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Process:***
Theory, Practice, and Decision-Making

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CHAPTER 1 – INTRODUCTION AND RESEARCH DESIGN

1.1 Research Context

Businesses in the early stages of their lifecycle are difficult to finance through conventional channels, primarily due to the lack of an operating history on which a credit institution can base an assessment, the absence of assets to offer as collateral, and a cost structure that absorbs liquidity well before generating it. Therefore, most of what a business possesses at this stage is intangible, and a large portion of it is unlikely to survive; consequently, banks are hesitant to grant credit, as financial instruments designed for companies with predictable cash flows are obviously not suitable for such realities. However, the aforementioned financing gap has led to the emergence of Venture Capital funds, which are investors that, instead of being repaid from operational earnings, acquire a company's equity stake, accepting the risk that most of their investments may yield no return, and relying on a few successful operations capable of ensuring the profitability of the entire portfolio. It is precisely this structure that gives the asset class its distinctive features, such as disbursing capital in stages rather than in a single payment, using preferred rather than common equity, governance rights over decision-making that ordinary shareholders do not hold, and the presence of funds with a limited duration, whose fixed horizons influence the investment objectives and timing.

These structural features are not implemented at a single moment, but are the product of an articulated process that develops from the first contact with the company until the eventual exit, and which the academic literature describes as a sequence of phases aimed at reducing a specific share of the investor's informational uncertainty through the most cost-effective instrument capable of performing this function, reserving the more expensive resources and mechanisms for only those companies that reach advanced stages. In other words, it is within this process that the practical management of the early-stage investment informational problem is found, and therefore this is the natural context for investigating how investment decisions are actually made.

In this regard, it is important to note that such a process is not static in nature; indeed, it is no coincidence that the financial instruments through which early-stage capital is deployed have changed significantly over the past decade, or that the interval between financing rounds has lengthened; furthermore, an increasing share of the documentation

governing these operations is now circulating publicly, with the funds themselves making their contractual models and underlying motivations known. All of this results in two critical implications for anyone seeking to understand the real functioning of the process, namely that the operational practice available for empirical observation is more current than ever, yet evolving at a faster pace than the academic literature dedicated to examining it.

From the above-described context, a practical difficulty thus arises, as a founder preparing for the first institutional financing round and an investor deciding whether to lead it share the same need for guidance, but both find themselves drawing from two distinct bodies of knowledge that describe the same process without almost ever engaging in dialogue with each other. On one hand, there is a solid and formally structured academic literature on Venture Capital, based on Agency Theory, signaling mechanisms, informational asymmetries, and valuation logic under uncertainty; on the other hand, there is a broad body of practitioner literature, highly current and specific, including term sheet templates, due diligence checklists, documentation on internal processes, and guidelines drafted by investors and legal professionals for the benefit of the parties. In detail, the first explains the theoretical reasons why industry tools have taken their current form, while the second provides operational guidance on how to act in daily practice; however, neither regularly acknowledges nor cites the other.

In this way, a founder who turns to the academic account encounters theoretical models whose required inputs do not exist for a company without an operating history, as there are no cash flows to discount or market transactions that are genuinely comparable; on the other hand, a founder who consults the practitioner literature instead finds effective operational rules but lacking an explanation of why they work, making it impossible to understand when they cease to be valid. Similarly, this asymmetry concerns a junior investor learning the trade within a fund, as the latter is taught a set of procedures rather than an underlying theory of them, preventing them from distinguishing which elements of that process are responses to structural problems and which are merely operational habits of the specific fund.

Considering this context, what makes it worthy of investigation is the substantial irreversibility of the decisions involved, since an equity sold at an incorrect valuation cannot be reacquired later, a control right granted in the Series A round affects every

subsequent financing stage, and a funding window that closes may not reopen for years; consequently, a founder who follows incorrect guidance does not face a suboptimal outcome that can be corrected in the next round, but rather carries the mistake made along with them. Therefore, in an environment defined by structurally incomplete information and permanent consequences, understanding what actors rely upon when theoretical models reach their limits becomes a matter of primary importance.

1.1.1 Sources of Guidance and Their Limits

Starting from the principle, anyone facing an early-stage funding decision has historically referred to three sources of guidance, each characterised by a distinct strength and a corresponding limitation; therefore, it is necessary to present them here, as the proposed thesis is based on a core claim regarding what has transpired with one of them. Specifically, the argument does not assert that a new form of knowledge has appeared, but that a body of knowledge that has always existed has become observable in a form that can be dated, attributed, archived, and compared, thus reaching the fundamental condition that allows it to be used as rigorous research evidence rather than merely as advice to consult.

Proceeding in order, the first source is represented by academic research, which has as its strength the explanatory power, as it identifies the underlying mechanisms that generate the observed market arrangements, distinguishes durable structural patterns from passing trends, and supports its theses through empirical samples and identification strategies that are rigorously verifiable; for example, if the question concerns why capital is disbursed in tranches rather than in a single solution, or why investors hold preferred rather than common equity, the academic literature provides a comprehensive answer. However, its limitations stem from the same properties, as publication cycles are lengthy compared to the speed at which market practices evolve, causing the literature to describe a market partially anchored in the past; furthermore, the samples are often concentrated in specific geographical contexts and historical periods, and the high level of abstraction that confers generality upon a theoretical model is precisely what leaves its practical implementation unspecified, since knowing that capital staging solves a moral hazard problem does not tell a founder how many months of runway to finance.

Moving on to the second source, this consists of professional guidelines and supporting materials, such as handbooks, market reports, document templates, and commentaries on

standard contractual terms shared by investment funds, accelerators, law firms, and industry associations with the purpose of transmitting operational practices to those who require it. Regarding their key strength, this precisely lies in what academic literature does not offer, such as the presentation of threshold values, benchmark ranges, practical examples, and terminology ready for immediate application; however, historically, such materials have reached their audience in a very specific form, being carefully curated and reviewed before publication, published periodically, and presented as a finished product from which the underlying reasoning and raw data have been removed. Additionally, it should be noted that access to these documents was uneven, as many of these resources were contained within specific proprietary programs, client reports, or paid subscription services; furthermore, it is important to highlight the subtle boundary between educational and marketing purposes associated with the publication of such documents, since a fund publishing a guide for founders is simultaneously creating investment opportunities for the fund itself.

Finally, the third source is represented by mentorship and professional networks, that is, the knowledge that resists formalisation, such as knowing how to conduct a negotiation in practice, which investor behaviours tend to recur, and how to calibrate a decision based on the specific situation. This dimension often marks the difference between knowing a rule and knowing when it should be applied; however, access to such networks is unevenly distributed and depends more on geographical location and social capital than on merit. In this regard, it should also be considered that the advice received reflects local conventions that are not necessarily transferable to other contexts, and that confidentiality constraints mean that negative cases (such as failed rounds) are precisely those discussed less frequently.

It is important to emphasize that these three pillars remain valuable and complementary; however, what has changed in the last ten years (and makes the realization of this thesis possible) is that professional guidelines have shifted onto public professional networks, thereby acquiring properties they did not previously possess. Specifically, this flow of information has become continuous rather than periodic, able to follow market developments rather than chase them, and has become dated and attributable, as it is published under explicit professional identities, whose credibility depends directly on the content, thus involving a reputational cost if statements are recognized as incorrect by the

market; furthermore, it is subject to immediate peer scrutiny, as other practitioners can publicly challenge claims and provide counterexamples. Therefore, it is produced for an identifiable audience, which transforms the author's position into a primary source of analytical evidence rather than a limitation, since a document drafted by an investor for other investors reveals structurally different insights than one written by the same investor and intended for founders.

In light of the above, however, a particular change appears to be more significant than the others for the purposes of this research, namely the sharing by practitioners of the actual operational instrument itself rather than a mere description of it. This is of great importance because a fund that publishes the term sheet issued to portfolio companies is not explaining its general functioning but is showing the actual document it uses in practice; this is the same difference that separates a survey from an operational documentary trace, as one records what a professional declares when questioned by a researcher, while the other records what a firm actually executes when no external observer is asking, thus allowing for a direct comparison with the theory that should explain it.

However, it is important to recognise that such properties entail analytical limitations (explicitly examined in Section 1.4.4), since the authorship on a professional platform constitutes an asserted identity but not an independently verified credential, thus requiring confirmation, considering that a content produced for public consumption naturally seeks to persuade as much as it aims to inform. Furthermore, the corpus is affected by a self-selection toward actors who choose to publish and topics capable of attracting industry attention; consequently, the absence of discussion around a given topic does not constitute evidence of its non-existence. None of these factors, however, prevent such documents from serving as valid research evidence, provided that the theoretical assumption formulated on them is correct; in this regard, this thesis does not treat them as proof of the optimality of a particular operational practice, but rather as evidence of what practitioners actually do and the explicit rationales they provide for doing so, namely what is required to conduct a rigorous comparative analysis with the academic model of the same process.

1.2 Research Gap

The gap this thesis addresses does not lie in the potential inaccuracy of academic models, since they are equilibrium models based on rational behaviour that maintain their validity under the explicitly assumed conditions, like all constructs of the same nature. However, what is relevant for the purpose of this research is that these conditions can be critically examined, and that Venture Capital in its early stages does not clearly satisfy each of them; in this regard, Chapter 2 conducts such an examination and directly derives from the theoretical models three fundamental conditions concerning the organizational unit where decisions are made, the treatment of the temporal dimension, and the scope of what is considered information. The detailed demonstration is not anticipated here, as it constitutes an analytical finding of the research rather than a mere premise; conversely, what can be expressed at this stage concerns what theoretical literature does not provide, and can be stated regardless of the specific identification of the conditions under examination. Specifically, theoretical models predict that empirical results will deviate from equilibrium predictions where their underlying assumptions are not confirmed; however, they do not describe the structural characteristics of this deviation, the reasons for its configuration, or the operational heuristics practitioners deploy in place of the model when it ceases to determine the decision. This analytical space remains empty within the theoretical framework, and filling it requires empirical evidence of a nature that cannot be generated by the theory autonomously.

There is also a second gap that the thesis aims to fill, which determines the operational approach of this thesis. Specifically, although empirical literature on venture capital practices exists and survey-based literature has established with reasonable accuracy what investors report doing, what has not been conducted systematically is a comparative analysis between the academic reconstruction of the investment process and the representation that practitioners offer of the same process within the documents they produce and publish. Therefore, by leveraging the availability and epistemological properties of these materials, which Section 1.1.1 discusses in detail, this systematic comparison forms the core empirical strategy of this thesis.

1.3 Research Questions

The primary research question follows directly from the two analytical gaps described above, and is presented as follows:

(RQ) *To what extent does professional practitioner knowledge in the venture capital investment process diverge from academic theoretical prescriptions, and what does this gap reveal about the nature of investment decision-making?*

This question adopts a deliberately comparative rather than evaluative approach, as it does not aim to establish which of the two bodies of knowledge is correct, but rather to determine the distance that separates them and what this discrepancy reveals. From here, three secondary research questions divide the core problem into operational components that can be addressed through empirical evidence, each of which is answered in a dedicated chapter.

(SRQ1) *How do practitioners actually conduct due diligence and deal structuring, compared to the process the academic literature describes?*

This question takes the investment process as its object of investigation. In this regard, Chapter 2 reconstructs the traditional five-stage model prescribed by academic literature and assigns a specific function to each stage within the management of the informational problem characteristic of the sector; conversely, Chapter 3 examines the same five stages through the examination of practitioners' documents, evaluating whether, stage by stage, the descriptions provided by professionals align with what is outlined by the theoretical model. The resulting synthesis is framed as a classification rather than a value judgment, thus enabling a comparative evaluation on common analytical terms between stages where practice confirms the theory and those where it diverges.

(SRQ2) *What are high-stakes decision points in the venture capital investment process, and how do investors and entrepreneurs navigate them in practice?*

This question shifts the focus from the overall process to the individual decisions made within it, which constitute a separate object of analysis. In this regard, Chapter 4 defines the criteria that make a decision high-stakes through three verifiable properties, and then examines four decisions that meet these criteria, also using market data as a third level of empirical evidence, comparing the operational heuristics taught by practitioners with the actual results generated by the market.

(SRQ3) *What framework can bridge the gap between theory and professional practice to guide founders and investors in early-stage funding decisions?*

This last question is constructive rather than descriptive, and can only be answered after addressing the first two. In this sense, Chapter 5 develops the integrative framework by directly building on the analytical findings of the two empirical chapters; specifically, the dimensions along which academic theory proves insufficient to guide decision-making become the structural axes of the framework, while the heuristic rules used by practitioners constitute its operational content. Finally, the chapter applies the framework to one of the four high-stakes decisions to concretely illustrate its practical utility.

The three secondary research questions are therefore answered respectively in Chapters 3, 4, and 5. In light of this, it is necessary to specify that Chapter 2 does not directly address a research question, but reconstructs the academic representation of the investment process and establishes the formal benchmark against which the three responses are measured, allowing any divergences identified later to be expressed as measurable distances from a baseline model rather than as mere subjective impressions.

1.4 Research Methodology

Regarding the methodology adopted, as anticipated in Section 1.2, this thesis compares two distinct bodies of knowledge, each requiring its own specific methodological approach. From this perspective, the academic dimension is reconstructed through a structured literature review, described in Section 1.4.1, while the practitioner perspective is analysed through the examination of a repository of professional documents, illustrated in Section 1.4.2; finally, Section 1.4.3 presents the comparative procedure bridging the two domains, while Section 1.4.4 clarifies the methodological limitations arising from this approach.

1.4.1 Structured Literature Review: Process and Search Strategy

As anticipated, the academic literature was systematically reviewed following the Structured Literature Review methodology articulated by Massaro, Dumay, and Guthrie (2016)¹; specifically, this approach was selected over a traditional narrative review for two primary reasons listed below: firstly, because it requires the declaration of the protocol in advance, making the boundaries of the review explicit and allowing the reader to assess what has been excluded; secondly, because it ensures the reproducibility of the research, enabling another researcher to obtain the same set of contributions by executing the same query strings on the same database. In detail, the literature searches were conducted on Scopus through the institutional access of Ca' Foscari University of Venice, and the search strings used are fully reported in Table 1.1 to facilitate the replication of the analysis.

Table 1.1. The three Scopus queries: focus, search string and results. Source: own elaboration.

Query	What it covers and which part of the thesis it serves	Search String (TITLE-ABS-KEY)	Window	Results
Q1 Investment process	Feeds the stages of the investment process described in Section 2.3 and the theory-practice comparison of SRQ1.	"venture capital" AND ("investment process" OR "due diligence" OR "deal structuring" OR "screening")	2011-2016	78
Q2 Theoretical foundations	The frameworks that explain the contractual and informational architecture; feeds Section 2.2.	"venture capital" AND ("agency theory" OR "signaling theory" OR "information asymmetry")	2016-2026	105
Q3 Decision-making	Criteria and decision processes; feeds the four high-stakes decisions of SRQ2.	"venture capital" AND ("decision-making" OR "investment decision" OR "evaluation criteria" OR "selection criteria")	2016-2026	185
				368

As can be deduced from Table 1.1, three distinct queries were deployed, each corresponding to a core dimension of the thesis structure: the first query concerns the

¹ Massaro, M., Dumay, J., & Guthrie, J. (2016). On the shoulders of giants: Undertaking a structured literature review in accounting. *Accounting, Auditing & Accountability Journal*, 29(5), 767-801.

investment process and feeds into the stage model in Section 2.3, along with the comparative analysis related to SRQ1; the second relates to the theoretical frameworks and supports Section 2.2; while the third focuses on decision-making processes and informs the evaluation of the four high-stakes decisions within SRQ2. It is important to emphasise that the choice was made to use three separate queries because employing a single query encompassing all the search terms would have generated a broader but undifferentiated body of literature, making it impossible to accurately attribute which core of the literature supports each part of the thesis; in this regard, structuring the research in a manner that mirrors the research questions is what ensures the rigour and transparency of this traceability.

For each of the three queries, three methodological filters were also applied, as listed below: firstly, only peer-reviewed articles were considered, excluding conference proceedings and book chapters in order to ensure homogeneity in the qualitative and scientific level of the evidence; secondly, inclusion was limited to publications in English language only; and finally, the search was restricted to the Business, Management and Accounting disciplinary area, thereby excluding engineering and computer science literature that employs venture capital as an empirical background rather than as a direct object of investigation. Additionally, the searches were conducted on the fields of Title, Abstract, and Keywords rather than on the full text, since a full-text search would have retrieved any article containing a marginal reference to venture capital. Regarding the temporal windows adopted, these differ between the various queries, but such discrepancies are due to a specific methodological choice: the first query begins from 2011 because the literature on the investment process solidifies around 2010, and it was appropriate to preserve a broader historical horizon for a body of studies that evolve gradually; conversely, the second and third queries start from 2016 because the scientific output on theoretical foundations and decision-making processes is significantly denser during this period, providing the coverage of recent years necessary for the purposes of the thesis. For transparency, it is important to state that a preliminary version of the second query included the keyword “valuation,” which yielded 312 results compared to the 105 of the final version; the term was removed as it proved to be extremely generic for an effective solution, while the underlying topic was comprehensively captured in the sample through the other queries. The three search queries described above thus returned a total of 368 records, and the process through which this initial pool was

progressively reduced to the actual sample reviewed is illustrated in Table 1.2.

Table 1.2. From raw results to the reviewed set. Source: own elaboration.

Step	Criterion Applied	Articles	Removed
Raw results	The three queries as run on Scopus	368	-
Deduplication	Unique records by EID; articles retrieved by more than one query counted once	327	41
First Screening	Quality and scope: the article must take venture capital as its object	279	48
Second Screening	Structural relevance to the questions addressed in Chapter 2	170	109
Third Screening	Ranking by relevance, with a maximum limit per subsection, in order to avoid the dominance of a single theme.	68	102
Reviewed Set	Articles retained after reading the full text and cited in Chapter 2	28	40

As can be seen from the table, the removal of duplicates eliminated 41 articles, bringing the total to 327; subsequently, an initial screening phase evaluating scope and domain alignment, which required the article to have venture capital as its primary object of analysis rather than merely as a context, reduced the pool to 279; continuing, a second phase based on the structural relevance to the core analytical frameworks discussed in Chapter 2 narrowed the sample to 170; while a third phase ranked the remaining articles according to their relevance, applying a maximum limit for each subsection to prevent a single paragraph of Chapter 2 from absorbing an disproportionate share of the sample, reducing the total to 68. Finally, these 68 papers were subjected to full-text analysis, and conceptual redundancies on the same theme were excluded, resulting in 28 articles subject to the review in Chapter 2, whose complete list is reported in Appendix A.

In connection with the above, it is important to note that the three queries structurally present areas of overlap, the intersection of which is itself informative, since an article identified by multiple queries is closer to the core of the thesis subject; specifically, of the twenty-eight articles reviewed, seven were retrieved by more than one query and two by all three. In this regard, Table 1.3 illustrates the composition of the selected sample based on the originating query.

Table 1.3. Composition of the reviewed set by query of origin. Source: own elaboration.

Query of origin	Articles
Q1 only	5
Q2 only	8
Q3 only	8
Q1 and Q2	1
Q1 and Q3	1
Q2 and Q3	3
Q1, Q2 and Q3	2
Total	28

However, at this point, it is necessary to explicitly define a methodological boundary for the research, as it affects the way Chapter 2 should be interpreted. Specifically, the foundational theoretical contributions on which that chapter is based precede all the designated search windows and, consequently, could not have been identified by any of the three queries; therefore, these canonical works were retrieved through a backward citation procedure starting from the reviewed sample, following the bibliographies of the contemporary articles that cite them, in full compliance with the structured review methodology. As a result, the Structured Literature Review covers contemporary literature, while the canonical works are included via the articles that reference them; additionally, for greater clarity, the two groups are listed separately in Table 1.4 to ensure full epistemological transparency, and the complete list of the canonical works is reported in Appendix B.

Table 1.4. The two streams of academic sources. Source: own elaboration.

Stream	How it was built	Sources
Structured Literature Review	Three Scopus queries, screened in three rounds as set out in Table 1.2. Contemporary literature, 2011-2016.	28
Foundational works	Research through backward citation starting from the reviewed sample. These contributions precede the search windows and could not be identified through the queries.	10

1.4.2 Document Repository: Practitioner Sources

Regarding the perspective of practitioners within the comparative analysis, this is based on a pre-constituted repository of professional documentation made available for this research; specifically, the repository was collected and archived by Montanari (2025)² as part of a study on the funding practices of startups published on professional networks, and includes over five hundred documents extracted from LinkedIn. It is important to clarify that the version of the repository provided for this research contains material published up to 2026, and the author of this thesis did not participate in the construction phase of the corpus; however, the author's contribution consisted of screening the material in relation to the research questions of this work, classifying the selected documents, and conducting their critical analysis, the methodological implications of which are examined in Section 1.4.4. At this point, however, it is necessary to specify the methods of assembling the corpus, since they determine what the corpus is capable of demonstrating or not; therefore, the collection procedure is outlined below in the same terms in which Montanari (2025)² documents it.

The use of a corpus collected for a previous research requires a preliminary clarification, as the two studies share the *empirical* material but not the research object; specifically, Montanari (2025)² analysed the documents with the aim of reconstructing the best practices circulating among practitioners, treating the corpus as a primary source of operational guidance, whereas this thesis examines them as one side of a comparative analysis whose counterpart is represented by the academic literature reviewed in Chapter 2. Therefore, the unit of analysis in this case is not the practice itself, but rather the gap between the practice and the theoretical model formulated to describe it; consequently, the screening, the classification by epistemic position described below, and the analytical procedure outlined in Section 1.4.3 have been specifically structured for this corpus.

Proceeding in order, the documents are taken from professional publishing on LinkedIn, and by the term 'document' we mean all formats supported by the platform, namely: short posts, extended articles, platform newsletters, multi-slide carousels, and files attached to posts, such as templates, checklists, and process decks. In this regard, it is important to

² Montanari, M. (2025). *The startup funding process: Best practices analysed through the lens of LinkedIn's Top Voices*. [Master's Thesis, Ca' Foscari University of Venice].

note the deliberate heterogeneity of the formats, as part of the most analytically valuable material for the conduct of this research is not formulated as a narrative argument, but circulates as a practical instrument, and it is precisely these practical instruments that reveal how a firm operates in actual practice.

Moving on, Montanari (2025)² describes four complementary collection procedures, and starting with the first, this involved the continuous monitoring of feeds from investors, founders, and consultants who regularly publish content on startup funding, including several authors recognised as Top Voices by the platform, thus ensuring a steady flow of specialised material from pre-identified sources. Conversely, the second procedure involved targeted searches using keywords and hashtags related to relevant fundraising terms, functioning as thematic sampling based on content rather than authors and ensuring that relevant material from less well-known contributors was not overlooked simply because they were not previously identified. Regarding the third procedure, it focused on exploring the comment sections of the most pertinent posts, where practitioners frequently insert links to their own documents or mention colleagues who provide alternative readings of the same issue, thereby expanding the corpus along pathways not accessible through the first two methods. Finally, the fourth procedure employed the platform's recommendation algorithm as a tool to capture the most debated topics that manual strategies might have missed, with full and conscious awareness of the selection bias introduced. Therefore, considering the above, the four procedures were designed to ensure that the corpus encompassed multiple perspectives on each question rather than a single version, laying the necessary foundations for practitioners' statements to be subjected to triangulation rather than merely recorded.

