able to delegate work to these people. An entrepreneur should be totally dedicated and passionate about venturing.

Another important quality of an entrepreneur is to have a sense of reality. Instead of being too convinced that problems will work themselves out, one must face the difficulties as soon as possible as these do not disappear by themselves (Finger and Samwer, 1998).

In a study conducted by Gompers et al. (2016), three of the factors that the respondents considered the most important qualities of a management team were ability, teamwork and passion. Ability was mentioned by 12% of the respondents and passion and teamwork by 9%. Ability, passion and teamwork were, however, not defined in the study.

Regarding the team as a whole, a diverse personnel, that represents a broad mixture of backgrounds and competencies, is beneficial for a startup (Kakarika, 2013). If the management team has complementary competences, they are more likely to perform successfully (Keeley & Roure, 1990).

A natural effect of having a diverse team, could be that cultural differences exist among the team. A downside of this, is that the members can have a difficulty in working smoothly together (Kakarikas, 2013). According to Keeley and Roure (1990), smooth communication and teamwork within a group should improve efficiency. Nearly 65 percent of new ventures fail, partially, because of tensions between the individuals within the team (Gorman & Sahlman, 1989).

Another important quality of the team that was found, is that it must be able to cope with change (Finger & Samwer, 1998). This is due to the fact that the startup environment is constantly changing.

**Managing Culture**

In order to facilitate the teamwork within the organization, the culture should promote the advantages of diversity for the startup. This can be accomplished by maintaining an inclusive culture where every individual is appreciated as themselves, is able to
contribute and is provided a sense of belonging. One way to do this for leaders is to encourage informal social interaction (Deane & Ferdman, 2014). This is valuable for a small venture as skilled individuals tend to be drawn towards workplaces where the working conditions are good, and the leader is socially intelligent (Goleman & Boatzis, 2008). An inclusive organizational culture enhances teamwork and the overall contribution without losing individual uniqueness (Deane & Ferdman, 2014). This facilitates the process of attracting intelligent people, which is an essential aspect when adjusting a startup culture (Finger & Samwer, 1998).

It is important, however, that the culture is adapted to changed conditions, both externally and internally, and not expected to be something constant. Although a certain culture has allowed the startup to be successful in the present, it is not certain it will be beneficial in the future. This is especially important in a fast-paced industry such as the tech industry. Subsequently, the organizational culture should constantly be adjusted to new circumstances (Stanford, 2011). If an organization persist in a certain culture, even though the environment is changing, it might become unsuitable for the ongoing business and have a negative impact on the performance (Stanford, 2011d).

As the company grows, a need to expand the workforce emerges. One aspect that is considered important when maintaining an organizational company, is to hire the right people. The main contributors to a culture is the personnel within it. This is particularly visible in the initial phase of the organizational life-cycle when the company is easier influenced by its members. One important aspect, is that the right people might not be the most competent. Finding the right people is about finding a good cultural fit. It is important to recruit the appropriate individuals that can sustain the vision and culture (Finger & Samwer, 1998). Previous studies imply that employees who experience a bad cultural fit, leave the company (e.g. Caldwell et al., 1991). Therefore, it is of great importance that employers can communicate their values and vision clearly. This would increase the chance of finding suitable employees. However, as the company expands, the set of individuals that is needed changes.

A specific culture can be established by employing individuals with comparable mindsets and values. Loyalty and work ethic partly emerges from sharing the mindsets and values that permeates the organization (Stanford, 2011b). Either this view does not agree on the importance of team diversity, or it encourages diversity within other characteristics, such as competence or knowledge, rather than beliefs and values.

### 2.3 VC & Culture Assessment

Based on the literature review regarding what VCs consider, or what is generally considered important in the venture team and its culture, I will propose a culture assessment model for VCs, on the basis of Schein’s model. As the VC investment process has a rather limited timeline, the VCs generally do not have the time to carry out a complete analysis in accordance with Schein’s model. An evaluation that includes the less visible levels, espoused beliefs and values and basic assumptions, of Schein’s model is
usually an ethnography that takes several months. Therefore, I have chosen to delimit my proposed culture assessment model to only cover the most visible level, artifacts, of Schein’s model. See Figure 6 below for an illustration of the culture assessment model.

<table>
<thead>
<tr>
<th>Assessment Methods</th>
<th>Artifacts</th>
</tr>
</thead>
</table>
| Founders & Management Team | • What kind of culture are they bringing initially?  
• What are their characteristics?  
  ➢ Are they passionate and dedicated about venturing?  
  ➢ Do they have a sense of reality?  
  ➢ What are their abilities?  
  ➢ Are they aware of their personal abilities?  
• How do they act?  
  ➢ Do they motivate the employees to revise their values and beliefs?  
  ➢ Are they able to delegate work? |
| Teamwork & Consensus | • Is there a solid basis for teamwork?  
• Can the team members work smoothly together?  
• Do the team members complement each other?  
• Do the individuals share the same goals?  
• Have they reached a consensus about the core mission? |
| Diversity & Inclusion | • Is the team represented by a broad mixture of backgrounds and competencies?  
• Do they have differing beliefs and values?  
• Does the team maintain a sense of belonging?  
• Is every individual appreciated as themselves?  
• Do the leaders encourage informal social interaction?  
• Are everybody able to contribute? |
| Receptivity & Adaptability | • Does the culture adapt to new circumstances?  
• How are the team members coping with change? |
| Talent Attraction Ability | • Does the team hire the right people?  
• Are the recruited people a cultural fit?  
• Can the recruits sustain the vision and culture?  
• Do the recruits stay in the company, or quickly leave?  
• Can the employers communicate their values and vision clearly?  
• Do the employees have comparable mindsets and values as the leadership?  
• Are the leaders socially intelligent? |

Figure 5: Culture assessment model for VCs, based on Schein’s theories.
3 Methodology

This section provides a motivation and description of the research approach. Moreover, it includes a discussion of the validity, reliability and generalizability of this study. Lastly, ethical considerations are mentioned.

3.1 Research Paradigm

The research paradigm used for this research is interpretivism. This paradigm is based on the assumption that social reality is formed by our understandings, and therefore is subjective. Organizational culture is a complex concept that is rather subjective. By interacting with various investment managers, I have aimed to explore and describe the complexity of assessing culture, rather than measuring it. Moreover, the intention has been to extend existing literature with additional insights rather than to validate. Therefore, I believe the interpretive paradigm is suitable for this research (Collis & Hussey, 2014).

3.2 Research Approach

In this study, an inductive research approach was adopted. The inductive approach is a process where you move from the specific to the general. This allows the researcher to develop relevant theories and form the theoretical understanding of the subject based on the empirical observations (Collis & Hussey, 2014). In addition, the researcher investigates a broad issue, and aims to explain this phenomenon based on empirical data. This methodology was chosen as I initiated this study with a general topic, a few ambiguous ideas and clear thought of relevant interview questions. As the literature and empirical gathering continued, I was able to identify an appropriate culture analysis framework. With respect to a limited time horizon, the abductive approach was not considered as the downside of this methodology is that it is time-consuming (Blomkvist & Hallin, 2015).

In order to investigate how organizational culture can become a part of the VC evaluation process, an exploratory approach was performed. As such, current literature was used to explore the context of the studied subject. (Collis & Hussey, 2014). This method was chosen because the focus of this research was to gain a better understanding and new insights about the organizational culture assessment in the investment process, used by VC firms, rather than to provide any final and conclusive answers about the matter.

In the literature, organizational culture is referred to as a complex phenomenon. Moreover, a qualitative study is an appropriate approach when investigating a complex phenomenon and exploring how theory relates to empirical findings (Yin, 2014). Thus, a case-study, which is one of the qualitative research method, was chosen as the exploratory research technique. In addition, a case-study allowed me to explore the subject area within real-life cases and in natural settings (Blomkvist & Hallin, 2015).
3.3 Research Process

The process of this study was conducted in three focus areas. The first focus area was the literature review. This procedure was carried out throughout the whole research process. The empirical study was the second area of focus. At this stage, semi-structured interviews with investment managers at VC firms and one state-owned incorporated company, that are involved in technology ventures, was conducted. Thirdly, the empirical findings were analyzed and compared to the literature in a thorough analysis. This was performed in order to reach a conclusion with regards to the research questions.

Literature Review

A literature review was conducted in order to gain a deeper understanding of the subject area, and build a knowledge base for the analysis of the case study (Collis & Hussey, 2014). This enabled an identification of knowledge gaps and served as an inspiration when both forming the interview questions and finding a suitable analysis method.

In the initial phase of the research, the literature review was mainly performed to gain a deeper understanding about the intangible and complex field of organizational culture. In parallel, the literature review was conducted to increase my knowledge about the VC business, and in particular the VC investment process, to understand where and how the interaction between these two aspects appears. As the case study was initiated, the literature review was expanded to include aspects acknowledged by the interviewees.

In the literature review, search tools such as KTH Primo and Google Scholar was used. In order to find relevant literature, the following key words were used, either alone or in combination with each other (see Figure 7).

<table>
<thead>
<tr>
<th>KEYWORDS</th>
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<tbody>
<tr>
<td>Venture capital</td>
<td>Investment process</td>
<td>Investment criteria</td>
</tr>
<tr>
<td>Team evaluation</td>
<td>Founders</td>
<td>Management team</td>
</tr>
<tr>
<td>Organizational life-cycle</td>
<td>Organizational culture</td>
<td>Schein’s model</td>
</tr>
<tr>
<td>Technology venture</td>
<td>Startup culture</td>
<td>Culture assessment</td>
</tr>
</tbody>
</table>

Figure 6: Overview of the keywords.

Empirical Study

In the empirical gathering process, semi-structured interviews with open-ended questions were performed. All interviews were held in Swedish and recorded when it was permitted. This was done in order to eliminate the chance of losing relevant information. Additionally, complementary notes were composed during each interview.
The interviews were conducted on seven different investment managers from four different VC firms and one state-owned company in Sweden. Four of these interviews were conducted face to face in the offices of the investment managers, while three were performed over telephone. These interviews were performed in order to gather qualitative data about how the investment managers assess organizational culture in their investment opportunities, and what cultural factors they consider important.

In a semi-structured interview process, some questions are prepared in advance, while others are developed around new subject areas that are mentioned during the interview and are worth exploring further. This methodology was chosen as it allowed me to discover new aspects, such as the role of the founders as culture carriers in a venture. Moreover, open-ended questions allow the interviewee to talk more freely about a particular subject, and therefore facilitates the understanding of the interviewee’s own reflections and ideas about the studied subject (Blomkvist & Hallin, 2015). This is of special importance when exploring an ambiguous subject such as organizational culture.