Furthermore, Montanari describes how, prior to the start of the collection, an operational taxonomy of the startup financing process was defined in collaboration with Dr. William Vespi, and treated as a framework hypothesis against which practitioner statements were subsequently categorized; therefore, each collected document was systematically archived to ensure a permanent record, protecting from potential modifications or deletions of the original post, and catalogued within a master spreadsheet that constitutes the actual repository. Specifically, the catalogue records nine attributes for each document, which are outlined below:

- Title, or a concise description of the topic, which identifies the central subject of the document.
- Author, meaning the original creator of the material. The qualification matters, because content on a professional platform is frequently reshared by people other than the author, and the repository records the origin rather than the intermediary.
- Author Type, which describes the professional profile of the author, whether a venture capital fund, a founder, a law firm, an academic or a platform, and therefore marks the position from which the document is written
- Place, which records the geographical origin of the material and situates it within a specific capital market.
- Year, which records the year of publication and provides temporal context of the claim.
- Web Link, which gives the direct address of the document so that the original can be consulted.
- Domain, which assigns the document to a category within the working taxonomy of nine domains of the startup operating model on which the repository is organised.
- Document Type, which distinguish the format, whether a checklist, a guide, an article, a carousel or a contractual template.
- Additional Notes, an open field for information relevant to the research that the other attributes do not capture.

Regarding this list, two clarifications are necessary, as the catalogue in the version made available for this research does not correspond in a completely identical manner. The first clarification concerns labeling: although the nine attributes listed above are all present, several are recorded under different headings in the version used for this thesis; in particular, the attribute related to the domain appears in the file under the heading “phase”. The second clarification concerns the coverage of the catalogue, as the spreadsheet presents a series of additional fields added after Montanari's work (2025)², two of which are particularly relevant for this study: the first is a second-level coding within the “Raising Money” domain, which distinguishes due diligence from the two key

aspects of the term sheet (valuation and governance), thus enabling the filtering procedure described later in this paragraph; the second is a relevance rating, which, having been inherited rather than developed within this research, has been used merely as an indicative guide and not as a binding selection criterion.

Once the above has been specified, it is important to now focus on the seventh attribute, which represents the operational bridge between the repository and this thesis, and requires a specific clarification. Specifically, the underlying taxonomy divides the material into nine domains related to the lifecycle of a startup, and all the documents used in this research belong to the “Raising Money” domain, which in turn is subdivided into three further subdomains, namely sources of funding, investor categories, and the investment process; and, as indicated by Montanari (2025)², these areas reflect the structure of the chapters of his thesis. The classification made available for this work was therefore originally designed for a different analytical argument, and has consequently been used here as a source retrieval mechanism rather than as an analytical framework; in detail, it served to delimit the corpus before the full reading of individual documents, while the categories through which the retained documents were subsequently examined are different and developed specifically for this study.

Having reached this point, after describing the methods of assembling and cataloguing the corpus, it is possible to illustrate the process through which it was limited to the documents actually analysed; specifically, this process was divided into three sequential steps, summarised in Table 1.5, along with the screening criterion applied at each stage. The first step was mechanical in nature and was based on the coding outlined above: of the 546 documents contained in the version of the repository made available, 321 were coded within the Raising Money domain, divided into 128 in the investment process, 112 in investor categories, and 68 in sources of financing, in addition to a further 13 documents recorded exclusively at the general domain level. Subsequently, the second step involved a screening for relevance to the subject of this thesis, conducted on the catalogue entry of each document rather than on the full text, reducing the subset from 321 to 117 units; finally, the third step concerned the selection of the documents actually used, which differed conceptually from the first two for the reasons explained below.

Table 1.5. From the repository to the documents analysed. Source: own elaboration.

Step	Criterion applied	Documents	Removed
Repository as made available	The corpus gathered and archived by Montanari (2025), in the version containing material published up to 2026.	546	-
Domain filter	Documents coded in the Raising Money domain of the repository taxonomy, in its three areas: sources of financing, investor categories, and the investment process.	321	225
Screening on relevance	Relevance to the subject of this thesis, assessed based on each document's catalogue entry. At this step, two documents coded in the adjacent domain of high-stakes operations domain have been added.	117	206
Documents analysed	Iterative selection conducted during the drafting of Chapters 3 and 4; the candidate documents submitted by the parties are recorded together with the corresponding motivation.	36	81

However, two aspects of this process deserve to be explicitly clarified, as they qualify what is shown in the table. Specifically, the first concerns the fact that the screening was not strictly confined to the Raising Money domain, since in the second step two documents coded within the adjacent domain of high-stakes operations were integrated into the corpus, given their relevance to the decisions examined in Chapter 4; on the other hand, the second aspect concerns the non-immediate nature of the third step, as the selection of the documents used was refined iteratively during the drafting of Chapters 3 and 4, as the argumentative development of each section clarified which evidence was necessary and which candidate documents added no new elements to what was already covered. Regarding this latter point, representing this step as a single act of screening would distort its true nature, but what ensures its verifiability is the fact that the documents set aside were systematically recorded along with the reasons for their exclusion, thus allowing for an analytical examination of the boundary between what was used and what was available.

A screening was therefore conducted concerning the three research questions, which generated a subset of documents that were subsequently classified based on the perspective from which each was written; in this regard, it is important to specify that this classification was developed specifically for this thesis rather than inherited from the

previous structure, and it guides the interpretation of each source. Specifically, this new classification groups all documents aimed at investors and produced by investors themselves for internal use or for other sector operators under the category 'VC-facing', and their analytical value lies in demonstrating how a fund actually operates beyond the official statements released to the market; conversely, documents aimed at and designed for entrepreneurs are classified under the category "Founder-facing", and reveal which rules the market considers worthy of teaching, thereby indicating which knowledge is regarded as codifiable and transmissible.

There is also a third category, which does not belong to either the perspective of investors or that of founders, and its introduction constitutes one of the qualifying analytical decisions of this work. These are legal and market intermediaries (law firms, trade associations, share administration platforms, and banking reports), who occupy a completely distinct epistemic position, as they do not buy or sell company shares but prepare contractual documentation for both parties; consequently, their informational and educational material documents what the professional community recognises as market standards rather than what one party wishes to make the other believe. When a source issued by an intermediary and a source from a party agree, this convergence assumes a probative value significantly higher than that of each source considered individually.

The result of the process described in this section is a corpus composed of thirty-six distinct documents, of which twenty are used in Chapter 3 and twenty-five in Chapter 4, with nine texts utilised in both. It is important to specify, however, that two of these do not originate from the original repository but were added during the course of the work on the supervisor's instructions; specifically, they are the material related to the operational processes of the Italian Venture Capital fund Indaco, in the form of slides used for educational activities, and the standard term sheet published by Italian Founders Fund in July 2026, together with the accompanying commentary text aimed at founders. Both have been treated as an integral part of the practitioner corpus, as they meet the same requirements as the material already present within it.

The complete list of documents, accompanied by their respective classification and the indication of the section in which each is used, is provided in Appendix C.

1.4.3 Analytical Approach

The two bodies of evidence discussed above are compared through an analytical procedure applied in an identical and recursive manner in each section of Chapters 3 and 4, ensuring that the nine distinct analyses can be read as a single integrated framework of results. Specifically, each section defines the operational stage or decision under examination, clarifies what the theoretical models of Chapter 2 prescribe in this regard, reconstructs actual practitioner behaviour from the repository documents, and finally classifies the relationship between the theoretical and practical dimensions. Regarding the classification, it is based on four categories ordered according to an increasing level of distance from the theoretical model and emerged inductively during the comparative analysis conducted in Chapter 3, as the material highlighted how the observed divergences were not of a single type. These categories are formalised in Section 3.5 after examining all five stages of the investment process, and from that point onwards are applied systematically first to the stages from which it originated and subsequently to the four decisions analysed in Chapter 4. This inductive derivation is consistent with the exploratory design of the study, and its primary analytical value lies in the fact that assigning one of the four categories to each comparison transforms a set of qualitative observations into an aggregable and critically debatable result.

There is also a third layer of empirical evidence that enters the comparative analysis in Chapter 4, consisting of recent market data on funding rounds, which allows for the measurement of the analysed decisions against the actual market behaviour. These three empirical layers remain clearly distinct throughout the entire study, enabling the reader to precisely identify which type of evidence supports each statement; in this regard, it should be clarified that, where a practitioner source states an operational heuristic and market data show a different pattern, the discrepancy between the two is treated as an analytical result rather than an error inherent in either source.

Finally, Each comparison is also related to the three conditions identified in Section 2.2.5, which function as interpretive analytical lenses rather than hypotheses to be tested individually, and the interpretation of each divergence through these lenses is what allows Chapter 5 to evolve from a simple list of evidence into a structured conceptual framework, as it enables the identification of which theoretical gap each observed practice addresses.

1.4.4 Scope and Limitations

From the research design, four methodological limitations emerge, which are stated here rather than being deferred to the conclusions.

Proceeding in order, the first limitation concerns the repository, since it was provided pre-constituted, the selection of documents in this thesis was controlled by the author, but not their original collection; therefore, the limitations of the primary collection procedure declared by Montanari are fully inherited, and four of them are relevant in this context. Firstly, LinkedIn's recommendation algorithms prioritize content that generates high engagement, tending to reward categorical formulations over balanced discussions; secondly, the content is provided under a self-reporting regime, meaning authors can emphasize successes and omit failures, resulting in empirical evidence that is often anecdotal rather than systemically documented. Thirdly, the collection only captures practices that have been made public, leaving private operational strategies and unsuccessful experiments outside the corpus by design; finally, in the absence of statistical sampling, the corpus cannot cover the entire population of practitioners who publish online, making it partial rather than statistically representative. In light of this, it should be noted that while screening can exclude irrelevant material, it cannot recover what is never collected; consequently, the results of Chapters 3 and 4 should be interpreted as indicative of the practices circulating publicly, and not as an exhaustive overview of all existing practices.

Moving on to the second limitation, this concerns the geographical dimension, since the quantitative evidence used in Chapter 4 is predominantly North American, the investigation into term sheets carried out in Chapters 3 and 4 covers the context of the United Kingdom, while two of the three contractual templates compared feature a European framework. Consequently, the empirical regularities documented here reflect the dynamics of markets in which standardized documents circulate publicly, without the intention of extending these conclusions to market contexts where such public dissemination does not occur.

Regarding the third limitation, this is represented by the epistemological status of the sources issued by practitioners. Specifically, these documents are not subjected to peer review, they are frequently self-published and are produced by entities with a particular interest in representing the market; therefore, in this context, they are considered as

empirical evidence of actual operational practice and the rationale provided by industry actors, rather than as proof of the optimality of such practices.

Finally, the fourth limitation concerns the conceptual framework developed in Chapter 5, as it is inductively derived from the empirical evidence collected in Chapters 3 and 4, and has not been subjected to validation tests on decision-making processes outside that empirical dataset. In this regard, Section 5.3 demonstrates its functioning by applying it to one of the four decisions analysed in this thesis, purely for illustration and not as an empirical validation test, while Section 6.4 defines the methodological conditions necessary for a formal empirical test.

CHAPTER 2 – THE INVESTMENT PROCESS IN THEORY

The Venture Capital (VC) industry occupies a distinctive position at the meeting point between financial theory and entrepreneurial practice: it channels capital toward high-potential early-stage ventures that conventional financial institutions systematically underserve through arrangements that are the product of theoretical insights about how to manage risk, information, and incentives under conditions of uncertainty.

However, the VC investment process rests on a set of theoretical foundations that are rarely articulated in full, even within professional practice: it is the purpose of the present chapter to reconstruct these foundations systematically, drawing on a structured literature review of peer-reviewed articles published between 2011 and 2026, selected through three Scopus queries covering the investment process, theoretical perspectives, and decision-making in Venture Capital. From an initial pool of 327 articles (after deduplication), a three-stage screening process retained a pool of 68 articles, of which 28 are directly cited in this chapter's theoretical framework.

The structure is organized around three interconnected parts, each of which answers a question:

- Section 2.1 conducts an analysis of the Economic Logic of venture capital as an asset class, explaining why VC exists as a distinct form of financial intermediation, how it generates returns, and what constraints the fund structure imposes on investment behaviour;
- Section 2.2 develops four theoretical frameworks, Agency theory, Signaling theory, Information Asymmetry, and Startup Valuation, that together explain why the investment process is organized the way it is;
- Section 2.3 introduces the conceptual model of the investment process derived from the academic literature, examines the contemporary empirical evidence that updates it, and concludes by reading the entire process through the lens of information asymmetry.

Taken together, these three sections serve as analytical tools that will guide the examination of actual VC practice in Chapters 3 and 4, enabling the investigation of the gap between what the theories prescribe and what practitioners do, which is not a failure of the theories but the empirical question this thesis investigates.

2.1 Venture Capital: Definition and Economic Rationale

2.1.1 Definition and Economic Rationale

Venture Capital is a form of private equity investment directed at early-stage, high-growth-potential companies that cannot access conventional debt financing due to a lack of collateral, operating history, or positive cash flows. From that perspective, Sahlman (1990)³ defines VC firms as financial intermediaries that raise money from individuals and institutions to invest directly in selected companies and generate returns through capital appreciation at exit. Analysing the above, it is important to underline that this intermediary function is not incidental but rather structural, since on the one hand the capital markets efficiently serve mature firms with observable track records, on the other hand they systematically fail to serve young ventures whose value resides in intangible assets (e.g. Intellectual property, team capabilities, and market opportunity) that are difficult to observe, price, or use as collateral; therefore, the VC economic rationale is rooted in market failure and in the consequent opportunity to fix it. To illustrate, Standard debt contracts, which require borrowers to commit to fixed repayments irrespective of project outcomes, a structure that imposes prohibitive costs on ventures whose cash flows are uncertain and potentially negative for several years; going on, a bank that extends a five-year loan to a pre-revenue startup cannot foreclose on meaningful assets if the startup fails, cannot price the loan to reflect the true distribution of outcomes without charging rates that make the financing unworkable, and has no contractual mechanism to ensure the founders behave appropriately once the money is in their accounts. Another case to consider is the equity financing by dispersed public market investors, which is equally unsuitable for early-stage companies, since dispersed shareholders cannot monitor them effectively, due to their limited ability to verify founder claims about technology and market opportunity, and lack of governance rights to protect their investment if management decisions diverge from their interests. The result is a financing gap that is not a market imperfection but a rational market response to a genuine information problem (Sahlman, 1990)³, and in this regard, Venture Capital fills the gap by combining equity financing with active involvement, long investment horizons, and contractual mechanisms (e.g. staged financing, governance rights, exit provisions)

³ Sahlman, W. A. (1990). The structure and governance of venture-capital organizations. *Journal of Financial Economics*, 27(2), 473-521.

calibrated to the specific information and incentive problems of early-stage investment.

The market failure argument above is also implicitly grounded in the information asymmetry literature reviewed in Section 2.2: the entrepreneur possesses private information about the venture's quality that outside investors cannot directly observe and verify, creating the Adverse Selection and Moral Hazard problems that Akerlof (1970)⁴ and Jensen and Meckling (1976)⁵ formalize in different but complementary ways. In light of the above, venture capital is, at its core, an institutional response to these information problems, using organizational structure, compensation schemes, and contractual practices designed to manage information asymmetry more effectively than alternative financing channels. In conclusion, empirical research confirms that private equity investors differ across types in the criteria they apply to investment decisions. Specifically, venture capital funds are particularly oriented toward growth potential and team quality rather than current profitability or asset coverage (Block et al., 2019)⁶. This orientation reflects the information environment in which VC operates, which requires active assessment rather than passive analysis: when historical financials provide little signal about future value, investors have to shift their attention to forward-looking indicators, such as market size, technological differentiation, and founder capability.

2.1.2 The Power Law and Portfolio Logic

The conventional financial assets such as equities, bonds or real estate, present a returns structure that approximates a normal distribution; on the other hand, a fundamental characteristic of VC investment that distinguishes it from the other asset classes is exactly the shape of its return distribution, which follow a power law: a small number of investment generate the overwhelming majority of total fund returns, while the majority of investments return less than the invested capital or fail (Sahlman, 1990)³. The above-mentioned distributional structure is not a curiosity; it is the core economic logic that governs every portfolio decision a VC makes, and understanding it is essential for interpreting the screening intensity, contractual preferences, and governance behaviour

⁴ Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. *Quarterly Journal of Economics*, 84(3), 488-500.

⁵ Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.

⁶ Block, J., Fisch, C., Vismara, S., & Andres, R. (2019). Private equity investment criteria: An experimental conjoint analysis of venture capital, business angels, and family offices. *Journal of Corporate Finance*, 58, 329-352.

described and analysed in the rest of this thesis.

The power-law logic implies that the rational VC strategy is not to minimise the probability of losing money on any individual investment but to maximise the probability of having at least one investment in the portfolio that returns 20x, 50x, or more, accepting a high rate of failures across the portfolio. In this regard, the expected value of a portfolio is not determined by the average investment performance, but by the magnitude of the top outliers: a fund that records nine write-offs and one return of 50x will substantially outperform a fund that achieves ten average returns of 2x – assuming comparable capital committed in each case. This insight shapes VC behaviour in several critical ways, it suffices to note the selection process, which provides a systematic filter for ventures with the potential for extraordinary scale – so-called “Home Run” investments – and the rejection of investment opportunities whose maximum realistic outcome is a moderate success, even when the probability of that outcome is high, requiring VCs to diversify across multiple ventures to maximise the probability of capturing at least one outlier across the portfolio. Considering the above, the power law therefore makes selection the most consequential activity in the VC process, since errors of omission (failing to invest in a future winner) are at least as costly as errors of commission (investing in a failure).

Gompers et al. (2020)⁷ empirically document this screening intensity in their survey of 885 institutional venture capitalists at 681 firms, research whose results highlight that the average VC reviews approximately 200 opportunities annually, conducts serious Due Diligence on fewer than 10, and completes approximately 4 investments (p. 172). This conversion funnel – from 200 initial opportunities to 4 completed investments – reflects both the scarcity of genuinely high-potential ventures and the disproportionate resources VCs invest in selection relative to other stages of the process, making the selection the highest-leverage activity in the VC value chain.

It is therefore fundamental to understand this power law logic to correctly interpret the investment process and governance mechanism examined in Chapter 3 and 4, since the extreme selectivity of VC screening, the active involvement of VCs in portfolio companies, and the preference for control-oriented contractual structures all reflects the imperative to identify and support the rare outlier present on the market while managing the

⁷ Gompers, P. A., Gornall, W., Kaplan, S. N., & Strebulaev, I. A. (2020). How do venture capitalists make decisions? *Journal of Financial Economics*, 135(1), 169-190.

inevitable losses across the remainder of the portfolio.

To satisfy the power law, VC activity focuses on sectors with potential for rapid growth, such as tech-driven businesses and platform models with network effects, which are sectors with winner-take-all dynamics. The other sectors present return patterns that do not meet the portfolio economics required for the asset class, and consequently they do not satisfy the power law: a restaurant chain with solid unit economics and low failure risk is a good business, but it isn't suitable for VC investment because achieving a 50x return within a ten-year fund period is unrealistic.

2.1.3 Fund Structure, Incentives, and Time Horizon

The institutional architecture of venture capital takes the form of a limited partnership (LP), a structure that Sahlman (1990)³ demonstrates is not arbitrary but specifically designed to manage the agency problems inherent in delegating investment discretion. VC funds in fact comprise two classes of participants: the Limited Partners (LPs), who are capital providers – typically institutional investors such as pension funds, endowments, banks, sovereign wealth funds, and family offices – and the General Partner (GP), the VC management firm that makes investment decisions and manages the portfolio. In summary, LPs provide capital but delegate all investment authority to the GP; they are defined as Limited Partners because their liability is limited to their committed capital.

To justify and motivate this liability gap between LPs and GP, the compensation structure of the VC fund is designed to align GP incentives with LP interests: the standard arrangement – known in the industry as “two-twenty” – consists of a 2% annual management fee on committed capital, covering the GP’s operating expenses, and 20% carried interest on fund profits above a hurdle rate, which constitutes the GP’s primary performance-linked compensation (Sahlman, 1990, pp. 489-493)³. It is important to underline that the carried interest is not only primary compensation for the GPs, but represents also a strong incentive for GPs to maximise fund returns, since the bulk of their economic reward depends on achieving profitable exits; however, it also creates incentives that can diverge from LP interests in specific circumstances – for instance, GPs may prefer to raise new funds before fully realising returns on existing ones, generating management fees at the cost of optimal exit timing.

Another important aspect, which is also relevant to Chapter 4's analysis of high-stakes decisions, is the fund's limited life – typically ten years, with optional extensions – which creates a structured time horizon that profoundly shapes investment behaviour, in this regard the VCs must identify and invest in portfolio companies in the first three to five years of the fund's life, then actively work to create value and realise it through the right exit (IPO, acquisition, or secondary sale are the most common) in the second half, thereby generating agency tensions, since the GP may face pressure to exit investments at sub-optimal timing to return capital to LPs and validate fund performance for the next fundraise. In that way, the terms and timing of each round do not align with the portfolio company's long-term interests. For instance, a company backed in year three of a ten-year fund has seven years to reach an exit, regardless of whether that timeline is optimal from a long-term business perspective. This creates rational pressure on the portfolio company and favors rapid growth over sustainable growth, exit-readiness over operational depth, and a financing structure that preserves flexibility, even at the cost of current valuation. The above-mentioned effect of fund horizon on investment behaviour is furthermore measurable; in this regard, Barrot (2017)⁸ finds that funds with longer remaining horizons actively select younger companies at earlier stages of development, and that these companies grow their patent stock more than companies financed by funds with shorter remaining horizons. It is important to note that this effect is stronger among experienced VC firms that manage multiple fund vintages simultaneously, as they can allocate investments across different time horizons within the same portfolio. Considering the above, investment selection, in other words, is not purely a function of company quality; it is partly a function of where the fund is in its life cycle.

Moving on, at the portfolio level, the agency pressures that shape investment decisions extend beyond GP-LP relationship; in this regard, it is important to mention Sethuram et al. (2021)⁹, who, using a global sample of VC investments, find that exit timing is jointly shaped by multiple simultaneous relationships, which are: the GP's obligation to LPs who need capital returned before fund maturity, the differing time horizons and exit

⁸ Barrot, J.-N. (2017). Investor horizon and the life cycle of innovative firms: Evidence from venture capital. *Management Science*, 63(9), 3021-3043.

⁹ Sethuram, S., Taussig, M., & Gaur, A. (2021). A multiple agency view of venture capital investment duration: The roles of institutions, foreignness, and alliances. *Global Strategy Journal*, 11(4), 578-619.

preference of co-investors in syndicated deals, and the windows of acquisition activity that may or not align with the company's optimal exit moment. These multilateral pressures routinely push exit timing away from what would be optimal for the portfolio company, with measurable effects on the returns realised at exit.

In this context, stage financing and syndication practices partially buffer the pressures: evidence from European venture-backed IPOs shows that syndicated VC investments are associated with lower levels of IPO underpricing, as staged financing and co-investor involvement reduce information asymmetry between the company and public capital markets at the time of the offering (Honorine and Emmanuelle, 2019)¹⁰. In light of the above, the governance structure chosen at the investment stage has consequences that extend to exit, and the fund structure within which that governance operates shapes both the timing and the terms of that exit.

2.2 Key Theoretical Perspectives

The demonstration of the existence of a financing gap is not sufficient to explain how venture capital works; four theoretical frameworks from financial economics and organization theory prove useful in this regard, each one addressing a different dimension of the same underlying problem: the parties to a VC transaction know different things, and each must make decisions in the presence of that asymmetry.

About the above-mentioned frameworks, they are specifically:

- Agency theory, which explains why the contracts used in VC investment are structured the way they are;
- Signaling theory, which explains how parties communicate credibly across the information gap before a contract is signed;
- Information Asymmetry, in its Akerlof formulation, which explains the structural condition that makes both of these theories necessary;
- Valuation theory, which explains how one party estimates the financial value of a company when formal analytical tools face severe data limitations.

These frameworks are not competing explanations, since they address different phases and dimensions of the investment relationship; in this regard, they are therefore most useful when read together. The synthesis in section 2.2.5 draws out the connections and

¹⁰ Honorine, A.-N., & Emmanuelle, D. (2019). Stage financing and syndication in the IPO underpricing of venture-backed firms: Venture capital and IPO underpricing. *International Journal of Entrepreneurship and Innovation*, 20(4), 289-300.

identifies the collective limitations that motivate the empirical analysis in the later chapters.

2.2.1 Agency Theory

In 1976, Jensen and Meckling formalized the so-called “Agency theory”, which describes a relationship in which one party (the principal) delegates a task to another (the agent) whose interests are not perfectly aligned with the principal’s, creating the principal-agent problem: the agent may have information the principal lacks, and may use that informational advantage to pursue objectives that diverge from the principal’s.

This dynamic also exists in Venture Capital, specifically in the relationships between LPs and GPs and between the VC and the startup’s founder. Regarding the first relationship, the agency problem arises from the structure, since the Limited Partnership requires LPs to commit capital to the fund but gives them limited knowledge of how it is deployed. By contrast, GPs have full discretion over investments, possess superior information about portfolio companies, and manage a portfolio too complex for LPs to evaluate alone. To address this information gap, according to Sahlman (1990)³, the Limited Partnership structure uses contractual mechanisms such as aligning carried interest, restricting the GP’s ability to reinvest proceeds without LP consent, and mandatory capital calls, which prevent the GP from keeping uninvested cash. Further examination by Kaplan and Strömberg (2003)¹¹, an empirical analysis of 213 VC investment rounds across 119 portfolio companies, shows that the broader contractual architecture of VC investments – including convertible preferred equity, anti-dilution provisions, vesting schedules, and board representation rights – is calibrated to the most severe agency problem at each stage of the relationship; for instance, cash flow rights address moral hazard over exit value, control rights address decision-making authority during governance, and vesting schedules address the founder’s incentive to remain engaged after the investment is closed.

Moving on, the second agency relationship between the VC and the founder is analytically more complex because the agency problem arises at two distinct times. Initially, before the investment is made, the VC faces an adverse selection problem, since the founders know more about their company’s prospects than any outside investor can observe, and

¹¹ Kaplan, S. N., & Strömberg, P. (2003). Financial contracting theory meets the real world: An empirical analysis of venture capital contracts. *Review of Economic Studies*, 70(2), 281-315.

some will overstate them; subsequently, after the investment is made, the VC faces a moral hazard problem, since founders, once they receive the capital, may reduce effort, pursue private benefits, or make decisions that serve their own interests at investors' expense. To address post-investment moral hazard, VCs release funds in tranches, but only when specific milestones are achieved, which forces the founders to pursue a certain behavior and gives the VC a credible threat to withhold future funding, without requiring continuous monitoring. This mechanism is known as Staged Capital Disbursement, and according to Gompers (1995)¹², it is more prevalent in sectors where moral hazard tends to be most pronounced, such as industries characterized by rapid technological change and therefore higher information asymmetry.

However, the effectiveness of the mechanisms discussed so far depends strongly on context. A study by Bellavitis et al (2019)¹³ finds that in environments with stronger shareholder protection, contractual mechanisms work effectively, but in less transparent institutional environments, they lose effectiveness, and observable venture characteristics become more important as supplementary screens. These findings matter because they mean the theory's predictions are not universal; they are conditional on the legal and institutional infrastructure within which VC operates.

Within staged financing, real options theory offers a complementary perspective; specifically, Trabelsi and Siyahhan (2021)¹⁴ develops a model in which VC investors with higher risk aversion make sequential investments more quickly, using stage length as a monitoring tool rather than a capital rationing device. The model predicts a negative relationship between risk aversion and stage length, and a non-monotonic relationship between agency costs and staging decisions that depends on whether the startup has positive or negative cash flows. This finer-grained analysis suggests that staged financing is not a single mechanism but a family of related practices whose design reflects both the investor's risk preferences and the startup's financial situation.

Moving on, the agency framework also needs to account for the fact that VCs

¹² Gompers, P. A. (1995). Optimal investment, monitoring, and the staging of venture capital. *Journal of Finance*, 50(5), 1461-1489.

¹³ Bellavitis, C., Kamuriwo, D. S., & Hommel, U. (2019). Mitigation of Moral Hazard and Adverse Selection in Venture Capital Financing: The influence of the Country's Institutional Setting. *Journal of Small Business Management*, 57(4), 1328-1349.

¹⁴ Trabelsi, D., & Siyahhan, B. (2021). Startup cash flows and venture capital investments: A real options approach. *Managerial and Decision Economics*, 42(3), 737-750.

simultaneously manage multiple principal-agent relationships: Sethuram et al. (2021)⁹, as above-mentioned, find that VCs facing stronger pressure from LPs (who are, after all, the GP's principals) exit portfolio investments earlier, even when that early exit is suboptimal for the company; furthermore, co-investors and potential acquirers exert additional pressure that may push exit timing in yet another direction. Given the above, the single principal-agent model is a simplification: a more complete picture of VC governance must account for the multilateral nature of the relationships involved.

In conclusion, a key boundary condition for applying agency theory in the VC context is the firm's age. Panda (2018)¹⁵ observes that the theory's explanatory effectiveness varies throughout the company's life cycle: agency risks described by Jensen and Meckling are most pronounced in later stages, where the company's resources are substantial enough to be targeted and the founder wields enough influence to avoid monitoring. Conversely, early-stage relationships are less impacted by agency risks and are more influenced by operational uncertainty, which the investment process aims to address. This distinction influences how VCs tailor their involvement according to the company's stage.

2.2.2 Signaling Theory

If Agency theory explains how contracts manage the consequences of information asymmetry after a relationship is established, Signaling theory addresses a prior question: how do parties communicate credibly across the information gap before a relationship exists?

Initially, Spence (1973)¹⁶ developed Signaling theory in the context of labor markets, but subsequent reviews have documented its application across entrepreneurship, corporate finance, and strategic management research, establishing it as one of the most broadly applicable frameworks in organizational economics (Connelly et al., 2011)¹⁷, because the core insight holds wherever a less-informed party (the receiver) must evaluate the unobservable quality of a more-informed party (the signaler), which is exactly the case examined in this thesis. Starting from the definition, a signal is “informative” only if it is more costly for low-quality types to acquire than for high-quality types; if both high- and

¹⁵ Panda, S. (2018). Adequacy of agency theory in explaining the venture capitalist-entrepreneur relationship: A firm life-cycle perspective. *International Journal of Entrepreneurship and Small Business*, 34(3), 309-329.

¹⁶ Spence, M. (1973). Job market signaling. *Quarterly Journal of Economics*, 87(3), 355-374.

¹⁷ Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. *Journal of Management*, 37(1), 39-67.

low-quality senders can produce the signal at the same cost, the signal carries no information. Therefore, the separating equilibrium condition requires that the signal be costly enough to deter imitation by weaker candidates.

Connecting the above with the Venture Capital context, founders attempt to signal the unobservable quality of their company to investors who cannot directly verify that quality before making a commitment, since the signals available to early-stage startups are constrained by their youth, and most have no revenues, no audited financials, and no track record. The signals that matter most are therefore those that are observable, credible, and difficult to fake; specifically, they are: Human capital, structure, affiliation, and external validation. Taking these in turn, human capital signals include the founding team's educational background, prior entrepreneurial experience, and domain expertise; about the structural signals, they include patents, trademarks, and other intellectual property that has been formally verified by a third party; going on, affiliation signals include endorsement from credible investors, accelerator programs, or strategic partners (a category whose values has been quantified empirically); finally, external validation signals include competitive awards, regulatory approvals, and public research grants. Considering the above, it is important to mention Hsu's research (2004)¹⁸, which demonstrates that startups are willing to accept valuations 10 to 14 percent lower to secure funding from high-reputation VC firms rather than from lower-status investors, revealing the size of the market premium that VC affiliation confers on the funded company's subsequent fundraising and recruitment.

Further examination, specifically research on French new technology ventures, finds that both types of signals, structural (patents, trademarks) and human (education, elite institutions), are positively associated with early-stage VC funding; however, the two types are not substitutes: structural signals enhance firm legitimacy, while human capital signals reinforce team credibility, and both contribute independently to the funding outcome (Bessagnet, 2026)¹⁹. Therefore, this finding suggests that investors do not reduce their evaluation to a single dimension; they process multiple signal types simultaneously.

¹⁸ Hsu, D. H. (2004). What do entrepreneurs pay for venture capital affiliation? *Journal of Finance*, 59(4), 1805-1844.

¹⁹ Bessagnet, A. (2026). Interplay of Human and Structural Capital Signals for New Technology Ventures in Early-Stage Venture Capital Funding. *Management (France)*, 29(1), 42-61.

It is also important to note government research grants, which are a particularly credible signal because public agencies apply independent selection criteria and have no direct financial interest in the outcome. In this regard, Islam, Fremeth and Marcus (2018)²⁰ show that early-stage startups leverage government grants to signal identity transitions that would otherwise be difficult to communicate. This is particularly important in emerging industry contexts, where few established signals exist and public agency validation helps startups cross organizational life cycle thresholds in ways that private signals alone cannot accomplish.

Moving the focus to information processing, for investors, it is more complex than a simple ranking of signal quality; in this regard, Zheng et al. (2021)²¹ identify a three-step interpretation process in which investors first extract a characteristics signal (the fundamental quality cue), then orchestrate an acting signal (the behavioural cue that confirms or disconfirms the first), and finally verify a background signal (contextual information that frames the other two). This sequential process, therefore, means that a single strong signal can be undermined by weak signals at later stages.

Although the previous discussion suggests certain expectations, not all signals behave as the theory predicts. Patents serve as a helpful example, since they signal that a startup has developed something novel enough to receive formal intellectual property protection, but patents for radical inventions (those with high potential returns and correspondingly high risk of failure) send a mixed message, that is, strong evidence of quality combined with strong evidence of risk. In this regard, Colombo et al. (2023)²² demonstrate that how VCs respond to these dual signals depends on investor characteristics: reputable VC investors, who can absorb higher variance, are attracted to the strong quality signal; on the other hand, risk-averse investors are deterred by the uncertainty. Considering the above, it emerges that the same observable characteristic generates opposite responses depending on who is doing the observing.

In conclusion, the final important factor to note is the ability to signal transparency, since

²⁰ Islam, M., Fremeth, A., & Marcus, A. (2018). Signaling by early stage startups: US government research grants and venture capital funding. *Journal of Business Venturing*, 33(1), 35-51.

²¹ Zheng, L. J., Bai, T., & Cross, A. R. (2021). Signaling Information Management in Entrepreneurial Firms' Financing Acquisition: An Integrated Signaling and Screening Perspective. *Journal of Global Information Management*, 29(6), 90.

²² Colombo, M. G., Guerini, M., Hoisl, K., & Zeiner, N. M. (2023). The dark side of signals: Patents protecting radical inventions and venture capital investments. *Research Policy*, 52(5), 104741.

the signaling relationship extends beyond the initial investment: once a relationship exists, startups may need to repair damaged trust after conflict. Therefore, informational strategies (specifically communication openness) mediate the relationship between post-conflict behavior and renewed VC confidence. What emerges is that the ability to signal transparency after a breakdown is as important as the ability to signal quality before the initial investment (Han, Hao and Luo, 2025)²³.

2.2.3 Information Asymmetry

The preceding sections describe and analyse two theories, each addressing specific consequences of the information gap between VC investors and startup founders. However, to understand the structural foundation that explains why these theories are necessary in the first place, it is essential to examine and comprehend Akerlof's (1970)⁴ model of the market for lemons. Akerlof's argument begins with an analysis of used car markets, where sellers are aware of their vehicle quality, but buyers are not. Without reliable signals of quality, buyers only pay an average price reflecting the expected market quality, which is too low for high-quality cars. This discourages high-quality sellers from offering their vehicles, leading to a market filled with low-quality cars. As a result, instead of efficiently allocating resources through price, the market may collapse or stabilize with mostly lemons, causing a market failure.

The scenario described above is evident in the Venture Capital market, which exhibits the same structural condition: founders know the quality of their technology, their team's real capabilities, and the actual state of their product development; investors, by contrast, cannot verify these factors directly before committing capital, fueling an emerging problem. If investors cannot distinguish high-quality from low-quality investment opportunities, they will offer only terms appropriate for an average-quality deal; as a result, high-quality founders, who can command better terms from a well-informed investor, decline these terms, and thus the market fails to fund the best opportunities.

Upon closer examination, two forms of information asymmetry can be distinguished, which operate at different stages of the investment relationship:

²³ Han, P., Hao, S., & Luo, B. (2025). How and when can the start-up repair venture capital firms' trust with an informational strategy after task conflict: a moderated mediation model. *Asian Business and Management*, 24(3), 428-459.

- Pre-investment asymmetry, or adverse selection, which concerns the investor's inability to assess startup quality before the investment is made;
- Post-investment asymmetry, or moral hazard, which concerns the investor's inability to fully observe and control founder behaviour after capital has been committed.

The investment process is designed as a system to manage both types, resulting in different contractual responses.

Post-investment moral hazard arises because, after capital is invested, the founder's incentives to maintain optimal effort decline; consequently, they might focus on private benefits, such as consuming perquisites, pursuing a strategic path that conflicts with investor interests, or understating performance to delay exit. To address these risks, contractual responses to moral hazard are structurally different from those addressing adverse selection; rather than generating information before commitment, they create mechanisms that constrain behavior after commitment; specifically, three instruments dominate in practice. The first is staged capital disbursement, which provides for the release of funds in tranches, contingent on observable milestones, preserving the investor's option to withhold future financing if the founder's behavior deviates from agreed objectives. In this regard, Gompers (1995)¹² demonstrates that this mechanism is deployed most intensively in sectors where post-investment information asymmetry is highest, as discussed in the previous sections. The second instrument is preferred equity, which includes vesting schedules and performance covenants that align the founder's economic benefits with ongoing engagement and service, thereby minimizing the incentive to extract private benefits. According to Kaplan and Strömberg (2003)¹¹, each of these contractual elements is tailored to address moral hazard at different stages of the relationship. The third and final requirement mandates mandatory board representation and periodic reporting, establishing continuous information channels through which the investor transforms private operational insights into shared knowledge accessible for monitoring.

Turning to adverse selection, several mechanisms help reduce it. The first is Due Diligence, a systematic investigation of the company's technology, market, team, financials, and legal standing that transforms the information available to the investor at the cost of substantial time and resources; in this regard, Bellavitis et al, (2019)¹³, as

mentioned in section 2.2.1, find that, despite pre-investment screening reducing adverse selection, its effectiveness is contingent on the institutional environment: where information transparency is structurally supported by regulation and legal enforcement, formal screening procedures work as designed, but in environments with weak institutional support, investors compensate by placing greater weight on observable signals from credible third parties and on rigorous due diligence. A complementary mechanism for addressing adverse selection involves social network ties. As demonstrated by Wang (2016)²⁴ in their research on the Chinese VC market, the likelihood of passing the initial screening and, consequently, obtaining funding is associated with the presence of connections between investors and startups. This is due to the fact that at the screening stage, ties transmit prior information about the startup, reducing investor uncertainty, while at the funding stage, they confer legitimacy, supporting investment decisions. Another important solution is given by Crowdfunding, which provides an alternative information transmission mechanism that has begun to interact with the VC market; in this regard, Thies et al. (2023)²⁵ find that a successful crowdfunding campaign influences downstream VC syndication: companies that have run crowdfunding campaigns are financed by smaller but more internationally diverse VC syndicates, partly because the campaign provides a public record of market validation that substitutes for some of the private information that VC due diligence would otherwise need to generate.

Going forward, it is essential to recognize that the main challenge in startup valuation is information asymmetry, as startups lack comprehensive operating histories and financial records. In this regard, da Silva et al. (2024)²⁶ emphasize that minimizing this information gap primarily depends on non-financial factors such as team experience, product features, technological readiness, and market position. What emerges is that while financial data (when available) provides additional insights, non-financial

indicators are more influential in the early stages. Recently, machine learning techniques have gained prominence in startup valuation, partly addressing this issue. These methods

²⁴ Wang, Y. (2016). Bringing the Stages Back in: Social Network Ties and Start-up firms' Access to Venture Capital in China. *Strategic Entrepreneurship Journal*, 10(3), 300-317.

²⁵ Thies, F., Huber, A., Bock, C., & Benlian, A. (2023). Trusting the crowd: Effects of crowdfunding on venture capital syndicates. *Journal of Small Business Management*, 61(2), 967-993.

²⁶ da Silva, W. A. M., Jucá, M. N., & Vieito, J. P. D. T. (2024). Startup valuation by venture capital investors. *Revista Brasileira de Gestao de Negocios*.

process large, heterogeneous datasets simultaneously and use algorithms to estimate startup value even when financial data is incomplete, offering a more systematic approach than traditional methods (Zhang et al., 2023)²⁷.

In conclusion, it is important to note the screening theory, which formalizes how investors use external cues to overcome information asymmetry under uncertainty; specifically, Zhang, Shi, and Connelly (2024)²⁸ identify three boundary conditions that determine whether a screen is effective: credibility (is the cue reliable?), necessity (is it needed given other available information?), and salience (is it prominent enough to actually affect the decision?). These conditions apply directly to the VC context, where investors must quickly decide which observable characteristics of a startup are sufficiently credible and informative to justify the time and cost of a full due diligence investigation.

2.2.4 Valuation Models for Pre-Revenue Companies

If the three theoretical frameworks discussed above explain the information problem that venture capital investment must navigate, the valuation theory examined in this subsection addresses a specific consequence: how do investors estimate a company's financial value when the standard valuation inputs are absent?

The first empirical evidence relevant to this issue comes from Damodaran (2009)²⁹, which identifies three characteristics that make young, pre-revenue companies structurally difficult to value with conventional methods. Taking these in turn:

- First, there is no operating history – without revenues, earnings, or cash flows, the inputs for a discounted cash flow analysis cannot be estimated from available data;
- Second, the survival probability is uncertain – at the early stage, there is a material probability that the company will not survive to generate any cash flows at all;
- Third, the value of an early-stage company is almost entirely in its future optionality, since the present value of a startup is not the discounted sum of near-term cash flows but an estimate of what the company could become, which depends on decisions not yet made and on markets not yet fully formed.

²⁷ Zhang, R., Tian, Z., McCarthy, K. J., Wang, X., & Zhang, K. (2023). Application of machine learning techniques to predict entrepreneurial firm valuation. *Journal of Forecasting*, 42(2), 402-417.

²⁸ Zhang, J., Shi, W., & Connelly, B. L. (2024). Screening theory and its boundaries: investigation of screen credibility, necessity, and salience in the context of corporate venture capital. *Academy of Management Journal*, 67(5), 1359-1391.

²⁹ Damodaran, A. (2009). Valuing young start-up and growth companies: Estimation issues and valuation challenges. *NYU Stern Working Paper*.

Considering the above, three methodological adaptations have been developed during the year to address these challenges in practice. The first is scenario-based DCF analysis, which involves constructing multiple scenarios, each with an assigned probability, rather than estimating a single cash flow projection, and the expected value is the probability-weighted average of the terminal value across scenarios; this approach captures uncertainty explicitly but, on the other hand, requires assumptions about scenario probabilities that are difficult to ground empirically at an early stage.

The second is the venture capital method, used by most VC investors in practice, which requires the investor to estimate a terminal value for the company at an assumed exit in five to seven years (typically as a multiple of projected revenues on earnings) and then discount it back at the required rate of return, yielding the post-money valuation the investor is willing to pay today. This method is practically useful because it reduces the valuation problem to two parameters that VCs can benchmark against comparable transactions (exit multiple and required return), but it introduces arbitrariness because it relies on terminal values derived from other methods and on very high discount rates (40 to 75 percent).

The third and final approach is real options valuation, which treats the investment as a call option on the company's future value: the investor pays the option premium today (the initial investment) to acquire the right, but not the obligation, to invest additional capital at future decision points. In this regard, Trabelsi and Siyahhan (2021)¹⁴ develops a real options model of sequential VC investment that accounts for both the investor's risk aversion and agency costs. The model distinguishes between positive- and negative-cash-flow startups and finds that more risk-averse investors accelerate investment in positive-cash-flow companies while being more patient with negative-cash-flow ones, a nuance that simpler formulations miss.

It is important to highlight that, from a valuation perspective, staged financing can be understood as the implementation of an optimal real options contract, as demonstrated by Gao (2017)³⁰. Their study explains that staged financing balances two opposing forces, namely the holdup problem, in which investor bargaining power diminishes as the startup's value rises and the startup becomes less replaceable, and the option value, which

³⁰ Gao, L. (2017). Staged financing: a trade-off theory of holdup and option value. *Journal of Economics/Zeitschrift für Nationalökonomie*, 121(3), 197-237.

arises from retaining flexibility to invest more in successful ventures. What emerges is that the best contract depends on observable milestones that reduce uncertainty while managing holdup risk, and therefore it is neither completely rigid nor entirely flexible.

Considering the common valuation approaches examined previously, all of them share a significant limitation: they implicitly assume that the analyst possesses reliable information regarding the company's technology, market, and management; in practice, such information is precisely what is often lacking at the early stages. Sievers et al. (2013)³¹ analyze internal due diligence documents from over 200 German venture capital investment rounds and find that financial and non-financial information contribute approximately equally to valuation. What emerges is that a startup's value cannot be determined solely by financial projections, and that non-financial information carries specific weight in evaluation. In this regard, Dhochak et al. (2020)³² analysed how strategic management theories, such as the resource-based view, industry analysis, and dynamic capabilities, can enhance startup valuation approaches in emerging markets.

They argue that while financial models assume a competitive environment that can be analysed purely quantitatively, the value of early-stage startups often depends on their strategic positioning within that context, which financial models may not fully capture. This view does not replace financial valuation but questions its adequacy when a company's competitive edge is primarily strategic.