**Analysis**

The analysis is the process of which the researcher can organize and gain an understanding of the data (Neuman, 2006). According to Collis and Hussey (2014), the data collection and the data analysis are entangled in qualitative research. New focus areas are therefore developed in parallel with the initial data gathering. Thus, my data analysis was initiated when the first interview was conducted.

The empirical data was analyzed through three coinciding procedures, namely data reduction, data displays and conclusion verification. In the first procedure, data reduction, all interviews were transcribed. During this step, irrelevant information was excluded for further analysis. Data that could be relevant for the research questions were thereafter grouped into different categories. This was of special importance since the collection process was unstructured. In the second step, data displays, the data was displayed in a summary for each case interviewee. Lastly, this allowed me to draw conclusions based on the interviewees’ differences and similarities and verify the validity of the data. Throughout the whole process, follow up questions were performed, to the interviewees, to obtain information that proved to be relevant as the process proceeded.

### 3.4 Reliability & Validity

Reviewing the reliability and validity is an important element when conducting a research. It is two approaches to assess the quality of the study. Reliability concerns conducting a research the right way (Blomkvist & Hallin, 2015). In other words, it measures to what level similar results are received, if a similar study were to be performed again. The validity, on the other hand, measures to what degree the researcher is studying what was intended to be measured (Collis & Hussey, 2014).

Regarding the reliability of this study, a negative aspect is the difficulty of replicat-
ing the results of the semi-structured interviews. This research concerns organizational culture, which is a complex phenomenon that can be interpreted very differently by separate individuals. This makes the results particularly influenced by individual thoughts and interpretations. According to Collis and Hussey (2014), these factors reduce the possibilities to replicate the study. In order to strengthen the validity, all the pre-determined interview questions were ensured to be answered and presented in the study. However, interview transcripts and information about the case investors and their respective VC firms are excluded due to confidentiality agreements. Including this information would increase the reliability of this thesis.

As for the validity, it is normally decreased when conducting qualitative interviews. Firstly, this type of approach allow for the possibility that the interviewees have different understandings of the subject area, which leads to biased results. Secondly, there is a possibility that the respondents misinterpret the questions, and thus provide answers to the wrong questions (Collis & Hussey, 2014). In order to counteract these possibilities, each interview was initiated with a clear description of the thesis aim together with a brief background of organizational culture, and particularly Schein’s model. Additionally, I strove to keep the interview questions non-leading and both previous literature and interviews were used as data sources as multiple sources generally enhance the validity of the study (Yin, 2014).

3.5 Generalizability

According to Collins and Hussey (2014), generalizability is the degree to which the results are representative for a larger population. As this study considers Swedish VC firms that are active in tech startups, the results are rather limited. Culture preferences might differ cross-countries. This means that separate organizational cultures with different visions, values and artifacts are apparent in different countries. Additionally, depending on the industry, organizations have diverse objectives and leadership styles, which leads to a unique culture in each industry. This research is also limited to VC firms that focus on ventures in the beginning of their life-cycle. This makes them less representative for VC firms that target larger ventures. Thus, the empirical findings cannot be generalized to the VC arena as a whole. However, the results of this study can be used as a complement to existing or future literature within other countries, industries or startup stages. By comparing the empirical findings with similar literature, one can possibly draw relevant conclusions about the whole VC industry (Eisenhardt, 1989).

3.6 Ethical Considerations & Sustainability

The Swedish Research Council lists four ethical requirements for research in social science, namely the informational requirement, the consent requirement, the confidentiality requirement and the good use requirement (Blomkvist & Hallin, 2015).

The informational requirement concerns that the interviewees should receive informa-
tion about the purpose of the study before their participation. This requirement was fulfilled by providing each case investor a brief description of the thesis aim both writing, through the first contact by email, and verbally before the interview was started. In line with the consent requirement, all studied objects agreed to being studied prior to the interviews. In addition, permission was asked before the majority of these were recorded. To fulfill the confidentiality requirement, all respondents were offered anonymity. Moreover, sensitive information has been excluded from the presented data. To meet the good use requirement, the collected material has solely been used for the purpose of this thesis.

Although sustainability has not been central in this research, it is an important aspect in the venture capital industry. This was partly apparent during the case-study of this research. Many of the interviewees mentioned that all potential investments that do not meet their sustainability criteria are excluded during the screening phase of the investment process. Thus, they actively distance themselves from companies that have a highly negative imprint on the society as a whole. For example, they do not take part of firms that are involved in businesses related to drugs or weapons. I believe the reasons for this could partly be because of the investors’ concerns for the environment, but also because of their own economic benefit. The increasing awareness regarding sustainability drives political regulations that can decrease the profitability opportunities for companies that are not sustainable. Consequently, if the VCs would invest in these companies, it would lower their possibilities to maximize return.

Additionally, if the VCs ought to achieve an accurate assessment of the startup team and its culture, they are more likely to invest in the right startups, that succeed in the future, instead of focusing on ventures that fail. By doing so, they drive the economic and societal development by raising money themselves, creating jobs and letting new technologies be innovated.
4 Results & Analysis

In this section, the empirical findings of the conducted interviews are presented together with an analysis of the collected data. Firstly, this includes how the case investors assess the organizational culture in their investment process. Secondly, this section present the cultural factors that these investors highlight as important.

4.1 Sub-RQ1: How is the organizational culture assessed in the investment process used by Swedish VC firms?

4.1.1 Investment Manager A

Investment manager A (A) does not assess organizational culture in a structured manner. The investor highlights the importance of organizational culture for the overall company performance. However, he does not put too much time to analyze this phenomenon. He exhorts the ventures to put time and resources to set up cultural components as he believes that most startups under invest in culture.

Before, personality tests and psychology interviews were performed on the management. These procedures were, however, excluded from the assessment process as he considers that these did not demonstrate whether a company later became successful or not. He believes they are able to find the average successful entrepreneur, but not the outliers. He means that entrepreneurs can be very successful even if they are dysfunctional.

This assessment process is mainly performed using three different approaches, namely background checks, communication with the workforce and real-life observations. Most emphasis is put on the management team, as these constitutes the majority of the team and are extremely decisive for the rest of the employees. He relies on his own experience and searches for pattern recognition. He prefers to ask himself what his own experience from startups says about the people within an investment opportunity. Throughout the process, A develops a gut feeling that is vital for his final decision.

Firstly, the background check is performed by communicating with his network. Having a long experience both within startups and as a venture capitalist, A has a pool of referrals to turn to. In this procedure, A aims to find out how other people that have worked with the management team perceive them, think of them, knows about them and if they would recommend them.

Secondly, the assessment is implemented by communicating mainly with the management team. In this procedure, A asks questions to perceive what they know, how they think and what kind of people they are. He gives an example where his colleague asked an extremely difficult question to a CFO at a certain startup. This CFO was sitting quietly and thinking for four whole minutes before giving a great answer. This showed that the CTO presumes that it is more important to take your time and come up with
a well-considered and good answer rather than answering quickly. Another example the investment manager brought up is that he likes to send out an email late in the evening to perceive how hardworking and responsive they are. In certain cases, he also meets one or more of the employees to get a sense of the management team’s recruiting ability.

Lastly, A prefers to visit the venture to observe the group dynamics in their daily operative work. By joining their daily business, he observes how it feels in the company and how the group works together. He observes if the group are aligned in their thoughts or if they contradict each other, who talks the most and what people are doing. He also examines how different processes and structures are set up. For example, he investigates what processes that are there to find programming code or handle passwords.

A highlights that both of these interactions can be very intense, especially during the due diligence process where they can communicate with the team members up to five times a day. Thus, you often see the team’s behavior both during their best and worst times. It is a way to get to know each other and at the end you get a sense of how the overall culture in the organization is. If something feels odd or wrong in some way, the team members are confronted with this matter by opening a conversation about it.

Investment manager A mentions that a downside of this assessment method is that it is dependent on the investors own experience. This makes it difficult to assess teams that he does not feel a connection to and cannot relate to. For example, sales teams tend to be extremely sales driven, and are naturally good at convincing other people. These are attributes that investor manager A cannot relate to, which makes it very difficult for him to determine whether the level of which they are sales driven is good or bad. Moreover, the gut feeling has sometimes proved to be wrong. He brings up an example where he felt that the engineering culture were bad in a certain company. Regardless, however, they proved to be successful. Another limitation is that the workforce naturally will show their best side when he is observing them.

4.1.2 Investment Manager B

Investment manager B (B) does not use a structured procedure to assess culture. In such an early phase of a company they are so focused on the development of the startup that the culture assessment is set aside.

When evaluating an attractive investment, he mainly evaluates three different checkpoints, namely the team, the need of their product/service and the wow-factor. Hence, the team is considered as an essential success factor. This is where the organizational culture becomes relevant, but B does not put much resources on it. He mainly puts his focus on assessing individual characteristics and team dynamics, but not so much on what it means for the overall organizational culture. He relies much on the fact that it is a small team in this stage, where the members often know each other from before, already have clear roles and a company culture.
The team assessment process can be summarized in three different procedures: a thorough background check of the management team, a team evaluation tool and communication with the workforce during the investment process.

The background check includes communicating with their network, reviewing references and checking the workforce’s social media. During this process, the aim is to get a sense of the team’s values, political and ideological orientation. This is done to make sure they are in business with people with a common sense.

The second procedure involves the team evaluation tool. This tool involves personality tests that assesses the team members strengths and weaknesses in relation to each other and their ability to cooperate. This is, however, only used as a complement to the investment manager’s own gut feeling.

Lastly, B evaluates the team by communicating with the individuals during the investment process. He maintains close contact throughout the investment process by communicating and discussing business problems during several meetings.

B claims that he does not have much knowledge about this and consider it difficult to find tools to assess culture during such an early phase of the venture. Sometimes the gut feeling and relying on the fact that the team already has a working culture can prove to be wrong. For example, a venture consisted of team members that had known each other for 20 years. The investment manager knew them well and were certain they had a strong working culture and teamwork. However, a shocking outcome came from this when the team proved to completely disagree about business related questions, and the startup ended up in a failure.

4.1.3 Investment Manager C

Investment Manager C (C) uses an unstructured and indirect methodology to assess the organizational culture in a so called Human due diligence process. However, this procedure involves a few structured elements in the process. The team assessment relies on three criteria, namely competence, personality traits and team dynamics. C highlights the importance of using several methods to reach a more accurate team assessment. Thus, to evaluate these three criteria, four different approaches are generally used. These approaches are CV background checks, Investment manager (IM) interaction, 2nd opinions references and personality tests.