These methodological limitations are directly pertinent to the primary research question of this thesis: when formal valuation tools are unable to generate reliable estimates due to the absence of an operating history, comparable transactions, or a stable market for benchmarking purposes, practitioners must abandon theoretically optimal procedures. Instead, they depend on heuristics, pattern recognition, and relational judgment accumulated through experience. The discrepancy between valuation theory's prescriptions and the actual practices of venture capital investors in pricing pre-revenue companies represents one of the most significant examples of the broader divergence between theory and practice discussed in Chapters 3 and 4.

³¹ Sievers, S., Mokwa, C. F., & Keienburg, G. (2013). The Relevance of Financial versus Non-Financial Information for the Valuation of Venture Capital-Backed Firms. *European Accounting Review*, 22(3), 467-511.

³² Dhochak, M., & Doliya, P. (2020). Valuation of a startup: Moving towards strategic approaches. *Journal of Multi-Criteria Decision Analysis*, 27, 39-49.

2.2.5 Synthesis: Theoretical Perspectives and Their Limitations

In the previous subsection, four frameworks were analysed and discussed, and what is fundamental to highlight is their complementarity: information asymmetry, in Akerlof's formulation, describes the structural conditions in which parties to the transaction know different things, and its inequality generates the potential for market failure; agency theory explains the contractual responses to that condition once a relationship has been established; signaling theory explains how parties attempt to communicate credibly before a relationship is formed; valuation theory explains how investors estimate the financial value of what they are buying when formal analytical methods face severe data constraints.

The aim of this analysis was to elucidate the institutional framework of venture capital: the rationale for equity rather than debt financing, the use of staged capital, the inclusion of board representation, the issuance of preferred stock with liquidation preferences, and the implementation of vesting schedules and anti-dilution provisions. Each of these design elements addresses a distinct theoretical issue identified by one or more of the four analytical frameworks; the investment process, in this context, functions as a methodology for managing informational challenges.

Given the considerations above, it is evident that the four frameworks share a notable limitation: they are all equilibrium models of rational behavior that forecast the actions of parties under the assumption that they possess well-defined preferences, process information accurately, and optimize within known constraints. Conversely, actual investment decisions are made under time pressure and with incomplete information by individuals operating within organizations characterized by their own political dynamics and institutional constraints. Consequently, three structural deficiencies emerge directly from the conditions that the theories themselves specify as prerequisites for their predictions to be valid. These deficiencies are identifiable within the frameworks prior to the consideration of any empirical evidence.

The first gap concerns the unit of analysis, as agency theory, signaling theory, and information asymmetry models conceptualize the investment decision as a bilateral event: involving one principal and one agent, one signaler and one receiver, or one investor estimating the value of a single company. In reality, investment decisions within VC firms are organizational processes that encompass partnerships with multiple general

partners, analysts, and associates, each possessing different information, employing diverse evaluation criteria, and exercising varying degrees of formal authority concerning the final decision. No bilateral model predicts how individual assessments aggregate into a decision at the partnership level, as this aggregation process introduces preferences, influence structures, and procedural dynamics that are intrinsic properties of the organization, rather than attributable to any single party. By design, these theories do not address this dimension.

The second gap concerns the temporal structure of contracting models: staged capital disbursement, preferred equity terms, anti-dilution provisions, and vesting schedules are treated as solutions to informational and incentive issues identified at the time of deal structuring. The contracting literature regards these instruments as static optimizations; however, venture capital governance is fundamentally dynamic: the evolving relationship between investor and founder over time, the continuous inflow of information, and the reality that terms negotiated during deal structuring are subject to ongoing reinterpretation and informal renegotiation in response to developments that no contractual provisions could have anticipated. Static optimization models do not adequately describe how governance relationships develop when circumstances that originally justified the contract change.

The third gap concerns the scope of what counts as information. Signaling theory formalizes one class of information transmission, which must be observable and have verifiable characteristics whose credibility derives from the cost of production; agency theory focuses on contractible outcomes that can be specified *ex ante* and verified *ex post*. However, both theories overlook another type of information practitioners often rely on, which encompasses relational knowledge from prior interactions, reputation built through networks, and intuitive pattern recognition from repeated experience. This knowledge falls outside both frameworks not because they are incorrect, but because they weren't designed to capture knowledge that resists formalization into observable, verifiable, or contractible terms.

The gaps discussed are not external critiques based on empirical observation but rather stem from a careful analysis of the theory itself and from instances where its conditions are not satisfied. Clearly, if decisions are made at the organizational level rather than bilaterally, or when governance is flexible rather than fixed, or when critical knowledge

is relational rather than straightforward to signal, the theory remains relevant. It correctly anticipates that outcomes will diverge from equilibrium predictions but does not specify how or why these deviations occur or the strategies practitioners use to address the discrepancy between theory and actual practice. This empirical question is what this thesis investigates.

The disparity between the prescribed frameworks and practitioners' actual practices does not represent a failure of the theories, as they are intended to elucidate phenomena under specific conditions; however, when these conditions are not fully satisfied, as suggested by the three gaps above—conditions that may not be entirely present in actual venture capital practice—the theories serve as a benchmark against which any deviation can be measured and interpreted. Establishing that benchmark precisely is the purpose of this chapter, while chapters 3 and 4 examine whether, and in what manner, the deviations anticipated by the theory are observable in empirical evidence from practitioners.

In this regard, each framework contributes a distinct analytical perspective pertinent to the investigation: agency theory (with its focus on staged capital, milestone covenants, and multilateral pressures) serves as the primary theoretical instrument for comprehending due diligence and deal structuring practices, which constitute the empirical domain of SRQ1; signaling theory and information asymmetry jointly elucidate the screening and evaluation criteria that influence the progression or rejection of opportunities, thereby informing the analysis of the four high-stakes decision points addressed by SRQ2; valuation theory, whose formal methodologies assume the availability of financial data that early-stage investments inherently lack, delineates the domain within which practitioner judgment necessarily extends beyond the scope of theoretical frameworks. This precisely encapsulates the purpose of SRQ3's bridging framework: it does not replace formal models but, in their absence, translates observed practitioner behavior into prescriptive guidance that models alone cannot provide.

2.3 The Investment Process: A conceptual Model

As previously discussed, the four theoretical frameworks explain the rationale for the design of the venture capital (VC) investment process but do not detail its sequential unfolding: a process model is essential to link the theoretical logic to the observable behaviour analysed in Chapters 3 and 4. Specifically, two bodies of work provide this

model: the original conceptual framework developed by Tyebjee and Bruno (1984)³³, derived from empirical research on active VC investors, and contemporary evidence that updates and extends their findings. It is the purpose of the present section to explain and discuss them.

2.3.1 The Five-Stage Model

The first systematic conceptual model of the VC investment process was proposed by Tyebjee and Bruno (1984)³³, as above-mentioned, based on 46 semi-structured interviews with active venture capitalists and a survey of 90 investment decisions. Their model describes VC investment activity as an orderly, sequential process comprising five distinct stages: deal origination, deal screening, deal evaluation, deal structuring, and post-investment activity (p. 1051-1052). Despite its age, this framework has proven remarkably durable and continues to structure both the academic literature on VC investment and the practitioner vocabulary that Chapter 3 examines; in this regard, this paragraph aims to provide an in-depth analysis of the above-mentioned model.

Beginning with stage 1, deal origination, this is where deal flow starts and investment opportunities are identified. Tyebjee and Bruno note that venture capitalists mainly receive proposals through professional referral networks, such as lawyers, accountants, bankers, other venture capitalists, and founders of portfolio companies, who recommend new ventures within their networks. This network-based deal flow is deliberate; it addresses information asymmetry because a startup that reaches an investor through a trusted referral is pre-screened for fundamental quality by an individual whose judgment the investor regards highly and whose reputation is at stake in the introduction, making the referral itself an information-efficient mechanism. Guenther et al. (2022)³⁴ demonstrated this in their study of referral networks among VC firms, finding that more embedded relationships lead to shorter due diligence periods because information shared through referrals often obviates the need for formal verification. In this view, the social network acts as part of the information-processing system that facilitates the investment process.

Following deal origination, the VC moves to stage 2, deal screening, where it applies rapid

³³ Tyebjee, T. T., & Bruno, A. V. (1984). A model of venture capitalist investment activity. *Management Science*, 30(9), 1051-1066.

³⁴ Guenther, C., Özcan, S., & Sassmannshausen, D. (2022). Referrals among VCs and the length of due diligence: The effect of relational embeddedness. *Journal of Business Venturing*, 37(5), 106230.

pre-filtering criteria to assess incoming deals and identify proposals that align with the fund's investment mandate and meet minimum thresholds, thereby justifying further analysis. The screening criteria are predominantly categorical rather than evaluative; the most commonly used include sector focus, the company's stage of development, required investment size, and geographic mandate. This stage is intentionally designed to be expeditious and cost-effective, with the purpose of filtering out the majority of proposals prior to engaging in more comprehensive evaluations, which incur significant costs. Consequently, the accuracy of the screening process is paramount. Venture capitalists must be able to use coarse, observable indicators as proxies for the deeper quality attributes that will be assessed in subsequent stages.

Considering the above, research on the decision-making process at the screening stage finds that VC investors face a genuine dilemma, stemming from the inherent uncertainty of startups and the imperfection of the observable characteristics available to assess the underlying quality that the investment process seeks to identify. In this regard, Dahooie et al. (2026)³⁵ document the strategic and financial dimensions of the investment decision problem and find that VCs weigh multiple factors that extend beyond the financial projections in the pitch.

Once a shortlist of ventures passes initial screening, proceed to Stage 3, Deal Evaluation, a more comprehensive assessment that generally involves meticulous due diligence across commercial, technical, legal, and financial aspects. In this phase, the VC evaluates five key dimensions outlined by Tyebjee and Bruno: market attractiveness, which covers the target market's size, growth, and access; product differentiation, including technical uniqueness and how defensible it is against competitors; managerial capability, evaluating the experience, completeness, and commitment of the founding team; environmental threat resistance, considering regulatory, competitive, and execution risks; and cash-out potential, assessing the credibility of the exit strategy and expected investor returns (Tyebjee & Bruno, 1984, p. 1057)³³. This stage is the most resource-intensive part of the process, demanding substantial time from both the investor and the company's management team, as due diligence is the primary mechanism for transforming the founder's private information into knowledge that can be independently

³⁵ Dahooie, J. H., Mohammadi, N., Sharma, M., & Daim, T. (2026). Venture capital dilemma: which start-up to invest in? *Review of Managerial Science*, 20(1), 169-219.

assessed.

It is important to emphasize that the evaluation phase coincides with the start of staged financing decisions. In this regard, a notable study by Panda and Gopalaswamy (2020)³⁶ examines the timing of staged investments in the Indian VC market, revealing that market uncertainty prompts earlier investments to secure a position ahead of competitors, while project uncertainty generally causes delays. Additionally, agency problems, as measured by information asymmetries between investors and investees, influence staging decisions, consistent with agency theory predictions.

If a venture successfully passes evaluation, the VC and the entrepreneur proceed to Stage 4, known as Deal Structuring, in which the terms of the investment are negotiated. This process begins with the investor drafting the term sheet, which is a binding indication of intent that guides subsequent formal documentation and serves as a roadmap for future negotiations. Specifically, the term sheet delineates the pre-money valuation, the investment amount, the type of security (typically convertible preferred equity), and the governance rights allocated to the investor in exchange for capital. Further analysis indicates that staged financing and syndication are structural features of this stage that have measurable effects on subsequent outcomes; in this regard, evidence from European IPOs shows that firms supported by syndicated VC investments exhibit lower IPO underpricing, partly results from staged financing and co-investor involvement, which reduce information asymmetry between the company and capital markets at the time of the public offering (Honorine and Emmanuelle, 2019)¹⁰.

The structural choices made at Stage 4 set the conditions for Stage 5, in which the VC assumes an active role within the portfolio company by attending board meetings, providing strategic guidance, leveraging its network to facilitate connections, assisting in the recruitment of senior personnel, and supporting subsequent financing rounds. Board representation serves as the formal mechanism for such engagement; it is also essential because of the heightened risk of moral hazard during this post-investment phase, as the founder has received capital and the investor's capacity to demand repayment is limited. In this context, regular board meetings and milestone-based performance evaluations constitute primary tools for risk management (Gompers, 1995)¹².

³⁶ Panda, S. N., & Gopalaswamy, A. K. (2020). An analysis of timing decision in venture capital staged financing: evidence from India. *Management Research Review*, 43(12).

A key consideration in this phase is that the timing of exits from a multi-stage portfolio is influenced not only by a company's performance but also by the multiple agency pressures faced by the VC concurrently. The aforementioned research by Sethuram et al. (2021)⁹ indicates that the duration of investment in portfolio companies is jointly determined by the VC's relationship with limited partners (LPs), who may pressure the VC to realize returns before the fund matures; co-investors, who have varying time horizons and strategic objectives; and potential acquirers, who operate within windows of acquisition activity that may or may not align with the optimal timing for exit. In light of the foregoing, it is crucial to recognize that the five-stage model, which conceptualizes the investment process as a bilateral relationship between a single VC and a single company, underestimates the complexity inherent in these multilateral dynamics.

2.3.2 Contemporary Empirical Evidence

The five-stage model of Tyebjee and Bruno (1984)³³ was derived from interviews conducted in the early 1980s, but it also finds confirmation today, particularly in the most comprehensive empirical update, the survey by Gompers, Gornall, Kaplan, and Strebulaev (2020)⁷, which reached 885 institutional venture capitalists at 681 firms and asked detailed questions about practices across all five stages of the Tyebjee and Bruno model. The research findings validate the model's core structure but also uncover differences across firm types, investment stages, and regions that the original framework did not predict. This section relies mainly on that survey as its empirical basis and incorporates insights from the SLR to update three stages: deal origination, screening and evaluation, and post-investment governance. The other two stages are analysed using practitioner evidence in Chapter 3.

From the inception of deal origination, the survey quantifies a pattern that the theoretical framework predicted but had not previously measured at scale, that is the network-based sourcing, which predominantly shapes deal flow; specifically, the insights report that 30% of deals originate from referrals by existing portfolio companies, 20% from other venture capital firms, and only 8% from direct or cold outreach by entrepreneurs, with the remainder derived through internal research and industry contacts (p. 173). This implies that approximately half of all deals under serious consideration are sourced through the VC's trusted referral network, underscoring the structural advantage enjoyed by ventures with robust institutional connections and the disadvantage faced by those lacking such

links.

The social mechanisms underlying this pattern vary across stages of the process and across institutional contexts; a notable example is the research by Wang (2016)²⁴ in the Chinese VC market, discussed in section 2.2.3, which shows that social ties between VCs and startups increase the likelihood of passing the initial screening and securing funding, albeit through different causal pathways. During the screening phase, ties facilitate the transfer of prior information, reducing the investor's uncertainty about the startup's quality, while at the funding stage, these same ties confer legitimacy, thereby validating the investment decision regardless of the information they carry. Therefore, treating network effects as a single phenomenon leads to a distorted understanding of deal-flow dynamics.

The contemporary evidence on screening and evaluation challenges an assumption embedded in the theoretical frameworks of Section 2.2, which foresee that investor assess observable criteria independently, weigh them against a fixed preference function, and reach a decision that can be approximated as rational optimization; however, the empirical record is more complicated on each of these counts. The Gompers et al. (2020)⁷ survey reveals a clear and striking hierarchy: the management team is rated as the most important factor by 95% of respondents, followed by business model (74%), product or technology (74%), market size (68%), and finally the valuation (35%) (Gompers et al., 2020, p. 177); this ranking holds across stage and investment type, through the relative weight of team versus market characteristics shifts for later-stage deals.

So far, the evidence aligns with signaling theory, which posits that investors focus on signals most indicative of unobservable qualities, and that the funding team constitutes the most informative signal available at the early stage; nevertheless, this alignment falters upon closer examination of the decision-making structure. Almubarak and Almulhim (2026)³⁷, employing a causal mapping approach, dispute the common belief that screening criteria are evaluated separately, demonstrating that venture capital screening factors are interconnected: signals of team quality impact views on market potential; product features influence perceptions of the team's abilities; and financial projections are considered relative to market size. Consequently, treating criteria as

³⁷ Almubarak, N., & Almulhim, T. (2026). Interdependence of Venture Capital Screening Criteria: A Decision Support Framework. *International Journal of Finance and Economics*.

independent elements in a scoring model does not accurately reflect the real decision-making process. Regarding the theoretical framework in Section 2.2, the implication is clear: while signaling theory models individual signals in isolation, in practice, signals interact and reinforce one another in ways not formally predicted by the theory.

It is important to note that interdependence also extends across signal types; in this regard, further examination, specifically Bessagnetet's (2026)¹⁹ research, proves useful: analyzing 453 French new technology ventures, they find that strong structural signals (patents, trademarks) and human capital signals (education, elite institutions) each contribute independently to early-stage funding outcomes, and their combination matters. Structural signals are more effective when paired with strong team signals, indicating that investors process multiple signal types simultaneously rather than reducing the decision to any single criterion.

The signals investors interpret also encompass factors beyond firm-level attributes; for instance, entrepreneurs' personal characteristics can influence investment decisions in ways not fully captured by financial analysis. In this regard, Warnick et al. (2018)³⁸ note that both passion for the product and passion for entrepreneurship are significant to investors; however, the effect of passion is moderated by the entrepreneur's perceived openness to feedback. A high level of passion combined with low openness to feedback is perceived negatively, as investors interpret this as a sign that the founder may resist governance. What emerges is that the screening process extends to personal attributes not captured by formal screening models, and the expected quality of the post-investment relationship influences how pre-investment signals are evaluated.

Further examinations reveal that the individual-level perspective is complicated by the organizational context in which decisions are formulated. In this context, Khoroshylova et al. (2026)³⁹ propose a conceptual framework that delineates the roles of individual partners—such as deciders, influencers, and gatekeepers—and the group dynamics that consolidate individual assessments into a decision at the fund level. Their analysis indicates that investment outcomes are influenced not solely by the quality of the

³⁸ Warnick, B. J., Murnieks, C. Y., McMullen, J. S., & Brooks, W. T. (2018). Passion for entrepreneurship or passion for the product? A conjoint analysis of angel and VC decision-making. *Journal of Business Venturing*, 33(3), 315-332.

³⁹ Khoroshylova, A., Linn, N., & Bock, C. (2026). Inside the Black Box: Understanding Organizational Decision Making Processes in VC Funds. *Strategic Change*.

opportunity but also by the internal dynamics of the venture capital partnership, which remain largely imperceptible to the presenting startup. It emphasizes that decisions are not made by rational individuals employing a consistent preference function, but rather by an organization endowed with its own procedural constraints and internal politics.

At this juncture, it is crucial to acknowledge that the criteria described so far are confined to the institutional setting, which in turn shapes the importance attributed to founder and firm characteristics. Zhou et al. (2025)⁴⁰, who investigated 310 startups in China's sharing economy, concluded that entrepreneurial experience alone is insufficient to attract venture capital funding; rather, industrial experience, proximity to well-established corporate networks, and the order in which firms enter the market have independent positive effects on venture capital interest. This is especially relevant in markets with limited formal information channels, where institutional legitimacy, such as proximity to government offices or ties to well-known corporate networks, complements traditional signaling strategies documented in Western-market research. As discussed by Gompers et al., Almubarak and Almulhim, and Bessagnet, the hierarchy of criteria and the importance placed on signals assume a fairly transparent information environment; however, when the information environment shifts, the significance of different signals also changes. A noteworthy methodological response to this challenge is the research by Zhang et al. (2023)²⁷, mentioned in the previous section, which developed a machine learning framework to predict the valuation of entrepreneurial firms by integrating diverse signals, combining financial and non-financial inputs through an adaptive algorithm. Clearly, this approach does not substitute for investor judgment; however, it elucidates the implicit signal-weighting employed by seasoned investors, thereby enhancing the transparency of what is typically an opaque decision-making process for external observers.

Turning to post-investment governance, the survey evidence closely aligns with the theoretical predictions outlined in Section 2.2. Specifically, 72% of respondents report using staged financing as a primary governance mechanism, while 97% require board representation, confirming that agency-theoretic governance mechanisms remain the predominant tools, even after four decades since Jensen and Meckling (1976)⁵ and

⁴⁰ Zhou, Y., Park, S., Zhang, J. Z., & Ferreira, J. J. (2025). How do innovative internet tech startups attract venture capital financing? *Journal of Management and Organization*, 31(3), 1367-1388.

Sahlman (1990)³ initially introduced them (Gompers et al., 2020, pp. 180-182)⁷. The persistence of these instruments across major changes in the industry's scale, composition, and geographic scope implies that the fundamental agency logic they address remains consistent, despite the evolution of the venture capital market.

An additional noteworthy finding from the survey concerns differences across firm types and investment stages: early-stage venture capitalists use milestones more frequently, while later-stage venture capitalists rely more extensively on financial covenants. This disparity illustrates the main type of uncertainty at each phase: initially, the uncertainty is about whether the founder will meet their commitments; later, it concerns whether the financial performance will align with set targets. As a result, governance instruments are not used uniformly but are tailored to fit the specific risk profile of the relationship at each deployment stage.

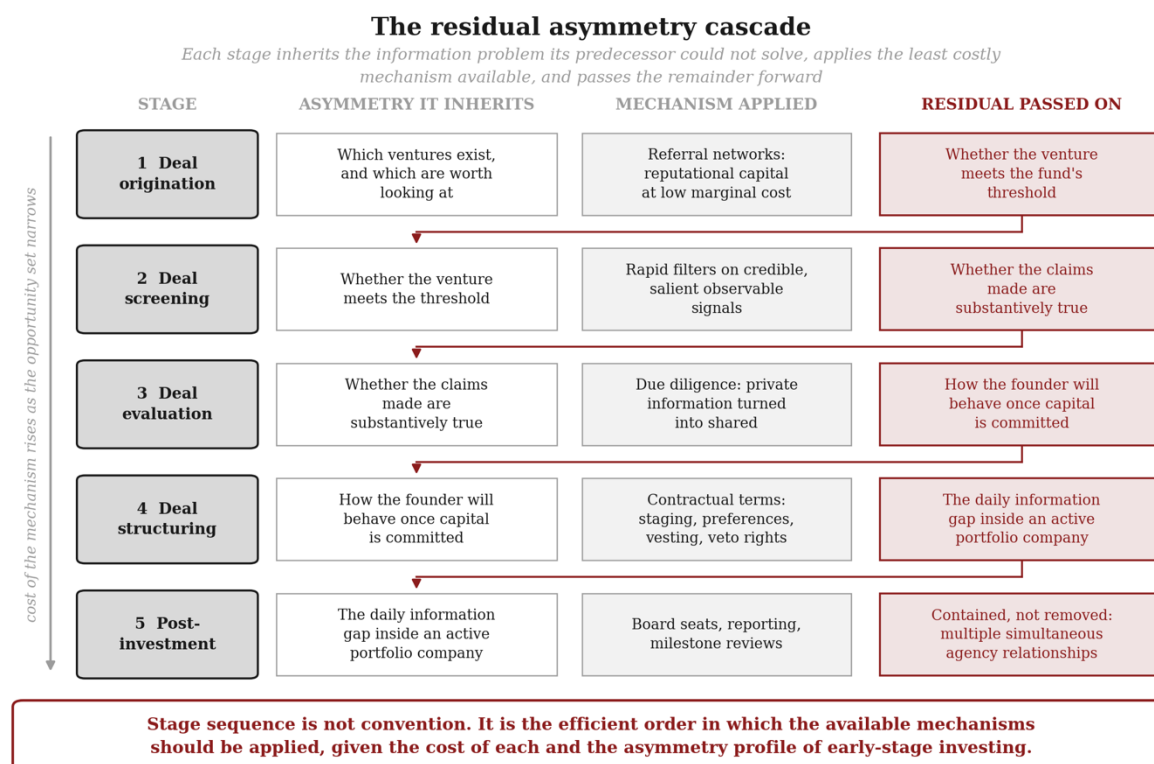
This section outlines four limitations in the frameworks discussed in Section 2.2: first, screening criteria are not assessed separately; second, the decision-making unit is viewed as an organization instead of an individual; third, relevant signals go beyond firm-level attributes to encompass interpersonal and institutional factors; and fourth, the effectiveness of standard signaling mechanisms relies on the information environment they operate within.

2.3.3 Information Asymmetry as the Structural Driver of the Investment Process

The examination in the previous section underscores that the five-stage model delineates the investment process as a sequential progression, whereas the frameworks presented in Section 2.2 elucidate the specific mechanisms within this sequence. However, neither approach, in isolation, offers a comprehensive account of why the steps are ordered in this particular manner, specifically why origination precedes screening, why screening precedes evaluation, and why evaluation precedes structuring. Consequently, the purpose of this section is to provide such an account.

The central argument is that each stage of the Tyebjee and Bruno (1984)³³ model is designed to address a specific form of information asymmetry that the previous stage was structurally unable to resolve. Consequently, the stages are not arbitrary; rather, they constitute what may be described as a residual asymmetry cascade. In this sequence, each stage inherits the unresolved information problem from its predecessor, employs the

least costly mechanism available to mitigate it, and passes the remaining asymmetry to the subsequent stage. At the next stage, more costly mechanisms become justifiable because the number of opportunities remaining in the pipeline has diminished. Figure 2.1 sets out the cascade stage by stage, what each step inherits, the mechanism it applies, and the residual it passes forward.



Source: own elaboration on Section 2.3.3, building on Tyebjee and Bruno (1984) and Akerlof (1970).

Figure 2.1. The residual asymmetry cascade.

Stage 1 (Deal Origination) experiences the most significant information asymmetry because the investor is unfamiliar with startups and their suitability for evaluation. Therefore, at this preliminary stage, formal due diligence is unjustifiable without a screening process. Network-based sourcing addresses this efficiently by leveraging the referring party's reputation, as demonstrated by Guenther et al. (2022)³⁴ and previously discussed in Section 2.3.1. For instance, a startup introduced to a VC through a portfolio company's CEO implies that the startup has already been preliminarily assessed by someone with direct access to sensitive information about the founders. In that way, the referral doesn't eliminate information asymmetry but indicates that the venture is promising enough for further review. Therefore, considering the above, after Stage 1, the main remaining uncertainty is whether the venture's quality meets the fund's standards,

a concern the referral raises but does not definitively resolve.

During Stage 2 (Deal Screening), venture capitalists use observable, rapid, and low-cost signals to address the residual imbalance mentioned above, as they cannot yet afford thorough due diligence on every referral in the pipeline. Specifically, criteria and filters are applied to these signals to distinguish initiatives that warrant further investigation, with the aim of narrowing the field of opportunities to a point where resolving the information asymmetry becomes economically sustainable; these criteria and filters are formalised by Zhang, Shi, and Connelly (2024)²⁸ as credible, necessary, and salient external indicators. Consequently, the residual imbalance at the end of Stage 2 concerns an aspect that observable signals approximate but cannot definitively verify, namely the certainty that the venture's claims regarding technology, market, and team are substantially accurate.

Addressing this residual asymmetry is the central function of Stage 3 (Deal Evaluation), the most resource-intensive phase, owing to its systematic process of converting private information into shared knowledge through due diligence, which transforms residual risk from unknown unknowns (elements the investor is unaware of but the founder knows) to known unknowns (factors the investor recognizes as unresolved based on available information). In this context, the social network mechanisms identified by Wang (2016)²⁴ supplement formal due diligence because ties at the funding stage confer legitimacy that validates the investment decision through a channel separate from direct information transfer. In light of the foregoing, residual asymmetry at the conclusion of Stage 3 represents the moral hazard risk, namely, the uncertainty about the founder's future actions once capital has been allocated and monitoring expenses have increased.

This is precisely the residual uncertainty that Stage 4 (Deal Structuring) is designed to address, converting the residual moral hazard problem mentioned above into a contractual structure through the term sheet, which serves not as a document of trust but as an economic mechanism for managing distrust. Providing concrete examples, it suffices to note staged capital disbursement, as outlined by Gao (2017)³⁰ and previously discussed in Section 2.2.4, which converts private information about a company's progress into a public trigger, requiring startups to reach specific milestones before receiving the next funding tranche; or, similarly, preferred equity with liquidation preferences, which addresses information asymmetry about exit value by providing downside protection and

helping manage investor risk when the founder's optimistic exit expectations prove unfounded. However, by the end of Stage 4, some residual asymmetry persists, representing the day-to-day information gap between the founder and investors in an active portfolio company, a problem that contractual terms can constrain but not eliminate.

This persistent gap defines the rationale for Stage 5 (Post-Investment Activity), which manages it through continuous governance measures such as board representation and mandatory reporting, creating a constant communication channel, and turning private operational data into shared knowledge. However, this channel is imperfect, as founders continue to hold informational advantages in daily operations, technological decisions, and competitive positioning. Yet it reduces moral hazard to a level that can be effectively managed by the contractual protections implemented in Stage 4. Furthermore, as mentioned in the previous section, Sethuram et al. (2021)⁹ document that exit timing at Stage 5 is shaped by multiple simultaneous agency relationships, each with its own information asymmetry: the GP owes transparency to LPs about fund performance; co-investors hold different information about the company; and potential acquirers exploit information gaps in acquisition pricing. Therefore, the investment process does not eliminate asymmetry, but it contains it within a structure in which its most damaging consequences have been progressively addressed.

This cascade argument is the central theoretical contribution of this chapter. It does not replace the frameworks outlined in Section 2.2, as agency theory, signaling, and valuation each describe specific mechanisms within this cascade. However, the cascade provides a structural explanation for the sequencing of these mechanisms: initial stages employ cost-effective, low-resolution tools (such as reputation and observable signals) to eliminate opportunities that do not warrant more costly tools; subsequent stages use high-cost, high-resolution tools (including due diligence, contracts, and governance) on the reduced set of opportunities that pass the preliminary elimination. The process is organized this way because information asymmetry takes different forms, has different costs to resolve, and carries different implications at different points in the relationship; therefore, the stage sequence is not conventional; it is the efficient order in which the available mechanisms should be applied given the symmetry profile of early-stage investing.

In conclusion, this reading is also crucial because it identifies where the cascade is most likely to break down in practice: when mechanisms at any stage are poorly calibrated;

when networks transmit low-quality referrals; when screening criteria are insensitive to genuine signals; when due diligence is compressed by time pressure; or when contracts are under-specified. In each case, the residual asymmetry passed to the next step exceeds what the mechanism was designed to handle. In this regard, Chapter 3 documents how practitioners manage this breakdown through experience, heuristics, and relational judgment, while Chapter 4 examines the four decision points at which the breakdown is most consequential and the divergence between theoretical prescription and actual practice is most pronounced.

CHAPTER 3 – THE INVESTMENT PROCESS IN PRACTICE

Chapter 2 navigated and analysed the academic literature to understand and describe the venture capital investment process; the most significant results include the five-stage process model developed by Tyebjee and Bruno in 1984, four theoretical frameworks that explain its contractual and informational architecture, and a structural argument, the information asymmetry cascade, that accounts for the ordering of the stages. Furthermore, Chapter 2 identified three dimensions where the academic literature is silent by construction, namely investment decisions treated as organizational rather than bilateral, the governance relation described as dynamic rather than static, and the relational knowledge that resists formalization into signals or contracts. The purpose of Chapter 3 is the same, but through the use of practitioner evidence, namely, to establish how the people who manage and participate in the investment process describe it in their professional literature, and to compare that description, stage by stage, with the theoretical prescriptions of Chapter 2, which corresponds to answering SRQ1.

The empirical material consists of practitioner documents selected through the repository mapping described in Chapter 1, which fall into two distinct classes that are important to describe in order to understand how each class is read. The classes include VC-facing documents, produced by investors to describe their own criteria and procedures, and founder-facing documents, written in most cases by investors themselves to tell entrepreneurs how to raise capital. VC-facing documents include, for instance, a fund's explanation of how it decides which meetings to attend, an industry association codifying term sheet standards, or an investment firm publishing its due diligence questionnaire; therefore, they are direct evidence of investors' decision-making processes. Regarding the founder-facing documents, they are essentially advice that sets out criteria by prescription, as in the case of a fund that instructs founders on what to prepare before approaching investors, disclosing what investors select for, thereby functioning as an inverted description of the screening stage, written from the perspective of those who conduct it.

It should be emphasised that both classes of sources require interpretative caution, as none of these documents are subject to peer review and most are written by US investors and, therefore, focused on the US market, a bias partially corrected by the inclusion of process materials and the term sheet templates of two Italian funds analysed later;

furthermore, it is important to note that several documents serve a commercial as well as divulgative purpose, since many funds publish guidelines also to attract founders, making such documents true tools for deal flow generation. Regarding the specific content of the documents considered for the drafting of this chapter, these record espoused practice, that is, what practitioners say they do or advise rather than an independently observed behaviour; therefore, these documents will be treated as data on professional knowledge rather than as objective and indisputable descriptions of practice, and will be analysed by relating three layers of empirical evidence: practitioner documents (espoused practice); large-sample survey data from Gompers et al. (2020)⁷ (quantitative empirical benchmark); academic articles identified through the Systematic Literature Review (theoretical foundation). Where these three levels concur, the result should be considered solid and robust; conversely, where they diverge, the discrepancy itself will become the primary object of analysis.

Concluding with the structure of the chapter, it will follow the sequence of the five-stage model observed within Chapter 2; specifically, Section 3.1 will examine deal origination and screening (covering Stages 1 and 2), Section 3.2 will analyse due diligence, Section 3.3 will address deal structuring and the term sheet, Section 3.4 will detail post-investment governance, and finally, Section 3.5 will consolidate the comparative analysis into a systematic mapping of convergences and divergences between the theoretical prescriptions and practitioner accounts, laying the groundwork for the analysis of high-stakes decisions in Chapter 4.

3.1 Deal Flow and Screening

In the theoretical framework, the first two stages of the investment process serve a single economic function at two different levels of resolution; specifically, deal origination addresses the primary search problem of identifying viable startups by leveraging referral networks, which transmit pre-filtered deal opportunities at low transaction costs; deal screening, on the other hand, applies quick and inexpensive filters based on observable characteristics to determine which opportunities justify the costs of a formal evaluation (Tyebjee and Bruno, 1984)³³. Regarding contemporary empirical evidence, these clearly quantify both mechanisms, as indicated by the research conducted by Gompers et al. (2020)⁷, which reports an average of about 200 opportunities examined per year by an average VC, with around four deals closed, and half of the seriously considered deals coming through the fund's referral network, while only 8% originate from cold direct contact by entrepreneurs; in this regard, Section 2.3.3 has interpreted this structure as the first two steps of the residual asymmetry cascade, since in these phases low-resolution evaluation instruments are applied to a large number of operations, reserving the use of more costly tools for only a few selected cases. Considering the above, the question in this section is whether industry practitioners describe origination and screening in the same way, and what their narrative contains that the theory, instead, overlooks; specifically, the analysis material comes from five documents in the repository, namely a VC-facing document in which partners from NFX and other funds explain what determines securing an initial meeting, three founder-facing documents that serve as guides for entrepreneurs on how to conduct the fundraising process (Graham, 2013; Altman, 2015; Pham, 2024), and the internal process material of the Italian fund Indaco Venture Capital, which sets out how the first stage of a fund's process is organized and how long it is allowed to take (Bonivento, 2025)⁴³.

Starting from the shape of the funnel, the practitioner accounts confirm and refine the theoretical predictions; specifically, Hustle Fund (a fund focused on pre-seed) reports that its deal team evaluates about 1,000 pitch decks per month against a portfolio of around 500 investments made over six years (Pham, 2024)⁴¹, thus showing a steeper rejection rate than the average emerging from surveys and confirming the expectation that selectivity increases at earlier stages of investment. The most important result, however,

⁴¹ Pham, T. (2024). *Raise Millions* [Hustle Fund].

even more revealing than the numbers, is the decision-making unit identified in the VC-facing documents: in practice, screening is not framed as an overall assessment of the startup's quality, but as an allocation of the scarcest resource within a fund, namely the partners' attention; this is reported in the NFX text⁴², which does not analyse the decision to invest, but rather the decision to grant an initial meeting, and it is precisely the cost rationale attributed to Stage 2 by the cascade argument. The same approach also emerges outside the US context, as reported by the process materials of the Italian fund Indaco Venture Capital, for which the entire first phase of the investment process (which includes scouting, preliminary meetings, initial due diligence, and a first go/no-go decision) takes one to three months, and its output is not an investment commitment but the deliberation to commit the partners' time to a deeper evaluation (Bonivento, 2025)⁴³.

Regarding the origination stage, the convergence among the three layers of empirical evidence is almost complete; indeed, from a VC-facing perspective, the NFX document concludes its list by focusing on the role of the referrer and states a categorical operational rule, according to which the probability of securing an initial meeting is directly proportional to the perceived credibility of the contact making the introduction, since each investor learns over time to trust the judgment of a small circle of external individuals to the fund; from a founder-facing perspective, instead, Graham (2013)⁴⁴ formulates the same rule from the founder's point of view, defining informal introductions as a prerequisite for the pitch to at least be read. Regarding this latter point, the document indicates that the effectiveness of an informal introduction follows a specific hierarchy of value, with the highest being an introduction by an investor who has just committed capital, followed by founders already funded by the same fund, down to lawyers and journalists; furthermore, to support the above, Altman (2015)⁴⁵ confirms that most investors still require an introduction through a mutual connection before considering an entrepreneur seriously. These findings fully align with the data on sourcing sources from Gompers et al. (2020)⁷ and with the results of Guenther et al. (2022)³⁴, which suggest that the relational embeddedness between the referrer and the receiver measurably reduces the duration of subsequent due diligence; therefore, on this point, theory, survey data, and practitioner testimonies all describe the same mechanism,

⁴² Currier, J. (2019). *How VCs Decide to Take a First Meeting – 12 Reasons* [NFX].

⁴³ Bonivento, A. (2025). *Slide Corso F&F: Investment Process* [Courses slides, Indaco Venture Capital].

⁴⁴ Graham, P. (2013). *How to Raise Money* [Y Combinator].

⁴⁵ Altman, S. (2015). *Startup Playbook* [Y Combinator].

but through three different vocabularies.

It is important, however, to recognize that practitioners' texts present the mechanism from a perspective that the Theory does not address, since in the theoretical model the referral network is understood as a passive sourcing infrastructure of the investor and therefore an efficient information system serving the VC; conversely, the founder-facing literature considers this network as an asset that founders must actively build; specifically, Pham (2024)⁴¹ suggests that founders, lacking second-degree connections, should contact the CEO of an already portfolio company, develop a relationship by seeking mentorship, and only afterwards request an introduction to their investors, providing a prescribed email to facilitate the referral, highlighting that meetings with investors are 93% more likely to occur if introduced by a mutual contact; finally, supporting this, the NFX (2019)⁴² document advises founders to report the right information and to carefully manage both the formulation of the message and the timing. From this, an important theoretical implication emerges: if referrals can be engineered, their informational value becomes partially endogenous, and they retain value only because their creation is costly (both in terms of the time needed to build relationships and the reluctance of the referral to risk their reputation for a weak company), thus recalling the economic logic of Spence's (1973)¹⁶ signaling theory, but applied to the cost of gaining a position within a trust network rather than obtaining an observable credential.

Focusing on screening criteria, the VC-facing literature offers the most direct alignment with survey data; starting from the NFX document, in fact, about half of the twelve identified questions concern the quality of the startup (therefore team, high-level description, market, business model, timing and traction), with the team ranked first, which is considered by early-stage investors as the key factor, in line with what Gompers et al. (2020)⁷ report, where 95% of VCs regard it as the main criterion; in this regard, the analysis of timing also aligns with practice, with Mike Vernal (Sequoia) asking why the company is being started today rather than three years ago or in three years, while Pete Flint (NFX) breaks it down into technological catalysts, economic push, and cultural acceptance. It is also worth noting a recommendation contained within the NFX document, which suggests communicating verifiable facts in writing (past experiences, achievements, team cohesion) and reserving aspects such as passion, commitment, and tenacity for in-person pitch, thus reflecting the theoretical distinction in Chapter 2

between verifiable and costly signals and interpersonal qualities that can only be assessed in person, of which Warnick et al. (2018)³⁸ have documented the empirical impact in screening.

Returning to the NFX document, the other half of the list does not concern the quality or performance of the company, but rather the compatibility criteria such as geographic location, team size, the target fundraise amount, the prior financing history, and the reasons why the founder is approaching that specific fund. These criteria determine whether the deal falls within the fund's mandate, the target check size, the preferred investment stage, and the geographical location, regardless of how promising the company is; consequently, a startup can be rejected at the screening stage simply because it is raising 8 million dollars from a fund whose model dictates 2 million commitments, or because it is based in the wrong city, not due to qualitative deficiencies of the venture. The above evidence is crucial for a founder, and it is indeed addressed in founder-facing literature as elementary process knowledge; specifically, Charles Hudson (Precursor Ventures) advises founders to approach investors suitable for their investment stage rather than aiming for the most prestigious names, while Trae Vassallo warns that investors' preferences regarding the size of the round are driven by their own portfolio-building needs, not the actual needs of the company (NFX, 2019)⁴². From this, a substantial implication for the theoretical framework emerges, as Chapter 2 has modelled screening as an inference about unobservable venture quality based on observable signals (Zhang, Shi, and Connelly; 2024)²⁸, whereas practitioner accounts demonstrate that a significant portion of screening rejection is generated by a prior, non-qualitative filter of bilateral fit; therefore, a rejection at this stage carries zero informative signal about the venture's quality. In light of this, it should be noted that the hierarchy of criteria documented by Gompers et al. (2020)⁷ describes the ranking of qualitative factors within the set of deals already compatible with the fund's mandate.

It is important to emphasise a second key insight, which concerns the dynamics between investors: according to theory, each fund manages its own screening process independently, meaning it receives signals, evaluates them against its own criteria, and makes a decision; however, Graham's essay⁴⁴, the most detailed among founder-facing texts, describes a very different dynamic whereby investors often hesitate, torn between the fear of funding a failure and the fear of missing out on a remarkable opportunity, thus

tending to wait and be influenced by the decisions of other VCs. What Graham states is that an investor's evaluation of a startup largely depends on the opinion of colleagues, explaining how obtaining a significant initial commitment essentially constitutes half of the fundraising challenge, and this market logic is widely reflected in practitioner literature; specifically, NFX's screening framework reflects this mechanism in the question about the startups's fundraising history (explicitly citing it as an element of social proof), while Altman reflects it in his tactical rule, which is to instil in investors the fear that others might capture the allocation first, thereby encouraging them to act promptly. Consequently, it can be said that screening is not merely a series of isolated tests but rather an interdependent market process in which each assessment incorporates observed or inferred opinions of other actors; therefore, the outcome of a startup's screening can change dramatically upon the mere arrival of a first formal commitment from another fund, without any change in the company's business fundamentals. On the other hand, in terms of theoretical framework, the closest analogy is Wang's (2016)²⁴ legitimacy channel, where social ties validate investments decisions regardless of the direct information they convey; however, practitioners go further, developing real tactical strategies based on this model, such as Graham's rules (conduct all negotiations in parallel, prioritise funds based on expected value, consider any response other than a "yes" as a rejection, and underestimate the fundraising target to create momentum), which are economically rational only in the presence of strongly interconnected decisions among investors, representing the perfect practical manifestation of this mechanism, the social proof.

There is finally a third noteworthy element of importance, as it reverses the direction of the process. In the traditional five-stage model, origination is led by the venture capitalist, who seeks deal flow through their networks and outreach activities; conversely, the founder-facing literature suggests that this pipeline is co-created from the opposite side, and in this sense, Pham (2024)⁴¹ argues that fundraising is 20% pitching and 80% organisation, proposing the adoption of a CRM on the founder's side whose stages specify the investor's funnel (from first contact to due diligence, soft commitment, and signing), an approach that is also recommended by Graham (2013)⁴⁴, who advises considering fundraising as a binary process managed end-to-end by a single founder. Essentially, founders should carry out a structured sales process based on the criteria published by investors themselves, and documents such as the NFX guide, Altman's playbook, and the

Hustle Fund book exist precisely because funds compete by teaching founders how to overcome their screening filters, resulting in an educational effort that in turn acts as a deal origination channel. Theoretically, in fact, when screening criteria become public, the nature of signals changes, as candidates optimise their presentations, making pitch decks impeccable or efficacy summaries less informative as the audience learns to produce them; therefore, if Signal Theory assumes that these signals have fixed costs, the practitioner ecosystem actively creates and disseminates skills to produce such signals on a large scale, deliberately shaping their capabilities.

However, it is necessary to cite a statement within the corpus that appears to oppose the emphasis the authors place on the process; specifically, Altman (2015)⁴⁵ argues that the only key to raising capital is having an excellent company, and that therefore the founders' actions aimed at optimizing the process would contribute only marginally to success, roughly about 5%. This statement, if taken literally, would undermine much of the advisory literature, including his own writings; however, the contradiction is resolved upon closer analysis, which allows us to deduce that process improvements cannot transform a weak company into a fundable one, but can reduce the likelihood that a valid startup is not recognised as such due to a flawed evaluation process based solely on observable signals. In this regard, and to support what has been highlighted, both Graham and Altman acknowledge that the screening process often categorises startups incorrectly: Graham notes that some promising companies appear weak because they are out of step with current market trends, while Altman highlights how great companies can initially seem fragile, encouraging founders to trust their intuition over stated rejection reasons of the investors; this is a theoretically relevant insight, as in signaling models signals carry intrinsic information, whereas practitioners describe a screening process subject to false negatives that the advisory literature aims to correct, teaching founders to produce higher-quality signals and helping investors to protect their deal flow from the imperfections of other investor's filters.

At this point, to summarise the results of the section, it can be stated that the four practitioner documents read together confirm the architecture of the theory, while simultaneously enriching it with mechanisms not contemplated by the theoretical models. Origination is therefore genuinely driven by relational networks, while screening proves to be rapid, cost-effective, and based on observable elements, exactly as described

by Tyebjee and Bruno (1984)³³ and as predicted by the cascade logic of Section 2.3.3; on the other hand, what the practitioners' account adds fits perfectly into the three spaces identified in Section 2.2.5 as structurally external to the theoretical frameworks. Specifically, the compatibility with the fund's mandate and the interdependence of assessments among investors place the screening decision within an organization and a market context rather than a simple bilateral meeting; secondly, momentum tactics and Graham's observation that fundraising is an extended period during which the company's trajectory throughout the process influences the outcome confer a dynamic character to screening, which is absent from static models; finally, the entire referral economy, the trust built up over the years, the introductions whose value depends on the reputation of the introducer, and the personal assessments of the founder's commitment operate on the level of relational knowledge, filling the third theoretical gap. These results do not contradict the theory but fill the gaps left open by academic models, exactly as outlined in Chapter 2, thus confirming their validity.