The organizational culture falls under the team dynamics criteria. To assess the team dynamics, IM interactions and 2nd opinions give partial support and the personality tests give indirect support. Hence, none of the current methods give full and direct support to assess the team dynamics or organizational culture.

Nonetheless, during the IM interactions, C uses structured interviews and meetings that focus on the team members’ background, competence, roles and how they work
together. The evaluation is based on certain team criteria and a checklist. During IM interactions, the investment manager aims to get to know the team members, and review performance over time since a deeper understanding of the organizational culture and team weaknesses appear over time.

Through 2nd opinions and references, the goal is to receive a versatile assessment by more IMs, more insights about previous performance and strengths and potential “red flags”.

Investment manager C performs personality tests that contains a 30-40-minute-long digital questionnaire. These aim to capture the team’s weaknesses and strengths and weather they complement each other by evaluating how the team members think and act in different situations.

Although these methodologies give a good indication of the team dynamics, it is not a complete method to assess the overall organizational culture that permeates the organization. Moreover, he feels a lacking ability to determine whether the company has a strong and positive culture that contributes to successful performance.

At certain cases, some unexpected discoveries have been made after the investment. One example is that the founders have proved to be less welded than expected. Another example is the employees have proved to be less determined and focused or responsible than anticipated. Moreover, there have been situations where it has shown that the VC firm does not share the same agenda or vision for the company. That is, for example, the founders might not have been completely transparent with their goals for the company or the company have had it more difficult to sell their product than what was believed.

### 4.1.4 Investment Manager D

Investment manager D (D) considers the team as possibly the most important factor for a successful venture. However, he does not perform any structured methods such as personality tests or any other formal tests on team members. Nor does he follow any structured template with different criteria that should be fulfilled.

Instead, the assessment process is generally performed indirectly in two parts, namely background checks and following the team during a period of time with several meetings.

The background checks are done by reviewing references and talking to referrals. During this procedure, investment manager D can find out about what the team members has achieved and their competences.

During the meetings, D aims to get to know the team during a period of time. Sometimes these meetings include interviewing the team members with, for example, technical questions that assesses their competence. This is sometimes done internally by
the VC firm and sometimes by an external part. Other meetings include visiting the offices of the ventures. During these meetings, D likes to get a sense of the atmosphere in the office and get the possibility to meet several people of the workforce at once.

In order to assess the team, investment manager D ultimately trusts his gut feeling as this is a factor that is difficult to base on facts. He builds up a perception of how the individuals are and how they act under difference circumstances. Regarding the management team, he prefers to ask himself if they are people he would consider hire himself.

4.1.5 Investment Manager E

Investor manager E (E) mainly evaluates the team through a close relationship with a business incubator company. In order for him to consider a venture, it must go through the incubator. The organizational culture is not assessed directly or in a structured manner. Instead, he relies on second opinions and his own gut feeling.

When a group of people has a certain business idea, they turn to the incubator to get help with the development of that idea. These projects are generally assigned business coaches from the incubator company and lasts for about one to two years. During this period of time, the incubator coaches works closely with the team members, meet them in several occasions and are involved within the business from the scratch. By working closely, the coaches aim to get to know the team members and get a sense of, inter alia, what kind of people they are working with, what they need to complete and if they need to bring new competence. They rely on their gut feeling. Moreover, the coaches work actively with motivating the team members, forming their mindsets and are in that way involved in forming the culture. For example, they work actively with transforming scientists with an academic background to entrepreneurs with a business understanding.

Later, the investment manager E assesses the team and organizational culture indirectly by communicating with the business coaches, and relies on their judgement. If a new CEO, for example, is needed, E evaluates the team dynamics and cultural fit by three to four interview rounds, including workshops to see how the team works together.

E considers that they lack a tool that maps the culture in a structured manner. It is more controlled by the coaches through an ad-hoc gut feeling. E means that to really assess the culture one must be present at the startup offices to see and feel the daily atmosphere. It becomes very subjective if one only communicates with the key persons. In that way we get a perception that can be completely different from how other employees are experiencing it.

Additionally, it is easy to misjudge people during an interview process when recruiting. One can easily be manipulated to believe a person is better than he or she proves to be. That recruited person might not have been a good fit for the rest of the team, had the
wrong focus or motivation or not had the competence that was required. Usually, the true personality traits and behaviors of a person become visible when problems arise. They do, however, have scarce resources to make more thorough evaluations with more tests and interviews.

4.1.6 Investment Manager F

Investment manager F (F) emphasize that the team is extremely important. However, does not use a structured approach to assess the team and organizational culture. He does not use any type of scoring system or checklist when evaluating the team. Instead he relies a lot on his gut feeling. His impressions are mainly based on his own experience, where he has integrated greatly with people in his past. He observes if it feels right in general. For example, if the team feels trustworthy, if the team members exaggerate or undermine different aspects or if they feel logical in their thoughts and plans. The evaluation process can generally be divided in to two procedures, namely through videoconferencing and through interaction through meetings with the team during several occasions.

The evaluation process is normally initiated with a videoconference. This facilitates communication with companies across different geographical locations. The videoconference is usually performed on the founders. These normally consist of conversations about the founders’ thoughts on the product, market and how they aim to get where they want. In this stage, F is able to assess how the founders think and explain their thoughts.

The second element of the evaluation process is through meetings with more employees both at the office of the VC firm and the venture. During these meetings, F is able to see and feel how the interactions between the team members are. For example, which values the individuals have and what level of harmony and energy is there between the different individuals. One can observe what kind of processes there is in the company, which roles and characteristics that exists within the team, how the work progresses, what activities to the team members do and if they usually are in their office together amongst other things.

However, the investment manager highlights that one thing is not necessarily better than the other. The team related factors are often very complex. Therefore, F tries to determine a hypothesis of what the team should be able to achieve and how to get there. For instance, it has happened that it later has come to the surface that a key person does not fit in well with the rest of the team or that a CEO has lost confidence from the other team members.

Investor manager F would like to have some theoretical method that could evaluate different ventures in a similar manner. However, he considers it difficult to find a model that is adaptable to different types of companies and situations.
4.1.7 Investment Manager G

Investment manager G does not use a structured method to assess organizational culture. However, during the evaluation process he aims to understand how the team members are as individuals and how they work together as a group. Structured methods such as personality tests are not generally a part of the assessment process. Although, these tests are used in rare situations where the management team has been complicated to understand, and there has therefore been a need for further analysis.

The evaluation procedure could be divided into two general procedures, namely background checks of key persons and continuous interaction with the team. However, regardless of what G finds out for sure, he ultimately relies on his gut feeling. Investment manager G would never pursue an investment that does not feel completely right.

The assessment starts with a background check of the key persons, which in most cases are the founders and the CEO. These background checks are performed externally by the help of SÄPO agents. These checks controls for eventual faults that the key persons have done in their past. The focus is on the founders and the management team as the biggest part of the organization at such an early stage relies on the founders. The management team’s qualifications are essential.

The second part of the assessment concerns continuous interaction with the team. This is done through various board meetings where investment manager G and his colleagues get the chance to meet both the management team and the rest of the employees. During these meetings they try to communicate and spend time together as much as possible. They aim to understand, inter alia, what values the management team have, how they think and if there are any conflicts within the group. The main focus of the assessment of the rest of the employees concerns controlling their competences as it is important that they have the competences that is needed. Investment manager G does, however, provide direct contact channels to him in case any problems arise.

Investment manager G find it more complicate to analyze organizational culture in such an early stage of a company. He means that it is hard to distinguish this phenomenon when there is such a small workforce with different angles of incidence.

Investment manager G and his VC firm are extremely risk averse. It is important that they avoid any chance of being hit by bad press. Therefore, they prefer excluding a potential investment too many times, rather than risking going through with an inappropriate opportunity. Thus, they do not compromise with the team and exclude a potential investment as fast as they get a feeling about the team that does not feel completely right.

Despite that, G has experienced situations where inappropriate behavior has been noticed later in the investment process. Behaviors that team members have managed
to hide. These investment opportunities have cost them a lot of money as they have decided to exit the cooperation with these startups rather than pursuing a risky investment. For example, there has been a situation where a sales team have proven to make promises about products that they cannot completely live up to, and a situation where a founder have managed to hide his bad side until he completely snapped at about the tenth meeting, where he showed a completely disrespectful side.

4.2 Sub-RQ2: What factors regarding organizational culture is considered essential?

A majority of the interviewees highlight the fact that that the suitable organizational culture is dependent on which business focus a certain company has. For example, a culture of a marketing driven business can differ from a sales-driven company. Additionally, one startup can contain several subcultures across the different business areas. In a marketing driven business, it might be more relevant to understand the process of how they position their branding, for example, while it is more important to assess if a sales-driven business understands who their essential customers are.

Therefore, I have chosen to categorize the interviewees’ answers into specific important factors of organizational culture, and more general that can be adapted and demonstrate different cultures in different situations. Regarding the more general factors, the investment managers proved to have differing views. Moreover, I have adapted broad categories that cover different aspects that have been highlighted by different investors.

4.2.1 Investment Manager A

Investment manager A highlights nine different factors to look for when assessing the organizational culture of a culture. These factors are Founders & Management Team, Receptivity & Adaptability, Diversity, Defined & Shared Responsibility, Talent Attraction Ability, Inclusion, Antifactors, Employee Turnover and Responsiveness.

Founders & Management Team
The most important factor to evaluate in the assessment process is the founders/management team. Investment manager A implies that they constitute the majority of the venture and are extremely decisive for the organizational culture. These leaders must have a clear vision and mission and an ability to express these in clear objectives that guide every employee in their daily work. Thus, these leaders must be able to switch between the helicopter view, the pig picture, and the microscope view of individual assignments and responsibilities. For leaders to decide where they will be in, for example, four years, they must have a pronounced vision. He means that many startups have a clear illusion, which is a result of the leaders being naive and unknowing. They make unrealistic suggestions. Moreover, it should be clear that the individuals are pragmatic, proud and have an extremely high degree of integrity. They should also be prestigeless, as the startup business is very ungrateful. All in all, A wants to see a management team that he could consider working for. Other important characteristics
of the founders/management team that A mentioned are covered in the following categories.

**Receptivity & Adaptability**
For investment manager A, it is also important that the team is receptive, in that way that they are able to listen, process new information and adapt to the entrepreneurs. If it is people who think they know the best and try to explain to A about his own world, then A does not want to have anything to do with those individuals. He wants balance between investors and entrepreneurs.