3.2 Due Diligence in Practice

Operations that surpass the screening phase filter enter Stage 3, deal evaluation, which includes the process with the highest resource utilisation, namely due diligence. While screening narrows the pipeline to the point where an expensive and in-depth investigation becomes economically viable, due diligence systematically converts private information into shared information, transforming what is unknown to the investor but known to the founder (unknown unknowns) into identified risk elements that the investor can quantify in the Price or regulate through contractual provisions (known unknowns) (Section 2.3.3); moreover, it is important to note that Agency Theory also assigns a preparatory function to this stage, as the risks identified by due diligence but not resolved become the raw material for deal structuring, where contractual clauses allocate these risks between the parties (Kaplan and Strömberg, 2003)¹¹. Regarding the physical dimensions of this stage, empirical data report an average of 83 days to conclude a deal, with approximately 118 hours of due diligence work and consultations with around 10 different references (Gompers et al., 2020)⁷; in this regard, the objective of this section is to understand what investors specifically examine during those hours, in what order, and with what relative weights.

Regarding the documents examined for this section, eight texts are used, attributable to

three main groups, and they differ from those in Section 3.1 in significant ways for their interpretation. Starting with the first group, this includes actual operating instruments, among which are: the checklist for requesting documents provided by Y Combinator to startups preparing a Series A round (Y Combinator, 2018)⁴⁶; the due diligence questionnaire drafted by the investment management platform Edda (Edda, 2019)⁴⁷; the syllabus used by Harlem Capital to train interns in its ten-week programme (Harlem Capital, 2022)⁴⁸; the scoring sheet through which an investor converts market, traction, and team into a score (Alaily, 2025)⁴⁹; the internal process materials in which Indaco Venture Capital defines the stages of its assessment (Bonivento, 2025). Moving on to the second group, this has a descriptive character and includes a list of fifteen questions curated by Harroch and Kane (2019)⁵⁰ with contributions from several general partners of different funds; finally, regarding the third group, this is contractual in nature and includes the term sheet issued by Italian Founders Fund to pre-seed and seed-stage companies, along with the commentary in which the fund explains its document to the founders (Italian Founders Fund, 2026)⁵¹. The difference with the texts used in Section 3.1 lies in the fact that the latter provided advice from which the evaluation criteria used by the funds in the early stages of the investment process could be inferred; in contrast, the texts analysed in this section are actual artefacts that investors use concretely in their daily work. However, it is important to emphasise a limitation of these documents, which is that they only document the formalised part of the process, without saying anything about the discretionary judgment exercised around them.

From the analysis of these documents, the most significant evidence concerns the structure of the process rather than its content; specifically, Edda's questionnaire⁴⁷ incorporates a process map adapted from academic work on the venture capital investment process, which divides due diligence into two phases with distinct operational logics. According to this map, after the initial screening, a small deal team led by a senior partner assesses the opportunity based on the available information and the fund's knowledge, then meets with the founders and summarises their evaluation in a

⁴⁶ Y Combinator (2018). *YC Series A Checklist*.

⁴⁷ Edda (2019). *The Venture Capital Due Diligence Questionnaire*.

⁴⁸ Harlem Capital (2022). *Harlem Capital Syllabus*.

⁴⁹ Alaily, M. (2025). *The (Real) VC Questionnaire*.

⁵⁰ Harroch, R., & Kane, L. (2019). *15 Questions Venture Capitalists Will Ask Before Investing in Your Startup* [Forbes].

⁵¹ Italian Founders Fund (2026). *Term Sheet – [Pre-]Seed Financing*.

preliminary deal memorandum structured around six areas: the quality and potential of the management team, the size and expected growth of the target market, the sustainability of the competitive advantage, the main risks and the related corporate management strategies, the credibility of the financial projections, and the potential to liquidate the investment within three to five years; this memorandum is then sent to the investment committee, and only upon its approval does the first formal due diligence phase commence, which includes a written questionnaire sent to the founders. The document explicitly notes that up to that point, the fund has incurred no additional costs, and that the second phase, namely external due diligence conducted by paid legal, accounting, and environmental specialists, involves a separate budget and begins at a later stage.

What makes this sequence theoretically interesting is the placement of the term sheet within it, as, according to Edda's process map,⁴⁷ the conditions of the operation are negotiated and the term sheet signed before the start of the second phase of due diligence, thus placing the more formal, costly, and comprehensive part of the investigation after the substantial decision to invest has been made. This interpretation is confirmed by Y Combinator's checklist⁴⁶ but from a different perspective, since, being a due diligence document for a Series A round, it contains no evaluative elements; on the contrary, its sections require corporate registers, charter documents, financial statements, intellectual property filings, securities issuance, material agreements, litigation correspondence, and employment records; therefore, no item on the list questions the actual value of the company, but each element verifies whether it is accurately represented. The resulting outcome is significant because, on one hand, the theoretical framework considers due diligence as the generation of information intended to influence the investment decision, whereas the practitioners' documents describe two distinct activities that the theory consolidates; specifically, an initial low-cost phase based on discretionary judgment aimed at forming the conviction to invest, and a subsequent more costly phase of formal verification of the statements made, intended to protect a decision already made.

This distinction has a clear informational significance, namely that the verification phase does not address the real uncertainty regarding the venture's prospects, since no corporate document can confirm whether the market will develop as expected; on the contrary, it addresses the issue of the potential false representation of information,

similar to Akerlof's 'lemons' problem⁴. Supporting the above discussion, Edda's document justifies the entire questionnaire with a symbolic example, which concerns an internet company whose market value collapsed when a regulatory authority's disclosure revealed that one of the founders had been accused of fraud against clients in a previous venture, a fact that management had denied; therefore, it can be stated that the real function of Y Combinator's checklist and Edda's questionnaire is to provide guarantees against fraud and omission, not against uncertainty. Meanwhile, the phase aimed at developing the investment conviction utilizes low-cost tools, replicating the cascade process discussed in Section 2.3.3, as internal knowledge is used first, then the documents provided by the founders, and only after committing to the investment are paid external experts involved.

Supporting the above-mentioned structure, it is important to note an independent confirmation coming from an external context to the Anglo-American corpus, namely the process materials used by Indaco Venture Capital, an Italian investor, which map the investment process in six stages and place the negotiation of the term sheet before the formal due diligence, exactly as the process map of Edda does. Specifically, according to Indaco, the first stage concludes with an internal Briefing Paper through which the investment manager must convince the partners that the opportunity warrants further investigation; subsequently, the investment committee issues a preliminary decision, and only after signing the term sheet are the business, legal, financial, and intellectual property due diligence activities initiated (Bonivento, 2025)⁴³; furthermore, the material clearly explains the economic reasons for this agreement, namely that the only binding provisions of the term sheet are the exclusivity clause and the allocation of due diligence costs (since no investor spends additional time and money analysing an operation without protecting themselves from the risk of losing it). What emerges from this evidence is the fact that a European mid-sized fund describing its process with the same sequence documented by US sources suggests that the bifurcated structure is not a convention but rather a general economic property of this stage. However, it is even more striking that the same sequence is integrated into the contractual documents themselves, such as the term sheet template sent by Italian Founders Fund to pre-seed and seed companies⁵¹, which stipulates that due diligence is conducted at the fund's discretion until the expiry of the exclusivity period, so that the document setting the Price and governance is signed while the investigation is still ongoing, including due diligence among the four

binding clauses despite the non-binding nature of the remaining ones.

With the aim of summarising the results produced by the above analysis, Figure 3.1 has been created (which compares the theoretical phase with the observed sequence) and Figure 3.2 (which illustrates the two activities that this sequence separates).

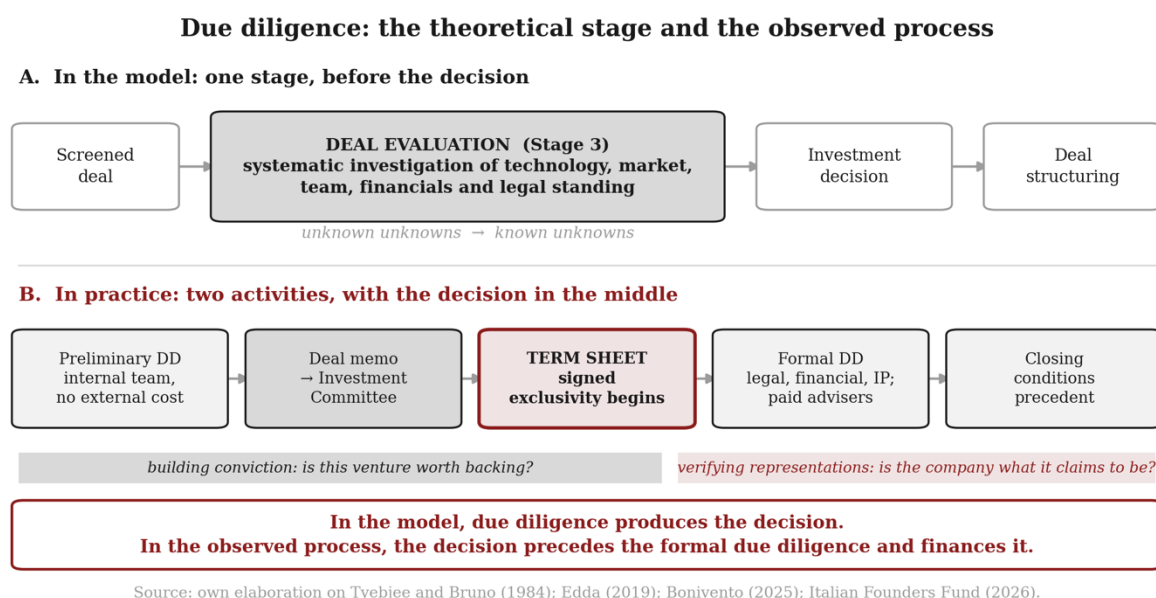


Figure 3.1. Due diligence: the theoretical stage and the observed process.

		Due diligence as two distinct activities	
		CONVICTION	VERIFICATION
When		Early, before the term sheet	After the term sheet is signed
Cost		Low: internal team, no external spend	High: paid legal, financial, IP advisers
Instruments		Founder meetings, reference calls, internal knowledge, deal memo	Document checklists, questionnaires, external audits
Question asked		Is this venture worth backing?	Is the company what it claims to be?
Asymmetry addressed		Genuine uncertainty about future performance	Possible misrepresentation (Akerlof, 1970)
Output		Conviction, memo to the Investment Committee	Conditions precedent, closing or withdrawal

Source: own elaboration on Edda (2019), Y Combinator (2018), Harroch and Kane (2019), Harlem Capital (2022), Bonivento (2025).

Figure 3.2. Due diligence as two distinct activities.

Focusing on the content of the assessment, it closely aligns with the hierarchy established in the survey literature, as highlighted by the list from Harroch and Kane (2019)⁵⁰, where the management team ranks first (coinciding with the findings of Gompers' survey), followed by the market size, which requires an opportunity exceeding one billion dollars

in annual sales to be considered of interest; next comes traction, broken down into specific indicators such as pilot customers, strategic partnerships, and admission to selective accelerators. It is interesting to note how the list presents two distinct and relevant characteristics, namely that its preamble clarifies that the questions presuppose the company already meets the fund's investment criteria, confirming that the mandate filter is separate from the quality assessment (the screening in Section 3.1); and that the list extends the screening criteria by proposing questions on referrals and pitch deck quality at a later stage, after passing the initial filters. Moving forward, as the process deepens, additional factors are considered, including the assessment of specific risks, intellectual property, use of proceeds, the realism of the valuation, and legal checks; in this regard, some practitioners publish explicit weights for these criteria, as in the case of the VC scorecard published by Alaily⁴⁹, which assigns points to demand, growth, traction, and team, giving three points to validated demand and zero to unverified statements; however, the true value of this tool lies not so much in the individual numerical values but in demonstrating the underlying hierarchy that the investigative literature statistically reconstructs, functioning in practice as an operational assessment tool. Figure 3.3 precisely reproduces the tool published by Alaily in 2025.

The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Market	0pts	1pt	3pts
Is there a clear market demand and opportunity for disruption?	"nice to have"	Low urgency / high switching cost	Validated strong demand
Is the market growing , saturated, or in decline?	Declining	Flat	>10% YoY growth
Is your Total Addressable Market (TAM) large enough (>\$1B)?	No sizing / evidence	1Bn+	1Bn+ with strong validation

Traction	0pts	1pt	3pts
Are you showing strong user # and growth (DAUs, WAUs, MAUs)?	Zero growth, very early	>10% MoM	>10% WoW
Is there stickiness in your product (high retention, low churn)?	High churn	30% retention in 8 weeks	50% retention in 8 weeks
Are your financials solid (MRR/ARR, runway, burn rate)?	No revenue	<\$10k MRR Short runway	\$10k - \$100k MRR
Is your business model efficient (CAC:LTV ratio)?	Blind Acquisition	<1:3	≥ 1:3

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Figure 3.3. A circulating VC scorecard. Source: Alaily (2025), reproduced with attribution; the complete instrument is reproduced in Appendix D.

From the cross-analysis of the evaluative list and verification documents, a division of labor emerges that theoretical frameworks fail to capture, namely the fact that criteria based on discretionary judgment, placed at the top of the hierarchy (such as the team, the market, and traction), operate positively as they constitute the necessary conviction for a partner to be willing to defend a deal in front of the investment committee; conversely, verifiable criteria placed at the base operate negatively, since a compliant corporate structure, correct ownership of intellectual property, and accurate accounting records cannot make a deal attractive, but any defect in them can determine its failure. It follows that where the theoretical account assumes that all information converges into a single evaluation that is continuously updated, the practitioner's evidence assigns two asymmetric roles to the information, where some serve to support the validity of the deal, while others solely have the power to cause it to fail.

It is noteworthy to mention an additional category of information produced during due diligence, which finds no equivalent in formal documents and emerges solely from the testimonies of practitioners; specifically, several general partners cited by Harroch and

Kane⁵⁰ describe the very interaction of due diligence as a true test, as in the case of Mark Patricof, who observes that founders capable of communicating the value of their company through numbers create an immediate connection, because, using his expression, a founder guided by metrics has already entered the investor's mind; Josh Stein, on the other hand, seeks founders able to articulate their KPIs and defend the underlying hypotheses in the face of objections. It follows that the way financial projections are handled makes explicit the logic whereby overly modest forecasts signal insufficient ambition, while excessively aggressive estimates indicate a poor sense of reality; therefore, the true object of the investor's assessment is the founder's calibration ability, not the figure itself. To summarise, in other words, it can be deduced that due diligence generates second-order information through the manner in which the founder responds to scrutiny, as these responses are read as evidence of the team's quality, as well as the criterion placed at the top of the hierarchy. This is the same interpersonal channel identified in Section 3.1 for the screening phase and documented by Warnick et al. (2018)³⁸ in the interaction between the founder's passion and their receptivity to feedback, but formal models do not account for this aspect, as the information is generated by the evaluation process itself rather than simply being revealed by it.

It should also be noted that the process is organisational at every stage: in Edda's map⁴⁷, the process unfolds from the deal team to the preliminary memorandum, up to the investment committee, including a supervisory committee composed of representatives of the limited partners, whose decision-making rights vary depending on the funds; Harlem Capital's syllabus⁴⁸ instead places the committee as a distinct phase between due diligence and investment, noting that only about 1% of identified opportunities convert into actual investments, and highlighting that support processes should be designed with the aim of saving the team's time and reducing biases. The central artefact, however, as evidenced, is the investment memorandum, the document through which the conviction developed by the deal team is transformed into a collegial decision of the fund, whose function is therefore internal persuasion, making the deal team a true seller of the analysed opportunity. What has been described corresponds to the organisational reality that exactly falls within the first theoretical gap identified in section 2.2.5, namely the fact that no bilateral model can predict how individual evaluations combine into the final decision of a partnership.

Finally, the Harlem syllabus adds a final piece of evidence of a different nature, as it is a genuine training tool, namely a codification through which a fund transmits its evaluative practices to interns over ten weeks, covering product-market fit, key performance indicators, and unit economics, as well as market size estimation using top-down and bottom-up methods, and company valuation. Two aspects of this programme assume central importance; specifically, the fact that the valuation section maps standard methods, their respective application phases, and their level of speculation, classifying scorecard and VC methods used for pre-revenue companies as highly speculative, aligns with what practitioners describe, as they also report the unreliability of their formal tools, in line with academic criticism of early-stage valuation discussed in Section 2.2.4. Secondly, the syllabus demonstrates that only part of the due diligence process is actually codifiable and transmissible through a structured programme; conversely, what remains outside of the teaching (such as the assessment of founders' character, the maturation of personal conviction, and internal political dynamics within the committee) defines the boundary between the formal and relational dimensions, and it is precisely at this boundary that the bridging framework for the SRQ3 research question will need to operate.

Having reached this point and considering the operational documents and the testimonies of practitioners as a whole, these confirm the theoretical function of due diligence, while restructuring its internal organizational dimension: due diligence produces information aimed at reducing informational asymmetry, as foreseen by the cascade logic; the hierarchy of evaluation criteria reflects the empirical evidence from the literature; finally, the discipline of cost control proves to be even more rigorous than initially hypothesised by theory. However, the practitioner account divides what theory unifies, namely the fact that the conviction regarding the investment is formed early, at low cost, and on an interpersonal basis, while formal verification occurs at a later stage, with high costs and in a structured manner, serving to protect the decision rather than inform it; furthermore, the two activities respond to different forms of asymmetry, namely real uncertainty in the first case and potential false representation in the second; lastly, the decision itself takes on an organizational nature, conveyed through a memorandum addressed to an internal recipient. The most significant result, however, is that each of these characteristics fits into one of the three theoretical gaps identified in Section 2.2.5: the investment committee process fits into the organizational gap; the signing of the term sheet halfway through due

diligence and the formation of conviction prior to verification fit into the temporal gap; reference calls and second-order reading of founders fit into the relational gap. It is also worth noting that the timing of the term sheet has further implications, which the subsequent section addresses directly, and concerns the fact that if deal terms are negotiated before the completion of verification, deal structuring does not follow due diligence as a separate stage, but intertwines with it.

3.3 Deal Structuring: Term Sheet and Negotiation

In the theoretical reconstruction, deal structuring represents the stage in which the residual risks identified during due diligence are converted into contractual form. In this regard, the frameworks presented in Chapter 2 assign a specific function to each standard clause, as recalled below: stage disbursements and vesting address the risk of post-investment moral hazard; liquidation preferences manage the information asymmetry regarding exit value; board rights create the monitoring channel prescribed by Agency Theory; finally, empirical literature on contracts documents how the allocation of rights over cash flows and control systematically varies based on the risks identified prior to the investment (Kaplan and Strömberg, 2003)¹¹. However, Section 3.2 introduces a temporal complication, namely that the term sheet is signed halfway through due diligence, implying that the contract is negotiated before the investigation is complete, while at the same time requiring its drafting to absorb the risks that have been identified but not yet resolved. This gives rise to the objective of this section, which is to understand according to which declared logic investors and founders use the clauses provided by the Theory, and therefore to determine whether the parties truly reason as hypothesized by the models in terms of incentive structuring or if they employ a different operational vocabulary.

Regarding the sources used for this section, these include a type of documents that have not yet been considered in this chapter, as two of the nine examined documentary sources are neither VC-facing nor founder-facing, but are materials prepared by legal intermediaries; specifically, they are a presentation on term sheets held at Harvard Business School by a partner of the law firm Foley Hoag⁵², and educational material on venture capital fundraising prepared by a legal specialist for startups at Bryan Cave

⁵² Foley Hoag (2014). *Understanding Venture Capital Term Sheets*.

(Elayan, 2016)⁵³. What makes these documents interesting is that lawyers occupy a peculiar epistemic position in the market, as they are neither buyers nor sellers, and they prepare contractual documents for both parties; therefore, their training materials reveal what the professional community considers the norm, rather than what one party would like the other to believe. Complementing them is an intermediary of a different nature, namely a survey conducted on 588 term sheets issued in the United Kingdom in 2024, prepared by HSBC Innovation Banking based on directly monitored transactions, which translates the same issue into statistical frequencies (HSBC Innovation Banking, 2025)⁵⁴; finally, the remaining sources consist of actual contractual documents and the related interpretations provided by the parties, listed as follows: the British Private Equity and Venture Capital Association's guide to term sheets (a sector organization that codifies practices for the European market and also provides a model term sheet for Series A rounds) (BVCA, 2007)⁵⁵; two active templates, namely the one sent to companies by the seed fund Playfair Capital (2024)⁵⁶ and the one published as an open standard by Italian Founders Fund (2026)⁵¹; the commentary notes in which the Italian fund explains the template to founders; and the process materials from Indaco⁴³, together with the Early Growth guide⁵⁷ aimed at founders, which offer a prospective triangulation from the investor's side and the company's side.

The analysis of this section begins with a precise focus on the nature of the term sheet, on which the sources fully agree; specifically, the sources from practitioners treat the term sheet as a preliminary and largely non-binding letter of intent that defines the material terms of the deal, providing legal professionals with a roadmap for drafting the final documentation, which rarely deviates significantly from it (Foley Hoag, 2014)⁵²; however, two provisions remain universally binding, and it is therefore important to mention them, namely confidentiality and exclusivity. In this regard, Foley Hoag reports a customary exclusivity period of 30 to 60 days in US practice; the Playfair template specifies 45 days during which the founders cannot solicit or negotiate competing offers; the Italian Founders Found template sets the exclusivity at 30 days and states that the entire document is non-binding, except for due diligence, exclusivity, expenses, and confidentiality clauses; finally, Indaco's material clarifies that exclusivity and the

⁵³ Elayan, M. (2016). *Equity Fundraising Basics for Founders*.

⁵⁴ HSBC Innovation Banking (2025). *Venture Capital Term Sheet Guide 2025*.

⁵⁵ British Private Equity and Venture Capital Association (2007). *A Guide to Venture Capital Term Sheets*.

⁵⁶ Playfair Capital (2024). *Term Sheet Template*.

allocation of due diligence costs are the only binding parts of their term sheets, explaining that no investor commits additional time and capital to analysing a deal without protection from the risk of losing it. This convergence on this single point between a US law firm, a British fund template, and the internal materials of the Italian fund thus confirms the interpretation proposed in Section 3.2, according to which the binding core of the term sheet does not regulate the investment itself but protects the investor's expenditure on the investigation process; therefore, at this stage, it can be stated that the primary function of the term sheet is to make due diligence economically viable and safe for the investor.

Regarding the actual content of the term sheet, the operational sources organize the clauses into two main categories, according to a division that precisely reflects the two agency problems examined in Chapter 2; specifically, the sources refer to: economic terms, which determine who is entitled to the distribution of financial resources and in which scenarios, thus dealing with valuation and share price, option pool, dividend rights, liquidation preferences, and anti-dilution protections; and control terms, which instead determine who holds decision rights, addressing the composition of the board, protective provisions, voting rights, drag-along and tag-along rights, and founders' vesting (Foley Hoag, 2014; Elayan, 2016; BVCA, 2007). This division is theoretically well-defined, as economic terms allocate financial outcomes by bearing the uncertainty arising from adverse selection at the time of signing, while control terms define decision rights, addressing the risks of moral hazard following deal closure; therefore, theory and practice converge in defining the fundamental structure of the contract.

In reference to the above, it is important to note how the valuation is treated, as it reveals the first substantial divergence between practice and theory: in Section 2.2.4, the valuation is presented as an estimation problem, whose difficulty lies in producing a justifiable figure for a company lacking an operating history; conversely, practitioners consider the headline value as a simple element within a negotiation that involves multiple variables simultaneously. Both legal sources indeed focus more on the defining details surrounding the number than on the number itself, for example, whether the valuation is pre-money or post-money, what is included in the fully diluted share count, and where the option pool for employees is allocated; in this regard, Elayan⁵³ even explicitly develops this calculation, stating that if the option pool is created or expanded

before the funds are injected, the dilution will entirely fall on the founders, whereas a 10% increase in the option pool on a pre-money valuation of five million reduces the effective pre-money valuation by half a million, while leaving the headline figure unchanged. However, the most impactful evidence comes from Foley Hoag⁵², which summarises this concept by stating that, for them, the counterparty can set the pre-money valuation as they prefer, provided they are the ones to decide all other terms; this is a crucial evidence, as it shows how practice considers the valuation as a price that interacts with the rest of the contract, where the visible value is intentionally not the most economically significant element.

The liquidation preference follows the same pattern, but in an even more pronounced way, and a simple numerical example helps to clarify what is at stake. Consider a Series A investment of 5 million dollars on a pre-money valuation of 20 million, which implies a 20% ownership stake for the investor, and suppose that the company is subsequently sold for 40 million dollars: in the case of a 1x non-participating preference, the investor receives the greater of the preference amount or their converted share, thus receiving 8 million dollars; whereas, if the preference includes participation with a cap at 2x, the investor obtains 10 million dollars; finally, with an uncapped participation, the investor's share rises to 12 million dollars (Foley Hoag, 2014)⁵². Theoretically, the liquidation preference clause exists because investors and founders have asymmetric exit value expectations, and the preference prices the downside risk without re-pricing the upside potential; however, operational sources add the real manner in which the choice among the three variants is made, as listed below: Foley Hoag orders these options in increasing severity for founders, advising them that the presence of a preference is the market norm; Elayan notes that most transactions include a simple 1x preference; finally, the Playfair model⁵⁶ proposes a 1x non-participating preference without additional clauses. From the analysis of these findings, the conclusion is that, while the Theory interprets this clause as an optimal response to informational asymmetry, in practice it appears as a limited set of options governed by a market standard, deviations from which are often read as signals of the investor's attitude rather than tailored solutions to deal-specific issues.

Continuing the analysis of the operational sources, the Playfair template is a significant artifact, as its physical structure largely addresses the question posed in this section. It is a standard model prepared by the legal team of the main investor, in which much of the

content is already defined, and specifically includes: a reverse vesting mechanism on the founders' shares lasting four years with a one-year cliff; the definitions of good leaver and bad leaver status, whereby resignations submitted within 24 months qualify the founder as a bad leaver, resulting in the loss of all rights; the presence of an administrator appointed by the investor and an observer on the Board of Directors, with the administrator's participation required to achieve quorums; information rights, pro-rata pre-emption rights, co-sale, tag-along, and drag-along provisions; founder warranties limited to the amount of the investment; and finally, the company's obligation to cover investor legal fees (Playfair, 2024)⁵⁶. Moreover, the model restricts the elements subject to negotiation to a limited number of fields, considering as such the investment amount, valuation, the investor equity percentage, the size of the option pool, the threshold for drag-along consent, the cap on expenses, and the expiry date; conversely, all other aspects not listed are described as customary, explicitly citing the terminology of the document. What makes these findings significant is the fact that they reflect practical deal priorities, showing how negotiations typically concentrate on three or four economic parameters, while the broader control mechanisms addressed by Agency Theory are presented as a predefined standard; consequently, the outcome is that a founder does not negotiate the governance structure but accepts a framework aligned with market standards and negotiates its valuation. Supporting this evidence, a second model confirms this distribution of open fields, namely the document from Italian Founders Fund, which indeed leaves open the investment amount, valuation, size of the option pool, and thresholds for consent, fixing all remaining terms; specifically, among the fixed elements are a 1x non-participating liquidation preference of equal rank, weighted average broad-based anti-dilution protection, a four-year reverse vesting with good or bad leaver provisions, an investor director whose approval is required for eleven board matters and eight shareholder matters, pro-rata rights, tag-along, drag-along, and right of first refusal (Italian Founders Fund, 2026)⁵¹. Figure 3.4 displays the three templates side by side across their points of convergence.

What is negotiated and what travels as market standard

Three term sheet templates from three jurisdictions

	Playfair Capital (United Kingdom)	Italian Founders Fund (Italy)	US market standard (Foley Hoag / BVCA)
NEGOTIATED <i>left open in the template</i>			
Amount and valuation	bracketed	bracketed	bracketed
Investor percentage	bracketed	bracketed	bracketed
Option pool size	[10]%	5-10%	10-20%
Consent thresholds	[50]%	to agree	negotiated
STANDARD <i>identical across templates</i>			
Liquidation preference	1x non-part.	1x non-part.	1x non-part.
Anti-dilution	weighted avg.	weighted avg. broad-based	weighted avg.
Founder vesting	4 years, 1-year cliff	4 years, quarterly	4 years, 1-year cliff
Leaver provisions	good / bad	good / bad	good / bad
Board seat + observer	yes	yes	yes
Drag, tag, pre-emption	yes	yes	yes
Binding: exclusivity	45 days	30 days	30-60 days

Source: own elaboration on Playfair (2024), Italian Founders Fund (2026), Foley Hoag (2014) and BVCA (2007).

Figure 3.4. What is negotiated and what travels as market standard.

It can therefore be observed that the three documents agree on the economic structure of the round, but differ on two additional fronts, namely the extent of commitments required from the founders as individuals and the investor control mechanism. Starting with the first difference, the Italian model adds a three-year lock-up on the founders' shares with a 2% carve-out and requires fundamental warranties directly from the founders themselves, whereas the UK template limits the liability of the companies to the amount raised, as the UK market is moving away from founder warranties, present in 42% of the term sheets analysed in 2024 compared to 75% in 2021 (HSBC Innovation Banking, 2025)⁵⁴; regarding the second difference, the British fund mandates the presence of an investor director necessary to achieve quorum, the Italian Founders Fund requires the consent of a director on a detailed list of reserved matters, while the US practice requires a list of protective provisions. The contractual instruments therefore differ, but what they aim to protect remains identical, as illustrated in Figure 3.5.

Where the three term sheets differ

Economic architecture is identical; divergence concentrates elsewhere

	Playfair Capital (United Kingdom)	Italian Founders Fund (Italy)	US market practice (Foley Hoag, Hron)
Exclusivity period	45 days	30 days	30-60 days
Vesting cadence	monthly, 1-year cliff	quarterly, no cliff specified	monthly, 1-year cliff
Bad leaver definition	resignation within 24 months included	defined in the long-form documents	normally limited to termination for cause
Founder lock-up	not in the template	3 years, 2% carve-out	not customary
Warranties	company liability capped at amount raised	fundamental warranties given by the founders	founder warranties in a minority (42%, UK 2024)
Option pool	10% of post- completion capital	5-10%, created pre-round	10-20%, usually pre-money
Investor control mechanism	investor director required for quorum	investor consent on 11 board and 8 shareholder matters	list of protective provisions
Opening of the document	standard legal form	personal letter to the founders	standard legal form

Shaded rows: the divergence falls on the founders' personal commitments and on how investor control is exercised, not on the economics of the round.

Source: own elaboration on Playfair (2024), Italian Founders Fund (2026), Foley Hoag (2014), Hron (2023), HSBC Innovation Banking (2025).

Figure 3.5. Where the three term sheets differ.

The above consideration applies broadly to the way in which the section responds to the initial question, as practitioners' approach focuses on adherence to market standards under the supervision of legal intermediaries rather than on dynamic incentive design. Reviewing the examined documents, the BVCA guide aims to instruct market participants on standard terms by providing a model term sheet, while legal presentations inform founders about what is customary, what is negotiable, and what specific deviations might indicate; furthermore, Foley Hoag's negotiation advice emphasises the importance of precedents and reputation, warning that the terms of early rounds influence future negotiations since subsequent rounds will be structured around them, and that initial investors who are overly aggressive may end up regretting their rigidity. All of this does not contradict the theory but shifts its level of application, because if contractual clauses reflect solutions to agency problems, and their consistent use across different jurisdictions suggests that underlying issues are real and widespread, the flaw in the theory lies in the level of optimisation assumed, as this does not occur at the level of individual negotiations (where norms and precedents are applied and defended) but at the broader market level, where standard templates are continuously refined and codified by industry associations and law firms. Agency theory is therefore embedded in standard contractual forms, leaving individual deal negotiations to reconfigure only a small set of core financial parameters, and Table 3.1 summarises the main clauses for comparison purposes.

Table 3.1. Principal term sheet clauses: theoretical function and declared practitioner logic. Source: own elaboration on Foley Hoag (2014), BVCA (2007), Elayan (2016), Playfair (2024), Bonivento (2025).

Clause	Theoretical function	Declared Practitioner logic
Exclusivity / no-shop	Protects the investor's sunk investment in due diligence	Universal binding core: 30-60 days (US), 45 days (Playfair); the only binding part with DD costs (Indaco)
Valuation + option pool	Estimate of firm value under uncertainty	One coordinate of a multi-variable trade; pool placement moves effective price while headline is unchanged
Liquidation preference	Prices downside under asymmetric beliefs about exit value	Menu with market default (1x non-participating); deviations read as signal about the investor
Anti-dilution	Repricing when adverse selection is revealed by a down round	Weighted average as standard, full ratchet as aggressive outlier
Founder vesting, leaver clauses	Post-investment moral hazard and retention	Standardized: 4 years, 1year cliff: bad leaver forfeiture; often renegotiated in later rounds
Board seat, observer, quorum	Monitoring channel	Standard package in the template; composition negotiated, existence not
Protective provisions	Veto on value-destroying actions	A customary list; thresholds negotiated, described as a foot on the brake
Drag-along/tag-along/pre-emption	Coordination and continuation options across rounds	Boilerplate with negotiated thresholds; prorogates by precedent to later rounds

However, the strongest evidence supporting this interpretation comes from Italian Founders Fund⁵¹, which has begun publishing its investment documents in the form of open standards (developed jointly with the law firm BonelliErede), as in the case of the term sheet analysed here, with the declared purpose that aligns with the central argument of this section; specifically, the fund invites founders to focus their negotiation efforts on valuation, investment amount, and specific key thresholds, avoiding wasting weeks on a clause exchange that in most cases is not worth negotiating because it conforms to market standards. The document is also equally direct regarding control provisions, stating that the reserved matters listed in the annexes constitute a well-established standard in

almost all priced venture rounds globally, so negotiating them line by line would be a waste of time without changing the final outcome (Italian Founders Fund, 2026)⁵¹. Therefore, what Section 3.3 deduced from the analysis of the brackets in the three templates compared is explicitly affirmed by one of the parties as their operating philosophy.

There are also two features of this publication that deserve particular attention, the first of which concerns the co-authorship of the work, namely the fact that this standardized set of transaction documents was developed jointly by an investment fund and a law firm, which makes visible the mechanism described earlier in this section, through which the agency logic embedded in the contractual clauses is preserved and transmitted by legal intermediaries rather than renegotiated deal by deal. The second feature is that this practice is not an isolated case, as in various markets funds openly publish their term sheets, from Airtree in Australia to byFounders in Denmark, thus explaining how the economic architecture converges so rapidly across different jurisdictions, despite the local specificities that persist in the provisions examined in Figure 3.5; consequently, it can be stated that the market standards are not only replicated by legal professionals but are deliberately made public by the funds themselves that apply it.

In conclusion, by comparing the three gaps outlined in Section 2.2.5 with what has been reconstructed from the evidence of the operational sources, the result is that the Deal Structuring stage follows a similar pattern to that of the previous sections. Starting from the organisational gap, this section manifests as a market-level issue, since it has been observed that the terms obtained by a founder during the negotiation of the term sheet are shaped by prevailing market standards and competition among investors rather than by bilateral negotiation; in this regard, Foley Hoag advises founders not to focus on individual clauses but on creating scarcity, that is, securing multiple term sheets so that market competition determines the final terms, reflecting the interdependence mechanism observed during the analysis of the screening phase in Section 3.1. As for the temporal gap, it emerges in the way practitioners interpret precedent, namely that each clause is negotiated with the expectation that subsequent rounds will build upon it, that vesting terms can be renegotiated, and that terms will generally tend to worsen from one round to the next; consequently, the contract is not seen as a static and optimal agreement but as the initial move within a repeated interaction over time. Concluding with the

relational gap, this is reflected in the language used by practitioners, since terms such as “customary”, “standard”, and “market” serve to justify agreements based on trust in community norms, thus representing forms of tacit knowledge that cannot be easily formalised or signalled; in this regard, Foley Hoag recommends founders to select investors with the same caution as choosing a marriage, emphasising that the contract represents a dynamic relationship rather than a simple legal document. The final result is that the clauses defined in the initial stages are intended to operate within a long and continuously evolving relationship, thereby impacting the actual functioning of governance once the funds are disbursed, which will be analysed in Section 3.4.

3.4 Post-Investment: Governance and Investor Involvement

Once the capital has been disbursed, the risk of moral hazard reaches its peak, and the governance mechanisms negotiated during deal structuring, such as board representation, staged capital disbursements, and mandatory corporate reporting, serve as responses to this; in this regard, the theoretical literature frames these instruments under the notion of monitoring, understood as a continuous informational channel capable of converting private operational knowledge into shared knowledge while maintaining the founders’ incentives aligned. However, Section 2.2.5 highlighted what this interpretative framework overlooks, such as the fact that contracts are drafted only once, while the relationship they regulate develops over several years, and that theoretical models offer little guidance on how the parties manage the elements the contract failed to specify; from this arises the core research question of this section, namely whether practitioners describe the years following the closing solely in terms of monitoring or in a dimension that the vocabulary of Theory cannot fully capture.

Regarding the sources used, these compare the two parts of the investment relationship and introduce an additional operator belonging to the class of intermediaries. On the investor side, the supporting documentation is taken from Indaco's materials, which describe the value-creation stage of its investment cycle (Bonivento, 2025)⁴³, followed by the Harlem Capital syllabus, which documents how funds structure post-investment support in the form of a dedicated corporate function (Harlem Capital, 2022)⁴⁸; on the company side, the Early Growth guide provides instructions to founders on how to manage the relationship with investors once the capital has been disbursed (Early

Growth, 2020)⁵⁷; finally, between the two parties is Capdesk, an equity administration platform, whose guide traces the evolution of a company's ownership structure from incorporation to the extraordinary exit operation (Capdesk, 2021)⁵⁸. It is important to emphasise that, like the legal firms analysed in the previous section, Capdesk does not make investments nor raise capital, but manages the ownership registers of hundreds of companies, and its evidence relating to the breaking points of these registers carries the authority typical of a neutral intermediary with no vested interests. To these four the section adds one document already examined in Section 3.3, the Playfair template, which is read here not as a contractual artifact but as a description of the governance arrangements that take effect once the round has closed (Playfair, 2024)⁵⁶.

Starting with the analysis of the operating sources, it should be noted that their formal setup largely aligns with the Theory: the seat on the Board of Directors and the quorum requirements defined in the Playfair template are now in effect, investors receive periodic financial reporting (on a monthly, quarterly, and annual basis) as stipulated by their information rights; Early Growth clearly warns founders to anticipate requests for monthly financial statements prepared according to GAAP principles and to build a finance team capable of producing them (Playfair, 2024; Early Growth, 2020); finally, the Indaco process explicitly states that governance is established at the time of closing, defining the composition of the new board of directors and management team, thus ensuring that the monitoring architecture is already operational before the deployment of the first tranche of capital (Bonivento, 2025). None of these sources contradict the empirical data emerging from the investigations, and if the section were to end here, Stage 5 would represent the point of maximum convergence between Theory and practice.

However, the founder-facing source dedicates much of its attention to a dimension of the relationship that no contract contains, and the Early Growth document indeed includes a list of advice for founders for the first days following the closing, listed below: define success by confirming with investors the milestones set for the current round and distinguishing between binding and aspirational objectives; establish a reporting structure by agreeing on frequency and format; clarify expectations towards investors to ensure reciprocity in the relationship; establish basic rules for feedback, assistance in

⁵⁷ Early Growth (2020). *Venture Capital: Everything You Need To Know About Raising VC Funding*.

⁵⁸ Capdesk (2021). *Cap Tables: from Formation to Exit*.

networking activities, and interactions within the board of directors to facilitate negotiation; finally, maintain maximum transparency about problems as they arise, since hiding them risks compromising the fundamental trust in the relationship (Early Growth, 2020). Each point in this list constitutes an operational rule of the governance relationship, and none of them appear in the term sheet or final documents, as these rules are informally established during the first weeks in the space left open by the contract; consequently, it is possible to observe directly here the second gap analysed in Section 2.2.5, namely that the static contract is supplemented by a level of informal governance that the parties develop after signing, and it is important to emphasise that practitioners do not consider this integration a contractual flaw, but rather a standard professional practice. The same list also highlights how staged financing is driven more by relationships than by explicit clauses and contractual mechanisms, and in this regard, Early Growth reveals that if a founder achieves the agreed milestones, they are usually able to secure the next funding round from the existing insider-led investor without initiating a new fundraising process; consequently, the continuation option, modelled by theory as a contractual activation condition, instead operates in practice as an informal understanding.

Continuing with the analysis, with a focus on the investor's perspective, a further fundamental development lies in the fact that the value creation dimension of the relationship has evolved into a dedicated organisational function, equipped with its own team and a clear economic rationale; specifically, Harlem Capital's syllabus describes in detail the roles of the platform (positions not related to the investment activity but focused on supporting the portfolio firms), such as recruiting talent for portfolio companies, business development, customer acquisition, creating a community among founders, marketing, and operations (Harlem Capital, 2022); at the same time, the value creation stage in the Indaco process lists the same activities from the fund's perspective, namely executing the business plan, identifying growth opportunities, and attracting talent. However, the most theoretically relevant detail concerns the economic justification provided by the syllabus, which argues that generating value in the post-investment phase is critical determinant of deal flow quality and volume; consequently, the support provided to the portfolio is not described as mere monitoring, nor as a purely altruistic activity, but rather it fuels deal origination, as the reputation the fund builds among the portfolio founders generates the peer referrals documented in Section 3.1. Therefore,

although both monitoring and value creation utilise the same seat on the Board of Directors, their economic logic differs substantially, as monitoring safeguards existing investments whereas value creation generates the subsequent deal. Theoretical models explain the first function but remain silent on the second, thus marking a significant limitation considering that funds have developed specific organisational structures dedicated precisely to value creation.

The focus of the analysis now shifts to Capdesk's guide, which introduces the capitalization table, namely the register on which the historical evolution of the relationship is recorded, from the construction phase to the exit operation, thus constituting a dynamic governance object, renegotiated at every successive round. From the analysis of this document, it is possible to observe how the conversion of existing convertible notes during a Series A round can benefit investors or founders, depending on the negotiations that take place after the initial closing, similar to what is described in Section 3.3; or how liquidation preferences accumulate progressively across subsequent rounds, determining who preserves equity positions and who suffers a dilution; and finally, how the clauses agreed upon in the initial phases remain latent until a liquidity event activates their effects. Regarding this last point, it is noteworthy the example provided by Capdesk, where a modest exit valuation results in liquidation preferences absorbing the entire proceeds, leaving founders without any gains, whereas a deduplicated exit fully satisfies all participating stakeholders; from this example, it is evident how governance terms are configured as conditional rights whose actual impact only becomes apparent at the moment of exit, and the specialised analysis of Capdesk highlights that broken cap tables (as in the example above) are common, resulting from errors made in the initial stages at low costs, but whose critical issues tend to emerge during acquisition transactions, often proving to be extremely costly and sometimes irreparable. This underscores the real importance of this document, namely the need to maintain an accurate governance register, requiring a constant operational effort that standard contracting models tend to overlook.

For the section, it is important to note how the staged capital deployment introduces a recurring decision in the post-investment phase that the theoretical monitoring framework tends to flatten, namely the fact that upon reaching each milestone, the fund must decide whether to proceed with follow-on funding. Practitioners indicate that this

decision is usually prefigured well in advance; in Indaco's materials, for instance, the initial deal structuring stage already includes a prospective question about the size of the capital, that is, whether the committed capital is appropriate to achieve a sufficiently significant milestone to attract the next round or an exit; in this regard, Early Growth reaches the same conclusion from the founder's perspective, suggesting that an agreement on milestones at the time of closing serves as a bridge to a subsequent round led by existing insider investors (as mentioned in the previous paragraphs). If this latter scenario occurs, the internal process within the fund follows the procedures described in Section 3.2, requiring an investment memorandum and the committee approval, but in a completely altered context, since the investor now has years of internal knowledge gained from the Board of Directors, thus reversing the initial information asymmetry that due diligence was meant to reduce. In this regard, it is important to underscore that, as highlighted by the empirical data referenced in Chapter 2, early-stage funds base disbursements on achieving operational objectives, while later-stage funds rely on formal financial covenants, reflecting what the investor can internally verify at each distinct stage of development.

With reference to the above, it is relevant to note that the relationship also evolves as funding rounds accumulate, and how evidence from practice gradually weakens the bilateral framework within which the Theory operates. In the sequence outlined by Capdesk, in fact, each round introduces a new class of shares with its own liquidation preference, new equity holders with their own pro-rata rights, and often a new board member; furthermore, by the time of Series B round, the board responsible for monitoring the founder itself becomes a coalition of parties with different entry valuations, preference positions, and funding horizons. Therefore, what begins as a bilateral governance relationship between a single fund and a founding team transforms within two or three rounds into governance managed by a control syndicate, characterised by the multilateral pressures documented in the literature on exit operations in Chapter 2, namely co-investors with different time horizons and a general partner responsible to its own limited partners for liquidation timelines. In this sense, the founder-facing guidance to establish basic rules in the early stages gains all its value here, since the counterparty with whom the founder negotiates at closing will not be the same as the one exercising governance years later.