**Diversity**
For investment manager A, it is essential that the venture consists of a complete team that consists of a diverse workforce with every key-person in place. However, he emphasize that a diversity of ideas is more important than a diversity of people for an early-stage venture.

**Defined & Shared responsibility**
Investment manager A highlights the extreme importance of taking responsibility both individually and as a unified group. It is important that you can see that people take every problem in the worst of gravity and are extremely focused on solving these. A wants this mentality to be extremely apparent in the venture.

Moreover, it is important that every individual is assigned a certain responsibility and always has something to do. Being such a small workforce gives every individual a great amount of influence. Therefore, it is of big importance that there is structures and processes for how to handle the personnel, and keep everybody busy. If something goes wrong nobody should be pointed out. It is not important if someone is guilty of something. Quoting A, he said “It is nobody’s fault, but everyone is responsible”. Regardless of what happens, the group must promote a culture where everyone can talk straight about what can be done about a certain issue.

**Talent Attraction Ability**
It is a great importance that the management team have the ability to recruit good and competent people. For example, recruiting unskillful technology developers could not only lead to less people that can add value to the company, but also counteract the development of the company. Unskilled developers create a greater workload for other developers as these are the people who must correct their mistakes.

Moreover, A likes to ask himself if the CTO or other leaders can persuade good and competent developers to leave their safe job and join the risky journey of their startup. Investment manager A claims that for entrepreneurs, or nerds as he like to call them, the salary is not a critical factor. What is important for them is that they have interesting tasks to work with, feel that they are developing in their work and that they get the chance to work with smart people.
Another aspect that A mentions is that he wants to see a leadership that can use sound to symbolize different matters. Leaders that can tell a consistent and interesting story for their coworkers in order to motivate them in their daily job. They need to get pass their authentic computer nerd characteristics, to people that can repeat their vision in a compelling way so that the engineers can interpret it and get motivated. For the employees it is interesting to listen to a story that makes them feel that they have been taught something.

**Inclusion**

Another important factor for investment manager A is that the venture has an including culture. He brings up an example from his own experience of an on-boarding process when he joined a new company once. On that on-boarding process, A was assigned a task. This assignment instructed A to send an email to every employee in the company, where he described why he had joined this company, what he is going to work with and some personal information about himself. This is one example that created an including atmosphere which A thinks is of big importance.

**Antifactors**

A claims that it is important to find anti factors about the ventures as it is easy to fall in love with your venture. He compares the investment process with a marriage. You spend a lot of time with your ventures, get to know each other and develop faith in each other if everything goes well. Consequently, you start incorporating each other’s best and worst qualities. During this process you develop a relationship with your venture. You start liking your venture and it can be easily happened that bad signals are overlooked. Therefore, it is beneficial with a tendency to self-doubt and actively look for negative aspects of the startup.

One negative factor is the existence of bigger underlying conflicts within the company. Other antifactors are teams that are permeated by arrogant and pushy people and individuals who get stuck up on details. When conflicts occur during the due diligence process investment manager A can see how they handle conflicts and if they get too stuck up on details.

**Employee Turnover**

Initially, startups tend to have a messy employee turnover. However, investment manager A does not necessarily view this as a negative aspect. He means that working in a startup company is extremely burdensome for a small salary. The work is extremely ungrateful, and no prestige comes from it. Therefore, people tend to drop out occasionally.

Although, A highlights that employee turnover is an important factor to assess. It is not interesting as a statistical number, but it is interesting to understand if there are any specific underlying causes that could be problematic for the development of the startup. In that case it would be important to identify the problem and counteract it by providing support and coaching from A and his employees.
It is, however, more problematic if the employee turnover concerns the founders and management team. This is actively counteracted by making sure those individuals own a stake in the company. This gives an incitement to stay prevent them from leaving as their own money is at stake.

**Responsiveness**

Investment manager A likes startup companies that are responsive and work late. Sometimes he sends out an email to the entrepreneurs very late in the evening to see if they answer. He likes to convince himself that they are hard-working and not at the office according to some 40-hour week. He considers that entrepreneurs owes both investors and the employees greatly. Therefore, it is nice if they are available and provide quick responses.

Additionally, he considers it more important to have a high decision rate, in a startup company, rather than that every decision must be correct. A decision can namely be a correction of a previous decision. This is important as the problematic that follows with a startup is that it is high competition in speed. They need to grow very quickly. Within the startup arena, there are entrepreneurs that are smarter and works longer hours all over the world. Entrepreneurs do not have a chance if they do not make a great effort and are quicker that their competitors.

Moreover, A mentions that he is a big fan of weekly one-on-ones, the principle that everyone meets their direct reports once a week. If you have an issue, you turn to your immediate boss. If that person considers it important to pass it on to his or her boss, that person forwards it on the one-on-one weekly meeting with his or her boss. The thought is that problems should float quickly up in the hierarchy. A means that it is completely useless to adapt yearly meetings in a business environment that is fundamentally different in a year.

4.2.2 Investment Manager B

Investment manager B mentions seven factors that he considers substantial when assessing organizational culture. These are *Founders & Management Team, Receptivity & Adaptability, Defined & Shared Responsibility, Talent Attraction Ability, Employee Turnover, Focus* and *Antifactors*

**Founders & Management Team**

Investment manager B highlights the importance of evaluating the founders/management team, as these basically constitutes the whole team in the early-stage ventures that they focus on. Additionally, they usually bring a culture with them from the start. Important qualities of the founders and management team, that B mentions, are that they are pragmatic, have sound basic assumptions and that they have reached a consensus. Other qualities are mentioned in the subsequent factors.

**Receptivity & Adaptability**
It is extremely important that the team is receptive, and are willing to listed to their counsel and adapt if problem arise. He gives an example of a team with whom they felt there was a cultural miss-match. This team was constituted by three people that proved to be impossible to coach. They were not willing to receive any other counsel but their own. This was a culture they could not pursue a cooperation with.

**Defined & Shared Responsibility**
The team members must have a consensus about what should be done and who is going to do what. The ultimate responsibility lies with the board members. If the board misbehave, than B can become responsible economically for eventual damages.

The team members must be willing to pull in and roll up their sleeves when necessary. It does not work with individuals who wants a private secretary or are used to support structures. In companies of this size, there is no support structure. Every individual must undertake their responsibilities on their own. For example, if the computer has crashed, you cannot call tech support. You need to take care of it on your own.

**Talent Attraction Ability**
Investment manager B claims that it is of big importance that the founders/management team can attract and hire the right people. One responsibility included in that factor is to find people with the right competence. There should be means for recruitment.

**Employer Turnover**
Employer turnover is an additional factor that is important to assess and analyze. This is considered as a negative aspect as the company loses momentum. It is a long process to replace a position with a new employee and there is always a risk that the wrong person is taken in. It can take about one to two years before a new employee can start contributing to the company. Therefore, it is important that a startup nourish its employees. Each individual has such an important function in such a small workforce. Losing an employee can be very degenerating for the company.

B means that if a person assigns, there must be something problematic about the relationship between this person and the company in question. One needs to start thinking about what could be wrong with that position. He exemplifies an incident where he experienced a cultural conflict with one of the founders of a venture. B and his colleagues were aware of the cultural differences. However, the company was so interesting that it was worth the risk. Unfortunately, this founder proved to be impossible to work with. This person was raised in an environment permeated by a planned economy, and his views and actions were very communistic. He lacked an understanding of how Swedish companies generally work regarding ownership versus voting rights and thus the rights to influence decisions and focus of the company. They had noticed tendencies of these characteristics, but did not understand that it would develop to the extent that it did. In addition, investment manager B points out that he still would invest in a company with a similar founder again today. However, next time he would probably have done it on the terms that the founder takes some type of board education.
In addition, B mentions that a reason that people would leave the company is if there is a lack of work-life balance. During his long experience within his business, he has seen the great value of a work-life balance. He claims that having a too burned out workforce would solely lead to long rehabilitation times, and consequently a loss for the company.

**Focus**
Something that is very important for investment manager B is to have a product focus. An apparent mistake that many entrepreneurs do when they start a company is that they try to produce several products at the same time. In those cases, B and his colleagues oppose the entrepreneurs and recommend them to create one product that is extremely good, launch it and sell it as quickly as you can. It is extremely hard for many entrepreneurs to understand that they should not focus on several products at the same time. B is not care about the technology development. He wants to see the product available in the market. This can be a clear distinction between entrepreneurs who are very focused on the technical aspect while the investor is more interested about getting the product launch.

**Antifactors**
Investment manager B highlights the importance of keep an eye of arising red flags. For example, if the team members are not attuned and if there are any underlying conflicts. Moreover, B would exclude a cooperation with people that seek prestige, thinks they have more knowledge than others and do not want to listen to counsel from others.

**4.2.3 Investment Manager C**
Investment manager C is interested in if a venture has a sustainable culture, i.e. a strong and positive culture that contributes to the company’s success both in short and long term. It should be a culture that motivates, advises and guides the employees in their cooperation with each other and to act “appropriately” in different situations. What C thinks that such a sustainable culture consists of, and thus is important to assess, can generally be summarized in five factors, namely *Founders & Management Team, Receptivity & Adaptability, Diversity, Talent Attraction Ability* and *Focus*.

**Founders & Management Team**
Investment manager C highlights the importance of a positive and sound leadership that the founders and management team are responsible for. These should have an overview of all parts of the company, and the ability to structure, lead and delegate. The team should have a strong passion for the company vision, mission and values and live by them. Moreover, it is important that there is a good basis for teamwork, with good communication, composition and trust. Additionally, it is important that there is a good chemistry between the team members. Other factors are included in the following factors.
Talent Attraction Ability
Investment manager C believes that an important factor for a venture’s success is the team’s ability to attract and recruit talented people. Therefore, it is an important aspect to assess both during the pre-investment process and post-investment process. C considers that it is important for the venture to be an attractive employer, and actively perform talent management. In other words, actively work with identifying, developing and keeping key-persons so that the employees can contribute to the development of the company. The team needs have ways to motivate new people to join the company, and current employees to stay in the company. With this ability, C wants to see a result of a team with a strong drive, ambition and high energy.

Receptivity & Adaptability
For investment manager C, it is important that the team is open for new ways of thinking. He believes that this is a factor that hopefully contributes to a culture that fosters innovation. This is important as being innovators and strong problem solvers are two of the personality traits that C thinks is important in today’s changing world. Moreover, it is important that the team can listen, be open to recommendations and ideas from the VC firm and flexible to changing circumstances.

Focus
It is important that the organizational culture is permeated by employees that stands behind a clear and common vision and mission that the startup has. The company should have a clear goal orientation with a strong customer focus, where the customer always is put first, and a strong focus and passion for the product, and thus the startup’s solution for an important problem.

Diversity
It is important that there is a strong and complete team that has a strong cohesion. Team members should have completing personalities, preferences and strengths. Every role should be filled with the right talent. The team should consist of team members that covers every needed competence such as competences regarding the technique, business development, marketing etc. It is important that the tech competence and other key competences can be found in-house.

4.2.4 Investment Manager D
Important factors that D considers important to assess can be categorized into five factors, namely Founders & Management Team, Cultural Fit, Diversity, Employee Turnover, Antifactors.

Cultural Fit
Investment manager D highlights the importance of a cultural fit between the VC firm and the portfolio venture. He thinks it is important that there is a mutual feeling that it is fun to work together as the VC firm and the venture will be working together for a long time. He bases his opinion on his own previous experience as a CEO in a
company, where he realized the importance of having a good time at work. He implies that a startup that does not share his opinions could prove to be extremely successful. Although, he would still probably refrain from investing in such a company as he considers it important to share the same values. He believes that differing core values is a source of conflicts and would lead to a rather problematic cooperation.

**Founders & Management Team**

According to investment manager D, the founder and management team is an essential factor to assess. D wants to see that the team has a clear vision that they can mediate to the rest of the workforce. It is important for him that they are the kind of leaders that looks after the well-being of their employees and have the ambition to succeed. Moreover, they should be able to motivate the personnel to take responsibility, provide assistance and develop them.

**Antifactors**

When evaluating a startup it is important so search for red flags, or antifactors. A great antifactor for investment manager D would be if a founder would decide and do everything in the company. He does not like if a founder would just keep going forward without taking a break and consider the team members in the process. Although, he implies that this way of working could still be successful, but it is not in accordance with his philosophy. Therefore, he would not invest in such a company even if they have a great business model.

Another red flag is if one or some people are continuously working around the clock. D does not believe that this is sustainable in the long term. The team members should definitely be prepared to work extra hours from time to time. But if this is always the case, than D believes that it is a sign that something is wrong. It could be something fundamentally wrong in the structure if the employees always have to work around the clock. This should be assessed and discussed as early as possible in the evaluation process.

**Employee Turnover**

Investment manager D thinks that the employer turnover is an important factor to assess in the due diligence process. However, not in that way that a specific turnover rate is compared to statistical average value. If the turnover rate feels relatively high, D and his employees want to understand the reasons behind this. Generally, it must be a good reason for a relatively high turnover rate. If, for example, there is a sales organization where the sellers do not stay for as long as they should, then they want to examine why they leave after such a short time. If the founders would prove to be the problem, then the problem would be more difficult to address. However, D does not evaluate the well-being in the venture to prevent a high turnover rate.

**Diversity**

It is important that the team consist of different competences. In their technical due diligence process, D finds it important to ascertain which development methods the
venture is working with. Moreover, he finds it substantial to ascertain that it is not solely one person that has a certain competence. More than one person should have knowledge about different parts of the business. This is important so that the venture does not fail if one person should leave the company. For example, the startup might have a system that is built up by a certain programming code. In that case, D would like to ascertain that more than one person can handle that system if it broke or something happened to it.

4.2.5 Investment Manager E

As for investment manager E, he believes specifically six factors regarding organizational culture are important to assess, namely Founders & Management Team, Receptivity & Adaptability, Defined & Shared Responsibility, Diversity, Focus and Employee Turnover.

Founders & Management Team
Investment manager E means that the founders and management team is very important to assess, as these constitute the majority of the workforce. He tries to understand what culture that will emerge from these people. It is important that they are motivated and have patience and high ambitions with the venture. They should be prestigeless, and not have an ego driven agenda with the venture. E believes that this could be harmful for the overall company. In addition, they should have developed an entrepreneurial thinking, and not be stuck in an academic perspective.

Diversity
For investment manager E, it is important that the team has a diverse composition. He mentions that it is important that they complete each other regarding their skill-set, personalities and gender.

Defined & Shared Responsibility
Investor manager E thinks that it is important and beneficial to have clear and defined roles. For example, one person that works with sales, one person that works with market questions etc. Even with such a small workforce, everybody cannot be a part of every decision. Doing it that way would not be an effective way to go forward with the development of the venture.

It is essential that the team members work as a team and not individually. Thus, the management team and other employees must be able to delegate work and not try to control everything on their own. Those individuals would only counteract the development of the company. It is especially important that the founders cooperate and respect each other.

Focus
It is important that the team focus on doing the right things, and do things the right way. They must realize what it means to be entrepreneurs. When the firm of investment manager E will potentially provide fund to a startup, they expect 100 percent commit-
ment from the entrepreneurs. They are not allowed to be involved in, for example, three other startups alongside the venture they will invest in. However, as E solely invest a small amount of money, on behalf of his firm, he understands if the entrepreneurs must work alongside their startup to support themselves. This is not problematic as long as it does not affect the venture negatively. E wants the entrepreneurs to make a contractual commitment of how many hours that is going to be put on the venture. Focus is extremely important.

Employer Turnover
Regarding the employer turnover it is important to understand why a certain person has left the team. This is because it is very important that team get along. Otherwise it will be degenerating for the development of the venture. However, E and his employees do not control the team members wellbeing. E thinks that it would be nice to know how everybody is doing but means that it is demanding to build up a new company. Moreover, it takes an amount if time. The team members must be aware of that fact.

Receptivity & Adaptability
E believes it is important to be receptive and adapt to new circumstances. It is needed that the team members are open to new instructions and have the ability to change themselves and the startup company. Thus, the team should be flexible. They should know how to acquire new knowledge, react to it quickly and iterate forward. The team must be open to changes and to learn new things. For example, open to learn about the customers’ needs and how to satisfy these needs. Team members should be prepared to take on new responsibilities and roles because it is needed for the company. Every individual should be able to step in where it is required.

4.2.6 Investment Manager F
Investment manager F considers six factors especially valuable to evaluate regarding organizational culture. These are Founders & Management Team, Defined & Shared Responsibility, Diversity, Talent Attraction Ability, Employee Turnover and Antifactors.

Founders & Management Team
According to investment manager F, the founders and management team are extremely valuable. He wants to see that there is harmony an energy within the group. Additionally, F mentions that is important that they are realistic and believable. As a group, their personalities should be compatible with each other. If they are not, F assist with a reformation of the group composition.

Employee Turnover
Investment manager F implies that you want to know the reasons behind a specific employer turnover. For example, there can be a high employer turnover rate because it is a bad company to work in. It can be a high employer turnover rate within a sales team because they have a product that is difficult to sell, so they do not get much out of it. It could be that the startup hired the wrong type of salesperson that thought
the job was about building relationships when it really was about taking phone calls or many other reasons. It is important to F to understand the reasons behind the employer turnover rate as he wants to find out if the underlying issues can be solved. It raises some red flags if a person has left because the chemistry within the group did not work.

**Diversity**
An important aspect for investment manager F is that the team must consist of a complete competence base. If it does not, there must be an evident way of how the team can be supplemented where there is no competence. F and his employees have a hypothesis about how the startup will succeed with their strategy or business and which roles that are needed to succeed. For example, if the team lacks someone that has the ability to sell or experience in sales, they will not manage to attract customers and ultimately the business will not be able to run. If the team lacks a group member that can handle the complexity that the product requires, it will be a problem for the overall business development. However, team members that can show that they have the right competence, but no experience, can get a long way. For example, if a young man that has no experience in sales, but proves himself to be good at creating business opportunities and being liked buy customers then he will be considered favorable for the startup regardless of the lack of experience.

Additionally, F highlights the value of having different characteristics within the group composition. He implies that different positions need a different set of qualities.

**Defined & Shared Responsibility**
Investment manager F wants to see what kind of roles the team members have within the organization. It is substantial to assess whether the the roles are well-defined or if the responsibilities are distributed randomly. He does not think that it is important to have titles or an organization chart. However, he do believe that it is favorable to have well-defined roles, where everybody knows what is expected of them.

**Antifactors**
F is very interested in what kind of harmony that exists within the group, i.e. what kind of interaction the individuals have, what kind of activities they do or how often they work together in the office. However, he claims that one way is not necessarily better than another way. What is really interesting to find out, is if there are any evident red flags within the team. If there is anything that does not work or disturbs the group harmony. For example, if the group members are talking over each other or not respecting each other.

**Talent Attraction Ability**
An important factor to evaluate, for investment manager F, is the team’s recruiting ability. He is interested in how they build up their team. For example, he wants to know if they have access to good people and how they have recruited their personnel. It is interesting to find out if the recruits are found through internal contacts or from
external recruiting agencies. Internal contacts are unique channels that external recruiters do not have access to. The recruits that are found through internal contacts are often more qualified. The more talent a company has, the more talent a company usually is able to employ.

4.2.7 Investment Manager G

G emphasizes that different cultures are preferred in different situations. He claims that the technical component is more important in some ventures, while it is more important to focus on the sales processes in other ventures. However, some general factors that he believes are important to assess are Founders & Management Team, Cultural Fit, Focus and Employee Turnover

Cultural Fit
For investment manager G, the essential prerequisites is that key-persons in the ventures share the same incitement as him and his coworkers. This means that the ventures should strive to have their company sold in the future, and receive great return. This incitement is seldom a problem with founders since they usually own great equity shares.

Founders & Management Team
Investment manager G implies that the founders and management team are essential for the overall venture. He claims that they bring an initial culture to the company. He wants to see a well-functioning harmony within the team for the venture to have a positive development. Moreover, G wants to see that the individuals have a high credibility and are receptive and prestigeless.

Focus
Investment manager G highlights the importance of having a vertical focus, rather than a focus on one product. A small venture with limited resources cannot do everything at the same time. The team must identify what vertical they will be most successful in, and put all their time and resources on that specific vertical. This could be focusing on more than one product, as long as they lie along the same vertical.

Employee Turnover
G and his coworkers often keep track of the team members in the venture. They are often involved in the recruiting process, but not always. Mostly, it is new people that join the team and less people that leave the company. However, they react greatly if a founder or leader leaves the company. For example, if a leader would leave team when another person just joined. In those cases, it is of big importance to understand the reasons behind these occurrences.

Therefore, G focus on assessing if there are any underlying conflicts within the group to determine how the members function together. If there are, he wants to quickly determine why the team is not working and if it can be solved. If this is not tackled, G believes that there is a risk that someone will leave hastily. Therefore, it is important
that there exist established methods to handle conflicts within an early-stage venture.
4.3 Summary of Empirical Findings

In Figure 8 below follows a summary of the empirical results that were found in the seven conducted interviews.

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Assessment Methods</th>
<th>Essential Culture Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Network interaction • Qualitative discussions  &gt; Board meetings  &gt; Office visits</td>
<td>• Founders &amp; Management Team • Receptivity &amp; Adaptability • Diversity • Defined &amp; Shared Responsibility • Talent Attraction Ability • Inclusion • Antifactors • Employee Turnover • Responsiveness</td>
</tr>
<tr>
<td>B</td>
<td>Network interaction • Qualitative discussions  &gt; Meetings  &gt; Personality tests</td>
<td>• Founders &amp; Management Team • Receptivity &amp; Adaptability • Defined &amp; Shared Responsibility • Talent Attraction Ability • Employee Turnover • Focus • Antifactors</td>
</tr>
<tr>
<td>C</td>
<td>Network interaction • Qualitative discussions  &gt; Board meetings  &gt; Personality tests</td>
<td>• Founders &amp; Management Team • Receptivity &amp; Adaptability • Diversity • Talent Attraction Ability • Focus</td>
</tr>
<tr>
<td>D</td>
<td>Network interaction • Qualitative discussions  &gt; Board meetings  &gt; Office visits</td>
<td>• Founders &amp; Management Team • Cultural Fit • Diversity • Employee Turnover • Antifactors</td>
</tr>
<tr>
<td>E</td>
<td>Network interaction</td>
<td>• Founders &amp; Management Team • Receptivity &amp; Adaptability • Defined &amp; Shared Responsibility • Diversity • Focus • Employee Turnover</td>
</tr>
<tr>
<td>F</td>
<td>Qualitative discussions  &gt; Board meetings  &gt; Office visits  &gt; Video conferences</td>
<td>• Founders &amp; Management Team • Defined &amp; Shared Responsibility • Diversity • Talent Attraction Ability • Employee Turnover • Antifactors</td>
</tr>
<tr>
<td>G</td>
<td>Qualitative discussions  &gt; Board meetings  &gt; Personality tests</td>
<td>• Founders &amp; Management Team • Cultural Fit • Focus • Employee Turnover</td>
</tr>
</tbody>
</table>

Figure 7: Summary of the empirical findings.
5 Discussion

In this section the discussion is firstly divided into two areas, namely culture assessment methods and essential cultural factors, based on the two sub research questions. Thereafter, a culture analysis framework is presented and followed by a general discussion. In these parts, the meaning of the results are discussed and related to previous literature.

5.1 Culture Assessment Methods

The empirical findings show that none of the respondents use a complete structured procedure to assess organizational culture in the ventures. They all rely on their gut feeling when assessing team related factors, as mentioned by Hisrich and Jankovicz (1990). Moreover, they put most emphasis on evaluating the individuals that constitute the management team, as these are extremely vital for such early-stage ventures. Thus, all of the interviewees implies that they do not really assess the cultural phenomenon. However, culture is a phenomenon that we often are not particularly aware of (Schein, 2010). Therefore, Schein argues that an outsider must look for different symbols, such as stories, habits, characteristics and the way of working et cetera. Entrepreneurs may be seen as creators of such symbols, or a group of culture carriers (Pettigrew, 1979). Thus, the founders and the management team is a part of the organizational culture and have a great influence over its development (Finger & Samwer, 1998; Schein, 1983). When the VCs evaluate the management team, they assess symbols such as what they know, how they think, what kind of people they are and how they interact with each other. Thus, by evaluating the management team, the VCs investigates an overall symbol, that can be broken down into various different underlying symbols that build up the organizational culture.

I have identified three different methods that the case investors perform to assess the organizational culture in their ventures. These methods are network interaction, qualitative discussions and quantitative personality tests.

5.1.1 Network Interaction

Six of the seven case investors mentions that they initiate their assessment of the founders and management team by listening to their personal network. Having been in either the startup or VC arena for many years, most of them have a great pool of referrals whom they trust. By communicating to their network they aim to assess second opinions about everything from the founding/management team’s behavior and values to previous performance and competences. Previous studies imply that that the network is of big importance for improving the deal flow (e.g. Gompers et al., 2016). More specifically, Hoschberg, et al. (2007) highlight the importance of networks when finding new talent and skills to the venture.

I believe this is a good methodology to use as a first part of a complete assessment method. According to Stanford (1995), one way to assess organizational culture is
through qualitative methods such as interviews or focus groups. Referrals who, for example, are working or have worked with the founders, or management team, have been exposed to the behavior, values and beliefs of these individuals. Communicating with them, and listening to their experiences is an indirect way of assessing their characteristics.

However, Smart (1999) showed that discussions with references is negatively correlated with accurate assessment of human behaviour and characteristics. This could be related to the fact that the assumptions that the founders bring to the team from the start is only one factor that influences the organizational culture. The other factor is what the team learns from its own experiences afterwards (Schein, 1983). Therefore, the values, beliefs and behaviors of the founders are context dependent and the experiences of the network might not give a completely accurate assessment of these characteristics in its new context. Thus, VCs that rely too much on their network might achieve a less correct evaluation of their ventures.

5.1.2 Qualitative Discussions

According to Schein (2010), one must side with a group for a time to understand its culture. Through conversations with organizational members, one can gain a deeper understanding of the behaviours and the underlying values and beliefs.

Five of the six respondents implies that they uphold continuous interactions with the founders and management team throughout the whole investment process. These interactions are mainly done through various board meetings. Moreover, these consists of interviews or discussions about business problems that aim to capture the team’s competence, how they think, what their values are and how they interact. These type of discussions can be compared to the ”work sample discussions” defined by Smart (1999). Smart (1999) also implies that the work sample discussions give an accurate understanding and assessment of present or hypothetical behaviors in early-stage ventures.

According to Stanford (2011c), these type of qualitative methods are a way to capture richness and depth in the assessment as they allow for storytelling, narrative and personal examples. It is a subjective method that do not make predetermined assumptions, which makes it context-dependent. However, some of the limitations is that it gathers soft data, which make it difficult and time consuming to store the data, detect patterns and compare. Thus, it raises higher demands for the VCs to remember what they have witnessed and reacted to. This could be rather problematic as individuals make an inadequate introspecting, according to studies in cognitive psychology (Zacharakis & Shepherd, 2005).

Four of the respondents mention that this type of qualitative assessment partly is performed by visiting the offices of the ventures as well. During these meetings they often get the possibility to feel the atmosphere in the company, see how they behave and act
during their daily business and meet several people of the workforce at once. The focus on the employees is, however, rather limited. These investors only mentions one aspect they control for when assessing some the employees, and it is their competence. This is done to make sure the venture have the competences that is needed, and to assess the management team’s recruiting ability.

Although the organizational culture is mainly influenced by its founders or leadership, it is also a result of the whole group’s interaction and experience (Schein, 2010). Thus, focusing solely on one of these influences, the culture assessment is rather limited. However, in such early-stage ventures the leadership almost constitutes the whole organization, which limits the effects of these disadvantages.

5.1.3 Quantitative Personality Tests

Solely three of the respondents, investment manager B, C and G, claimed that they use personality tests in the human assessment process, whereof B do not actively use them himself but lets his employees perform the tests, and G perform these only in rare occasions. These personality tests contains a digital questionnaire that are performed to assess the team members’ behavior in different situations, and how these personality characteristics complement each other. Thus, it is a way of capturing the team composition. However, both B and C only use these tests as a complement to their gut feeling. C highlights the importance of using several methods to achieve a more accurate team assessment.

One way to assess the organizational culture is through quantitative methods such as questionnaires. The advantages with these methods, are that they are objective, they can be conducted quickly and it allows you to store hard facts and data that make it possible to track data over time (Stanford, 1995). VCs often have limited time and meet one or a few people more than the rest of the team. Thus, this type of questionnaires may serve as a quick way of getting an overview of the whole team. Moreover, it could provide support for analyzing the team dynamics over time.

Smart (1991) argues that psychological testing is a problematic method to perform on complex work positions such as a management team. In addition, Guion (1988) implied that there are difficulties in advocating personality measure usage in situations where assessment decisions are made. This might be reasons for the low usage of personality tests among the case investors. One of the respondents, investment manager A, had been performing structured personality and psychological tests before. Although, he excluded personality and psychological tests from his assessment process as he considered that they do not allow you to find dysfunctional people, which he believes can be very successful entrepreneurs.

Moreover, quantitative methods such as questionnaires are rather limited when assessing the organizational culture. One of the reasons for this is that every questionnaire makes an assumptions of which cultural dimensions that are relevant for an organi-
zation, while this is context dependent. Another reason is that different individuals interpret the cultural factors differently, and these type of tests cannot cover that aspect (Stanford, 2011). A great example of cultural factors’ context dependency, is the situation where investment manager B invested in a venture where the founders were a group of his friends. These had developed a common ground, that consisted of shared assumptions, for 20 years as friends. Although, in a business setting this culture proved not to hold. However, using personality questionnaires as a complement to the qualitative interviews, as investment manager B and C do, is a good way of limiting the effect of the weaknesses of each method.

5.2 Essential Cultural Factors

It was shown that the interviewees did not believe that one specific culture was beneficial for all types of ventures, which is in line with Stanford’s (2011) statements. They were fully aware of the fact that, for example, arrogant and non-humble people have proved to be successful in the past. They also highlight the fact that a more sales-driven business should have a differing culture from one with an extreme technical focus.

However, the interviewees proved to have preferences about the organizational culture that are based on their own assumptions and values, which is consistent with the suggestions of Macmillan et. al. (1985). This can be considered as a limitation as Schein (2010) claim that in order for outsiders to understand the culture, they put their own beliefs aside. Although, one can argue that this is irrelevant as the VCs proved to be very interested in a cultural fit. They are interested in ventures that they can build a prolonged relationship with, and enjoy their time with. The VCs should, however, keep in mind that certain values might not be interpreted the same way for the members of the venture.

When discussing important factors about the organizational culture, I discovered that I received a great deal of variation in the answers. There were some thoughts that organizational culture only exist when the company has reached a stable state, which makes it an nearly impossible factor to reach in such a dynamic business environment, such as in a startup, where people come and go. Others focused on the minor cultural components, such as individual characteristics. I believe this variation in responses is natural because of the variety of broad definitions of the complex cultural phenomenon. If we study Schein’s (1983) definition that implies that culture is a pattern of assumptions that a specific team has created, discovered or developed in the learning process when tackling its problems, we can easily see the great amount of aspects that are covered in this definition. We see that culture, from one point of view, is something stable that is has been initiated from its current team members, and guides them in their future problem solving. From another point of view, it is a phenomenon that is constantly changing by the different characteristics and organizational factors that influences it over time. All in all, these are extremely broad aspects of the organizational culture, which can make it easy to overlook some of its components. For example, that even the minor artifacts or symbols such as the clothing and language of the individuals
influence the overall culture.

However, I have managed to identify eight broad factors that were covered by the interviewees. These are Founders & Management Team, Teamwork & Consensus, Talent Attraction Ability, Employee Turnover, Diversity & Inclusion, Defined & Shared Responsibility, Receptivity & Adaptability and Focus.

5.2.1 Founders & Management Team

All seven interviewees emphasize the great importance of the founders and management team, for the overall organizational culture. They believe so, as they constitute the majority of the team at such an early stage of a venture and they are responsible for all the decision-making. This is in conclusion with previous research that claim that the development of the startup is mainly influenced by the founders and their initial culture they bring to the venture (Finger & Samwer, 1998; Schein, 1983). Investment manager particularly highlights this with an example from his experience at a startup. At this company he worked for managers who always came late to meetings. This behavior was transmitted to the employees, and thus led to a culture that was not permeated by punctuality. This is also demonstrated by Schein (1995), who claimed that the culture establishment is partly influenced by how the leaders act in different situations.

Some personality traits that I discovered that the interviewees consider important to see in the founders or management team is ambition, competence and passion for the product and the business as a whole. This is in agreement with the study of Gompers et al. (2016), that found ambition, ability and passion to be considered the most important qualities of the team. Moreover, they mention the great importance of the founders and management team being prestigeless. This could be compared with the statements of Finger and Samwer (1998), who claim that their purpose regarding the venture should not be ego-driven.

5.2.2 Teamwork & Consensus

Teamwork was considered one of the most important factors of the team in ventures by both the case interviewees and previous research (Gompers et al., 2016). The case investors imply that it is of great value that the founders and management team have reached a consensus and stand behind a clear and common vision and mission. This is compatible with previous findings (Fingers & Samwer, 1998; Schein, 1995).

Because of the importance of teamwork and consensus, the interviewees actively look for antifactors that can disturb this harmony. One of these antifactors that was frequently mentioned is underlying conflicts within the team. They consider it of big importance that the leaders get along if the venture ought to develop to the right direction. This could be related to the fact that conflicted leaders might lead to conflicted directives of the company goals, mission and values (Schein, 1995). Moreover, it is supported by the fact that nearly 65 percent of new ventures partially fail because of tensions between
the team members (Gorman & Sahlman, 1989).

5.2.3 Talent Attraction Ability

In order to sustain the corporate vision and culture, it is important to recruit the appropriate individuals (Finger & Samwer, 1998). Recruiting the appropriate individuals is crucial in the development of a fitting culture, and thereby crucial for the organizational performance (Stanford, 2011b). Four of the case investors claimed that the talent attraction ability of the venture is an essential factor to assess. One additional case investor, investment manager E, does not explicitly mention the relevance of the recruiting ability, but mentions that it is the only aspect he gets involved in actively, which I assume is because of its importance.

The four investors that mention recruitment ability, however, mainly focus on the ability to recruit people with the right competences. One also mentions that the venture specifically should be able to attract people with a strong drive, passion, ambition and high energy. According to (Schein, 2010), one of the observable aspects and underlying events of the culture is the skill-set within the organization, and determines how the group copes with environmental change. Moreover, ability and passion were found to be considered the most important qualities of the team (Gompers, et al., 2016).

However, finding the right people is about finding a good cultural fit for a particular venture (Blumberg, 2013). These four investors capture this aspect by mentioning recruiting the specific competences that are needed. In addition, although, it is important to recruit individuals that can sustain the vision and culture (Finger & Samwer, 1998). This aspect is covered by investment manager E. He mentions that when they are looking for a new member of the management team, he let this person participate in several workshops where he get to interact with the rest of the team. During these sessions he aim to assess the team dynamics and cultural fit of this potential new recruit.

According to Blumberg (2013), the key ability in attracting new talent is to be able to convincingly sell the vision, as it is usually not possible to offer a lot of money to new recruits. The management should motivate the employees to revise their own beliefs and values (Munteanu & Păun, 2017). This is in line with the fact that these investment managers highlights the importance of the leadership being an attractive employer and being able to communicate a clear company vision and mission. Investment manager A specifically highlights the advantage of the leadership being able to motivate employees by symbolizing different matters by a compelling storytelling. This is compatible with Kreutzer and Lurtz (2017), who claim that storytelling has a fundamental role when attracting new talents.

One interviewee, investment manager F, particularly mentions the advantages of having access to good people through internal contacts. Internal contacts are considered unique channels that often are more qualified and thus more talent can often attract more talent. This is also highlighted by Finger and Samwer (1998) who imply that
every good individual will immediately interest other good individuals and therefore, particularly the first hires should consist of people who knows excellent people.

5.2.4 Employee Turnover

Six of the seven respondents thought that employer turnover is an interesting factor to investigate when assessing the team and its culture. It was not considered interesting to compare it to a statistical average, but interesting in relation to what the underlying causes is. In other words, what it reveals about the underlying culture.

An interesting observation to highlight, however, is that the interviewees have different views on whether a high employee turnover rate is considered as a negative signal. Some means that it is expected in a burdensome work environment such as in a startup. Other consider it as a problematic signal as the venture loses momentum, and indicates that something is wrong. Chafetz et al. (2009) argue that a high turnover rate prevent the team members to create collegial relationships, which in turn can make teamwork impossible. Teamwork was considered one of the most important factor of the team in ventures by both the case interviewees and previous research (Gompers et al., 2016). Thus, this could be a possible reason for the second opinion.

The different views can be a result of different assumptions of the VCs. According to Schein (2010), outsiders must be able to put their own assumptions aside if they are to understand the underlying assumptions of an artifact. The first view could be an example of the underlying assumption that being in as startup company is tough, and not something you typically enjoy. The other view might rely on the assumption that working in a startup is enjoyable. If something has disrupted that joy, it must be something wrong with some of the people within the company. Thus, studying an artifact such as the turnover employee without understanding the underlying assumption of the venture, will only lead to a reflection of ones own feelings (Schein, 2010). An example of different assumptions was actually demonstrated between the advocates of the two views. The interviewees of the first view emphasized that to succeed with a startup, one must work hard and during long hours outside the regular 40-hour week. While interviewees of the second view realized the value of work-life balance, as exhausted workers might lead to long rehabilitation times, which in turn will inhibit the development of the business.

One of the reasons that the majority of the interviewees want to investigate potential causes of a certain turnover rate, is to detect if there are any underlying conflicts within the team. This is due to the fact that it could potentially harm the basis for teamwork and team consensus, which the interviewees value highly.

5.2.5 Diversity & Inclusion

Previous research states that a diverse workforce is of big importance for the company performance (e.g. Kakarika, 2013). A team that consists of a different backgrounds
and competencies is beneficial for a small venture (Keeley & Roure, 1990; Kakarika, 2013). Four investment managers are aligned with this research, and mention that it is important that the venture or company culture is permeated by diversity. However, none of them mention the importance of having a broad mixture of backgrounds. They all put most emphasis on the importance of a broad and completing competence base. Investor manager A specifically mentions that he looks for a diversity of ideas rather than diversity of people.

Two of the interviewees, C and E, however, also highlight the importance of a diversity of personalities and preferences. E also mentions that he prefers a mixture of genders. That these types of diversity solely is mentioned by two respondents can be related to the fact that these type of diversity can prevent the group from being able to work effectively together (Kakarika, 2013). Moreover, recruiting people with similar mindsets and values is one way of establishing a specific culture (Stanford, 2011b). People with different personalities and preference might have greater differences in their mindsets and values, and thus hinder the establishment of a unified culture.

According to the literature, one way to promote the advantages of diversity of a culture is through maintaining an inclusive culture (Deane & Ferdman, 2014). This aspect is only mentioned by one interviewee, namely investment manager A, who emphasize the importance of providing the employees a sense of belonging by including every organizational member right from the start by a proper welcoming.

### 5.2.6 Defined & Shared Responsibility

The majority of the case investors mention that it is important that there are clear and defined roles within the team. It is important that everybody is aware of what should be done, and the responsibilities of each person. This is similar to what was stated by Ramsinghani (2014). This is in contrast to the theory of Greiner’s Growth Model, that claim the company is represented by unspecified roles in a new and growing business (Greiner, 1997). However, one investor, investment manager E, do explicitly mention that it is important that the individuals are able to take on new responsibilities and roles if it is needed for the venture. Thus, it can be seen as the roles should only be specified for the moment, and potentially changed when new circumstances arise.

Moreover, these investors emphasize that it is substantial that everybody take responsibility for every consequence, regardless of the reasons. Finger and Samwer (1998) agree with this, who claim that it should not matter who performed a job and when and where, in a startup, as long as he or she is taking responsibility.

### 5.2.7 Receptivity & Adaptability

The majority of the interviewees also mention the great importance of adaptability in such a fast-growing and changing business environment of a tech-startup. This is supported by Finger and Samwer (1998) who claims that the team must be able to cope
with change, as the startup environment is constantly changing.

They believe that the team members should be open to feedback, new responsibilities and new ways of thinking. This is supported by Finger and Samwer (1998) as well, who claim that a successful entrepreneur must be open to being wrong and learn new information, and consequently adjust to it.

5.2.8 Focus

Most of the case investors claim that it is substantial for the venture to have a certain focus. Different types of focus areas are highlighted, such as focusing on one specific product, one startup business and specific customers. As for the product focus, it is aligned with what De Clercq and Manigart (2007) emphasize as an important monitoring activity in the VC investment process. This is of great value, especially for new ventures, where the competition is fierce and they need to launch their product as quickly as possible, and not put too much time on expanding their product portfolio.

5.3 Culture Analysis Framework

In section 2.3, I proposed a culture analysis model that was based on Schein’s model and previous literature on VC and culture. In this section, I expand that model to include different dimensions that were found in the empirical findings of this study. In Figure 9 below follows an illustration of the complete culture analysis framework that I propose for the VC evaluation process.
5.4 General Discussion

In summary, the empirical findings showed that the organizational culture is valued highly by the VCs. However, they do not perform a culture assessment to the extent as it might be needed, considering the importance of organizational culture for the future...
outlook of a startup. One reason for this could be the fact that the investors have limited time and resources ahead of an investment opportunity, as is mentioned by some of the interviewees. This could mean that they do not have enough time to perform an extensive culture analysis. Another reason could be that the interviewees have a more financial or quantitative background. With this background, the first intuition might be to calculate financial factors, and look for concrete mathematical facts. Assessing ambiguous culture factors that lack computational support might then receive a lower priority. Citing one of the interviewees, he explicitly said “I am allergic to corporate bullshit”. If this is the case, then these investors might need to widen their views. They might need to put more attention to the fact that investing in a startup is about investing in a group of individuals who need to experience a cultural fit and be motivated by, inter alia, being challenged and provided a sense of belonging (Finger & Samwer 1998; Deane & Ferdman, 2014). Moreover, they need to decrease their reliance on computational support regarding this matter. Incorporating a culture analysis in their investment process might help them tackle this issues.

It is also mentioned that the assessment is considered subjective, which makes it difficult to perform an accurate judgment about characteristics and values that the interviewees are not familiar with. For example, investment manager A, particularly highlights the difficulty to assess sales teams as the investor cannot relate to the level of which they are sales driven and good at convincing other people. This is also visible in their different interpretations and thoughts about a high turnover rate. Some expects a high turnover rate because, based on their own experience in a startup company, has meant working more than the average 40-hour week, with relatively exhausting conditions. Others view a high turnover rate as negative, since their experience have shown that the work conditions can be good and having a work-life balance has proved to be beneficial. Moreover, the interviewees mention that the gut feeling has proved to be wrong in certain situations, and that they lack an analysis model that could be adapted to different situations.

The proposed analysis framework incorporates the different views on the culture factors. By integrating this framework in the VC evaluation process, the investors could gain an understanding of the views and thoughts of other VCs. This could help them to consider and evaluate different alternatives, and thereby potentially develop a more objective way of thinking. This particular framework is based on solely the level that constitutes the artifacts of Schein’s model, which means that the evaluation could lead to a reflection of the investors’ own thoughts and feelings (Schein, 2010). Thus, the VCs would still not understanding the underlying culture. However, by increasing knowledge about the different views and developing a more objective approach, the affect of this could possibly be limited. If an accurate assessment could be completed by solely focusing on the artifacts, it would also spare the investors the time that a complete ethnography normally take.
6 Conclusion

In this final section, conclusions are made from the discussion and analysis of the empirical findings that answer the overall research question. This is followed by a discussion of the implications of the study, both from a managerial and an academic point of view, and its limitations. Lastly, suggestions for future research in the field are highlighted.

6.1 Answering the Research Question

The purpose of this study has been to examine how VC firms could improve their evaluation process, ahead of any potential investment, regarding the assessment of the organizational culture. Therefore, to conclude this research, I answer the following main research question:

*How can organizational culture become a part of the VC evaluation process?*

Based on the empirical findings, and previous literature, I have designed a culture analysis framework that constitutes one part of Schein’s model for describing and measuring organizational culture (see Figure 9). By incorporating this framework, VCs’ would obtain a structured methodology for gaining a general understanding of the culture that permeates their ventures. Firstly, this framework identifies critical factors regarding the organizational culture in an early-stage venture. Secondly, it describes the VC assessment methods for this phenomenon.

As for the critical culture factors, the framework identifies the following eight aspects:

- **Founders & Management Team** - These are considered as the main influences of the organizational culture. It is important that this team shows a high degree of ambition, competence and passion for the business. Additionally, it is of big value that these individuals are prestigeless, can motivate their employees and delegate work.

- **Teamwork & Consensus** - It is important for the culture that the team stands behind a clear and common vision and mission to avoid contradicting directives. There should be a solid basis for teamwork where the individuals are able to work smoothly together by listening to each other and not being conflicted. Moreover, the individuals should complement each other.

- **Diversity & Inclusion** - A culture of diversity is considered substantial for the startup performance. VCs wants a team that consists of different backgrounds, personalities, preferences and competences. To promote the advantages of diversity, it is considered of value to that the venture provides a welcoming culture with a sense of belonging.
• **Receptivity & Adaptability** - It is of great value that the culture is permeated by openness and a willingness to adapt. The team should have a great ability to listen to and process new ideas, and quickly adapt to new circumstances or roles if necessary.

• **Talent Attraction Ability** - The venture must be able to recruit individuals who are a good cultural fit and have the right competences. It is substantial that the leadership can sell their vision convincingly and thereby motivate the employees to revise their own beliefs. This should be done to sustain the culture and improve the corporate performance.

• **Employee Turnover** - Some considered that a high turnover rate is negative, as the venture loses momentum and indicates that something is wrong. Other meant that it is expected in a burdensome work environment such as in a startup. Regardless, this factor is considered essential to assess to understand the underlying causes. This is to detect if there are any underlying conflicts that disturb the team consensus, or if it is something wrong with the business idea and operations.

• **Defined & Shared Responsibility** - There should be clear and defined roles within the team. Every individual should be aware of their responsibilities, and take responsibility for every consequence. This should be apparent to make sure the venture is permeated by a culture where everybody contributes and works together towards a common goal.

• **Focus** - It is substantial that the venture has a certain focus. This focus concerns focusing on one product, one startup business and a specific customer base. For an early-stage venture it is more important to have something launched quickly rather than spend extra time on expanding its product portfolio.

As for the assessment methods, the framework describes three different methodologies to evaluate the culture:

• **Network Interaction** - By communicating and listening to their network, VCs assess second opinions about everything from the team’s behavior and values to past performance and competences. Referrals who, for example, are working or have worked with the individuals in question, have been exposed to their behavior and beliefs. Listening to their experiences is a way for the VCs to assess these people’s characteristics.

• **Quantitative Personality Tests** - Through personality questionnaires the VCs can assess the organizational culture objectively, and quickly receive an overview of the team dynamics. These quantitative tests also allow them to store hard facts and track data, and thereby the team dynamics, over time. This assessment method is rather limited in that way that it contains pre-determined assumptions and does not consider different interpretations. However, using it as a complement to qualitative discussion is a good way to make use of its advantages and limit its weaknesses.
• **Qualitative Discussions** - Through open conversations with organizational members, the VCs can gain a deeper understanding of their culture. Another methodology to use, is therefore qualitative interviews and discussions about business problems or past events that capture how the team thinks, acts and interacts. These should not only be performed through board meetings, but also through office visits to observe the artifacts that also permeates the daily operative work.

### 6.2 Implications

The result of this thesis could have an impact for both venture capitalists, and entrepreneurs seeking VC capital funding. Prior to the study, it was established that VCs generally have a lacking ability in team assessment. Additionally, it was found that the case companies lacked a structured methodology to assess organizational culture. VCs could benefit by the empirical contribution on how to incorporate a structured culture assessment framework in their evaluation process, and how their thoughts about culture differ from each other. For example, there were some that were convinced that a high turnover rate is bad for the venture, while others saw it as a natural feature. By gaining understanding about the views of other VCs, they can learn from each other and potentially develop a more objective way of thinking.

As for the entrepreneurs, or ventures, they could, on one hand, benefit from the results by gaining insights on how VCs evaluate and think about culture. This could help them in their culture establishment, and thereby increase their chances to receive VC funding. One the other hand, it could help them be found or matched with investors who make a cultural fit.

From an academic point of view, no literature regarding VC culture assessment was found. The result of this thesis contributes to the VC literature by providing an evaluation framework for organizational culture, and identifying critical factors regarding this matter.

### 6.3 Limitations

This study is considered to have several limitations. One limitation concerns my time and resources. Due to time constraints, only seven investment managers from five different VC firms were interviewed from the examined category. The results of these interviews may be subjective and thereby have a low degree of generalizability.

Another limitation is the fact that the interviewees had different understandings and perspectives on organizational culture. Some believed the cultural features are rather limited in an early-stage ventures and had less to express, while others believed in a strongly embedded culture and had strong views and preferences. Additionally, some stressed that it was important that their answers would be treated anonymously. These factors could have different impacts on the empirical findings. The interviewees might provide different answers because of different interpretations of the subject, or they
might not be able to talk freely about the subjects due to confidentiality reasons.

6.4 Further Research

As this research has progressed, I have identified suggestions for further studies within this area. Below follows a summary of these.

- The empirical findings of this study contained a variety of answers, and the sample interviews were rather low. The results from the conducted interviews give interesting insights and indications on the thoughts of Swedish VCs that focus on the tech industry. However, the VC business arena is large. Investigating a larger sample size would possibly increase the representativeness of the results and possible allow for patterns and identifications of different subgroups.

- Additionally, I would encourage future researchers to test the proposed framework on different startups and examine if an objective and accurate assessment of the culture can be achieved. Can it perform an accurate ethnography on a relatively short time?

- Another interesting aspect would be to investigate VC firms that are active in other industries than the technology sector. It would be interesting to identify similarities and dissimilarities regarding cultural preferences across different industries.

- This research focuses on how the VCs can assess artifacts, such as behaviors and characteristics. A further investigation could be performed to examine how VCs could assess the less visible parts of organizational culture, such as the values and underlying assumptions of the team, within the limited timespan that the investors have.

- The results of this thesis suggest that the team assessment that is performed by Swedish VCs is highly focused on the founders and the management team. I encourage future researchers to examine how VCs could expand their assessment to include all of the workforce, and thereby receive a more complete assessment of the organizational culture.

- Furthermore, an interesting question to examine is how the proposed culture assessment framework, of this thesis, can be used not only in the evaluation process but also to support the ventures develop their cultures during the post-investment activities.

- Considering the fact that entrepreneurs are concerned about a cultural fit as well, future researchers could investigate if a similar culture analysis framework could be beneficial for them. In that case, how would this framework be designed and in what way would it be beneficial for the entrepreneurs?
7 References


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8 Appendices

8.1 Interview Questions

Evaluation process

1. How is an investment decision generally made?
2. How do you evaluate an attractive investment?

Organizational culture

1. How do you evaluate organizational culture?
2. Where in the investment process do you consider the evaluation more limited?
3. What do you consider important to know about the organizational culture?
   - How do you assess these factors?
   - Regarding which areas do you consider yourself perform better assessments?
   - What do you think that you are unable to assess?
   - Can you give an example where you have made an investment and the factor you consider yourself unable to assess has failed?
4. What would discourage you from going through with an investment?
   - Is there any unfavourable cultural elements that you do not want to see?
5. Can you give an example where something unexpected happened that you had not foreseen in the evaluation process?
   - What happened and why?
6. Have you experienced culture clashes with your investment objects?
7. How much, and in what way, do you support the development of the culture after the investment?