Having reached this point and in light of what has been discussed so far, it is now possible to answer the core question of the section. By reviewing the evidence, practitioners describe both the monitoring dimension and the partnership mechanisms, but they show a divergence from the theoretical framework regarding how these two components are actually structured: concerning the monitoring component, it appears formalised, standardised, and free of contentious elements, with the boards of directors meetings taking place, periodic reports sent to investors, and milestones monitored; by contrast, the partnership component is where the practitioners' operational investments are concentrated, with dedicated platform staff on the fund side, a deliberate relationship management on the founder's side, and an incentive structure in which effective governance directly generates deal flow; furthermore, it is emphasised that the operating system of the relationship is actually informal, built after the closing and continuously renegotiated, with the cap table serving as a cumulative historical record. From this, it emerges that each element corresponds to one of the three theoretical gaps: the platform apparatus and its economic logic related to deal flow belong to the organisational gap; the post-closing informal completion of the contract and the latency of governance terms relate to the temporal gap; and the role of transparency and trust relates to the relational gap.

All five stages of the venture process have now been examined and compared with the evidence provided by practitioners, and it is therefore the task of the Chapter to relate these comparisons to a systemic response to SRQ1.

3.5 Mapping Convergences and Divergences with Theory

All five stages of the venture process have now been examined and compared with the evidence provided by practitioners; however, for the construction of this final section, three additional documents contained in the repository are of assistance. The first document is produced by Slavomir Hruska⁵⁹, who spent years as a venture investor before founding a company and raising capital personally, and his summary of the experience is that fundraising from the other side of the table has a different impact, which is why he decided to produce a list of lessons for founders that can be read as a summary of this chapter. Proceeding in order, the first lesson concerns the fact that investors buy momentum, and the progress made between meetings can influence the partner's vote,

⁵⁹ Hruska, S. (2025). *Fundraising from the Other Side of the Table*.

reflecting the interdependence and second-order evaluation analysed in Sections 3.1 and 3.2; next, Hruska warns that investors rarely issue a direct rejection, which means a founder should treat any response other than a concrete commitment as a polite refusal, aligning perfectly with Graham's rule previously mentioned in Section 3.1. The third lesson is that even a perfect pitch fails if the fund has already deployed its capital or is focused elsewhere, a matter that underscores the importance of mandate matching; additionally, he advises choosing investors as if they were co-founders, based on how they behave when complications arise, reflecting the relational view of the contract that Section 3.3 found in the advice provided by a law firm for the closing phase. In short, a practitioner who has held both roles describes the same process documented in this chapter, presenting it as systematically different depending on which side of the table one observes from. Regarding the other two documents, the first contains feedback that BITKRAFT gathers for founders it rejects, recording how partners within the same investment committee evaluate the same criteria differently (Njie, 2026)⁶⁰; the second is the letter that opens the term sheet of Italian Founders Fund, addressed to founders before any commercial terms appear, which offers the clearest example of the relational level that this section must account for. Therefore, with the help of these documents and the analyses conducted in previous sections, the aim of this section is to understand to what extent, stage by stage, practice diverges from theory and what nature such divergence has.

Responding to such a question requires defining a specific vocabulary through which to categorize the types of divergence observed, as the material examined in the chapter does not lend itself to a single categorization; in this regard, four types have been identified to classify the evidence, and they are listed below: "direct confirmation" for cases where practice corresponds to the theoretical prescription; "unmodeled extension" for cases where practice includes a mechanism that theory neither predicts nor excludes and that operates alongside what it defines; "perspective inversion" for cases where theory and practice describe the same mechanism but from opposite perspectives and with opposite operational significance; "contradiction" for cases where practice acts in opposition to what is prescribed by theory. Through this classification, Table 3.2 has been produced, which contains all five phases of the Tyebjee and Bruno model, summarising the results

⁶⁰ Njie, J. (2026). *Investment Committee Insights* [BITKRAFT Venture].

emerging from sections 3.1 to 3.4.

Table 3.2. Theory and practice across the five stages: prescriptions, observed practice, and type of divergence.
Source: own elaboration on Chapter 3.

Stage	Theoretical prescription	Observed practice	Type of divergence
1. Deal origination	Network sourcing operates as the investor's information-efficient infrastructure; referrals transmit pre-screened deal quality.	Founders actively build their own referral paths; funds publish explicit selection criteria; educational content functions as a deal flow acquisition channel.	Perspective inversion plus unmodeled extension: quality signals become partly endogenous to founder actions.
2. Deal screening	Deployment of rapid, independent filters based on directly observable quality signals.	Deals are first filtered by fund mandate fit (stage, size, geography); assessments rely heavily on actions of other investors; some funds utilize formal scoring frameworks.	Unmodeled extension (mandate fit filters, social proof): confirmation of the established criterion hierarchy.
3. Deal evaluation	Due diligence converts unknown unknowns into quantified risks to inform the core investment decision.	Investor conviction forms early through interpersonal engagement; formal diligence follows the substantive decision to prevent misrepresentation; evaluation serves as a live founder test.	Near-contradiction regarding the procedural sequence; extension regarding information generated through relational interaction.
4. Deal Structuring	Each contractual clause is systematically designed as a tailored mitigation response to specific agency risks.	Negotiation concentrates on key economic terms; the broader agreement relies on standardized market templates maintained by legal advisors and industry associations.	Confirmation at the macroeconomic market level; unmodeled extension at the specific deal level.
5. Post-investment governance	Board representation and staged capital deployment serve primarily as monitoring mechanisms against moral hazard.	Formal monitoring operates as predicted; relationship operating norms are established informally post-closing; investor support is structured as a dedicated function generating deal flow; governance shifts over time to an investor syndicate.	Direct confirmation (formal governance layer, combined with unmodeled extension (informal and organizational layers):

The distribution of the types within the table constitutes the central finding of the analysis, from which it emerges that the direct confirmation focuses on the structural architecture, thus demonstrating that the five stages exist and follow the expected order; the funnel economics respects the cascade logic; the established hierarchy of selection criteria holds; and the formal governance tool is employed with the frequencies reported by empirical surveys. On the other hand, contradiction is almost absent, with the only plausible case being the temporal sequence between evaluation and decision-making, since the term sheet has been shown to precede the more formal part of due diligence regularly; however, even this exception loses its significance once it is recognised that the verification phase aims to prevent misrepresentation rather than reduce uncertainty,

thus outlining an efficient division of labour in terms of costs, although not formalised by models. The rest of the table is instead characterized as an unmodeled extension and perspective inversion, implying that practice does not falsify the Theory at any point, but rather operates in a territory that theory leaves unexplored, confirming the early conclusion in Chapter 2, according to which the theoretical frameworks correctly predict deviations from their own equilibria without predicting their empirical form.

Regarding the last point discussed, the three analytical lenses introduced in Section 2.2.5 explain why extensions and inversions focus on specific areas, and their cross-sectional reading across different phases shows how each of them identifies a unique and continuous phenomenon. Starting with the organisational lens, it has been observed that at no stage does the decision-making unit coincide with the bilateral pair assumed by theoretical models, since deals are filtered based on the fund's mandate, evaluated by observing the behaviour of other investors, deliberated by investment committees in which partners assign different weights to the same criteria, as documented in the feedback from BITKRAFT collected by Njie (2026)⁶⁰, and managed over time by control syndicates whose members hold different financial positions and time horizons. Regarding the temporal lens, it has been found that at no stage can the formal act be considered definitive: the outcomes of screening evolve with deal momentum, the term sheet is provisional by nature, terms propagate and worsen from one round to the next, operating rules of governance are informally defined after signing, and the actual content of the clauses remains latent until a liquidity event occurs. Finally, moving to the relational lens, it has been noted that at each stage, the information crucial for decision-making predominantly belongs to the type that theories tend to exclude, namely trust accumulated within referral networks, the qualitative assessment of founders under pressure, the shared authority of customary market practice, and the working capital of transparency within the relationship. In this sense, Hruska's advice⁵⁹ to explicitly request for an explicit refusal expresses the same idea, namely that even the conclusive information of the process passes through relational channels and must be extracted from them.

The three gaps also tend to amplify each other, and this is why it is difficult to address them individually, as demonstrated by the following cascading logic: since decisions are fundamentally organizational, processes extend over months due to committee

evaluations and syndication dynamics, prolonging the relationship; because the relationship develops over time, relational knowledge accumulates until it becomes the decisive input; and since the key input is relational, it resides in individuals and network connections rather than in documents, making organizational aggregation of judgment indispensable. Consequently, the cycle closes in a self-reinforcing mechanism, defining the operational space within which professional knowledge functions.

Having reached this point, it is now possible to respond directly to SRQ1, using the results that emerged during the analysis of the entire chapter. In this regard, it was observed how practitioners conduct due diligence and deal structuring activities within the architecture prescribed by academic literature, and the architecture itself is confirmed at every point where it can be tested; however, what differs is the operating system that runs above it: the conviction is built before verification, based on interpersonal and second-order evidence; contracts are assembled from market standards and informally completed after signing; and each assessment is expressed by organisations that we observe others of, over timeframes in which nothing is definitive.

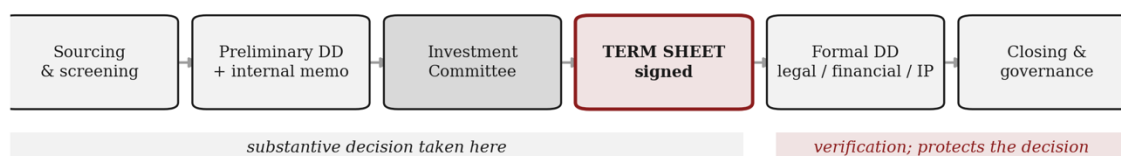
A. Theoretical model: five sequential stages

Tyebjee and Bruno (1984); evaluation precedes and informs structuring



B. Observed practice: conviction, term sheet, then formal verification

Edda (2019); Indaco process material (Bonivento, 2025); IFF term sheet (2026)



Binding provisions at signature: exclusivity, due diligence costs, confidentiality

(Foley Hoag, 2014: 30-60 days; Playfair, 2024: 45 days; IFF, 2026: 30 days; Bonivento, 2025)

Figure 3.6. The investment process: theoretical model and observed practice.

If Chapter 2 concluded by hypothesising that practitioners manage the breaking points of the theoretical cascade through experience, heuristics, and relational judgment, this chapter has provided concrete content to each term: experience codified in educational programmes, scorecards, and standard forms; heuristics conveyed by the advice literature, from discussions on the greedy acceptance criterion to consensus on

milestones; and finally, relational judgment exercised within referral networks, in the capacity to interpret founders within the trust that allows the concept of customary to serve as a valid justification. However, it is important to note what the professional knowledge documented here fails to resolve, namely a set of decisions for which even experience provides conflicting indications, and on which the divergence between theory and practice becomes more evident. Decisions such as when to raise capital, at what valuation and with what level of dilution, how much control to cede in exchange for how much growth, and through which financial instrument are high-stakes decision nodes where founders and investors find themselves navigating all three gaps simultaneously, and which constitute the subject of analysis in Chapter 4. In this regard, Table 3.3 outlines this connection, in which each analytical lens developed here informs the analysis of specific decision points.

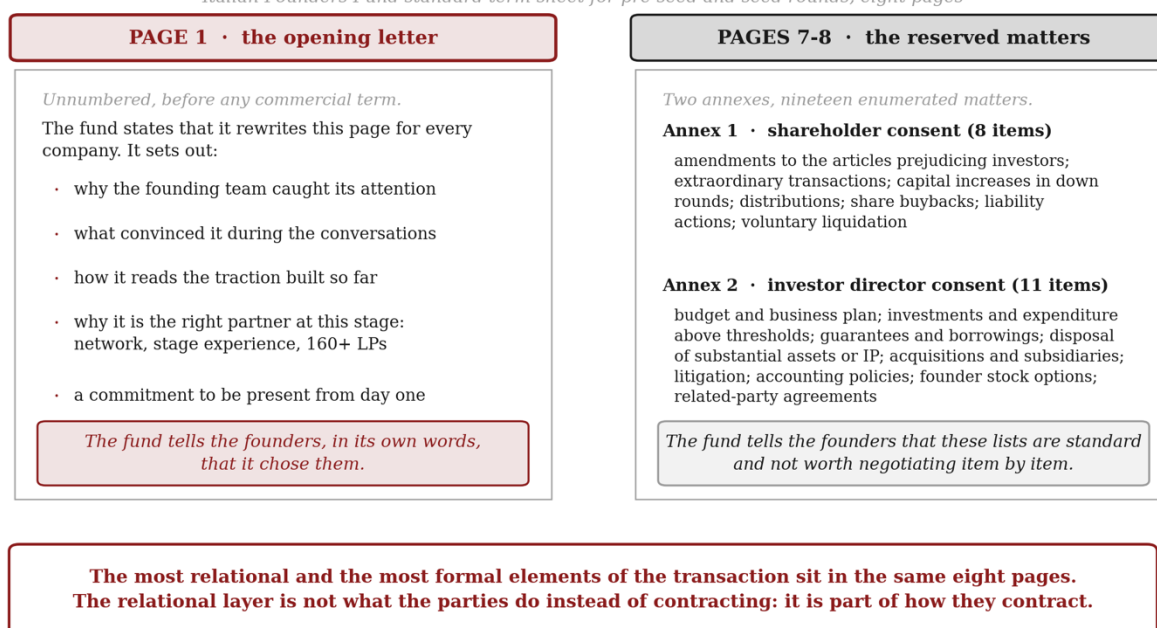
Table 3.3. From the three lenses of Chapter 2 to the high-stakes decisions of Chapter 4. Source: own elaboration.

Lens (from 2.2.5)	Core gap documented in Chapter 3	Chapter 4 high-stakes decisions
Organizational unit of analysis	Bilateral model vs decision by funds: theoretical models assume two principal parties; in practice, decisions are made by funds, investment committees, and syndicates within a broader market of peer investors	Growth vs control (4.4)
Temporal structure	Static contracts vs provisional acts: theoretical models treat agreements as final; in practice, every act is provisional, as financing rounds stack over time and contracts are completed informally post-signing.	Valuation vs dilution (4.3); choice of financing instrument (4.5)
Scope of information	Formal signals vs relational knowledge and second order evidence: models rely solely on formal signaling; in practice, decisions depend on trust, reputation, and insights gathered through direct founder interaction.	Timing of capital raising (4.2); growth vs control (4.4)

It is also useful to consider, for the purposes of the thesis, a theme that emerges from a document within the analysed corpus, which expresses the relational dimension even more clearly than any previous analysis. In particular, the term sheet of Italian Founders Fund opens, before any commercial conditions, with a letter addressed to the founders that the fund states it drafts anew each time, explaining the reasons why the team attracted the fund's attention, what convinced it during the interviews, and why the fund considers itself the ideal partner at this stage (Italian Founders Fund, 2026)⁵¹. In this way, the document responsible for allocating cash flows and control rights begins by affirming the existence of a relationship, and the fact that the legal instrument dedicates explicit space to this is the clearest evidence that the relational dimension is not something the parties implement as an alternative to negotiation, but rather a fundamental component of the very ways in which they negotiate.

Two faces of the same document

Italian Founders Fund standard term sheet for pre-seed and seed rounds, eight pages



Source: own elaboration on Italian Founders Fund (2026), standard term sheet for pre-seed and seed rounds, published jointly with BonelliErede.

Figure 3.7. Two faces of the same document: the opening letter and the reserved matters.

To conclude the chapter, it is finally worth noting an observation, namely that the comparison conducted here did not produce a list of errors on one side or the other, but rather what has been added is a second level of knowledge (organizational, temporal, and relational) that the models do not represent and that professionals manage as part of their ordinary work. This level has its own regularities, its own tools, and its own educational material, and whether an explicit structure can also be given to this level is the question on which the rest of the thesis will focus; specifically, Chapter 4 will examine the decisions in which this knowledge is subjected to the greatest pressure, while Chapter 5 will attempt to formalize it.

CHAPTER 4 – THE INVESTMENT PROCESS HIGH-STAKES DECISIONS

From the analysis conducted in Chapter 3, it emerges that the architecture of the investment process that the theory prescribes holds at almost every point where it could be tested; however, there is one point where practice doesn't extend the theory but reverses it, namely the order process, because in practice the substantive decision is made before the formal verification, contrary to what the theory describes. From the architecture described by practitioners, a second layer of knowledge, organizational, temporal, and relational, emerges that theoretical models do not capture. It is therefore the purpose of this Chapter to examine this second layer and, specifically, the four decision moments when it is under the greatest pressure and where even practitioner literature gives conflicting advice, namely: when to raise capital, at what valuation and at what cost in dilution, how much control to concede in exchange for growth, and with which financing instrument. Consequently, Chapter 4 answers SRQ2, which is: what are the high-stakes decision points of the VC investment process, and how do investors and entrepreneurs handle them in practice?

Each of the four decision sections follows the same four steps: it defines the decision and explains why it is high-stakes; it states what the theoretical frameworks in Chapter 2 prescribe; it reconstructs the professional practice from the repository documents; and it classifies the divergence using the typology in Table 3.2, indicating which lens in Table 3.3 is analysed. Therefore, this chapter follows the same method as Chapter 3 but adds a new element: a third class of evidence, which includes recent market data from sources like the equity administration platform Carta and aggregated industry reports. This data allows us to compare decisions regarding timing, price, and dilution with actual market behavior during 2024 and 2025. When the practitioner's stated rules differ from the observed data, this comparison serves as additional evidence.

It is important to note that the four decisions are made within a shared frame of reference, as the practitioner documents describe with unusual consistency, namely the grammar of the market. Specifically, founder-facing material tabulates, for each stage from pre-seed to late rounds, the typical amounts raised, the equity usually given, the expected timeline to the next stage, and the team size investors expect to find. Providing numerical

examples, Aharonoff (2025)⁶¹ reports that in one widely circulated benchmark, a pre-seed round of 10 to 250 thousand dollars requires 5 to 20 percent of the company; a seed round of 250 thousand to 2 million requires 10 to 25 percent; and a Series A of 2 to 15 million requires 15 to 30 percent, with 6 to 24 months between stages. Furthermore, advisory material adds the funding basis of each stage, namely what a company must be able to prove, from idea attractiveness at the first step to revenue growth at Series A and profitability later, in order to justify the next round (Spice Route Finance, 2024)⁶². Clearly, these tables are not descriptions of any single deal; rather, they work as coordination devices, in the same way as the standard term sheet clauses of Section 3.3, because both sides plan against the same expected ranges, and deviations from that range require explanation. The decisions analysed in this chapter are taken within this grammar, not in the abstract space the models assume.

Finally, regarding the chapter's structure, section 4.1 defines high-stakes decisions and outlines the selection of the four points; sections 4.2 to 4.5 analyze them one by one; and section 4.6 assembles the results into a synthesis that prepares the framework for Chapter 5.

4.1 What Are High-Stakes Decisions in the VC Process

Starting from the definition, a decision in the investment process qualifies as high-stakes when it combines three properties: asymmetry of consequences, low reversibility, and structurally incomplete information. Analyzing specifically, by asymmetry of consequences we mean the case in which the cost of an error is much larger in one direction than in the other, and often larger than the benefit of the corresponding correct choice; about the low reversibility, an instance could be the case in which the equity that has been sold cannot be bought back at the old price, or a control right that has been granted which consequently follows the company through every later round; finally, regarding the structurally incomplete information, this is the case where a formal model would need a set of data, such as future revenues, future market conditions, or the true quality of the counterpart, that do not exist at the moment the decision must be taken. These three properties correspond directly to the diagnosis in Chapter 2, it suffices to note the case in which the information is structurally incomplete and then the valuation

⁶¹ Aharonoff, J. (2025). *Every Stage of Fundraising Explained*.

⁶² Spice Route Finance (2024). *Stages of Funding: An Explainer*.

models of Section 2.2.4 lose their effectiveness, or the case in which the consequences of the decisions taken are asymmetric and irreversible, causing the application of the equilibrium logic of the contracting models to be only partial. It is exactly in this space that professional knowledge takes over.

Regarding the choice of the four decision points this chapter aims to examine, it is important to outline the selection criteria: the first concerns the structural presence of the decision, meaning it must be present in every round of financing, not just sporadically; the second is that the decision must concern both parties, founder and investors; finally, the third is that each point must be connected to a specific lens from Chapter 3, as Table 3.3 anticipated. Regarding the connection with Table 3.3, the timing of capital raising was chosen because it draws on the temporal and informational lenses; valuation and dilution draw on the temporal lens; growth versus control draws on the organizational lens; and finally, the choice of instrument draws on the temporal and organizational lenses together. In this regard, Figure 4.1 sets out, decision by decision, the side of the problem each body of knowledge addresses.

The missing half of the decision <i>For each high-stakes decision, the academic frameworks model one side only</i>		
	THE INVESTOR'S PROBLEM <i>modelled by the frameworks of Chapter 2</i>	THE FOUNDER'S PROBLEM <i>documented only by the practitioner corpus</i>
4.2 Timing	When to release each tranche, given the fund life cycle and the value of waiting for information	When to enter the market for capital: runway rules, milestone planning, catching the right fund at the right time
4.3 Valuation vs. dilution	How to estimate the value of a company without operating history, and derive price and ownership	How much ownership to spend: the 15-20% band per round, checked against the market, not the headline
4.4 Growth vs. control	Which control rights to allocate in which states of the world, against founder moral hazard	How much control to concede, and which provisions are worth contesting at all: a triage rule, not a design
4.5 Instrument	Which security allocates rights efficiently under agency risk: convertible preferred	Which security closes the round fast, cheaply and without agreeing a valuation: a SAFE at early stage
A process can be described from one side. A decision has two. The practitioner literature is not a rival account of the same object: it is the half the theory leaves out.		

Source: own elaboration on Sections 4.2-4.5.

Figure 4.1. The missing half of the decision.

The chapter examines the four points in the order in which a founder typically encounters them: the timing decision comes first, since everything else depends on when the

company enters the capital market; valuation and dilution follow, because the moment of raising fixes the price and the ownership cost; growth versus control is the negotiation that runs underneath the price; finally, the choice of instrument is the technical decision that encompasses all the previous ones. Section 4.6 then asks what the four analyses have in common.

4.2 Timing of Capital Raising

The timing decision problem can be defined in one question: given limited runway and an uncertain market, when should the company start raising the next round? The answer is a date, and everything that follows is a constraint on it. Analyzing the above, emerges that the timing of capital raising is high-stakes on all three counts of Section 4.1. Taking these in turn, the consequences are asymmetric in both directions, since raising too early means selling equity at a low valuation and interrupting the company's work for months, given that fundraising absorbs the founders completely once it starts (Graham, 2013)⁴⁴, while raising too late means negotiating from a weaker position, because an investor has no reason to comply with the founder's requests. The decision is further irreversible because months of negotiations cannot be recovered, and a market window that closes may remain closed for years. Finally, the information needed for an optimal choice, such as next year's funding climate and the speed at which milestones will be reached, does not exist when the decision is made. Therefore, three separate constraints fix the date, namely the state of the company, the position of the investor, and the state of the market.

Regarding the theoretical material in Chapter 2, it approaches timing almost entirely from the investor's side, and what emerges is that the fund's limited life sets a deadline, since capital must be deployed early enough to mature before the fund ends; in this regard, Barrot's (2017)⁸ research demonstrates that funds with longer remaining horizons select younger companies, and therefore the same company could be more or less attractive depending on where a fund stands in its own cycle. Another relevant result from the literature review is that staged financing theory treats each round as an option, in which the investor releases capital in tranches and the timing of each tranche balances the value of waiting for information against the risk of losing the deal or the company, as reported by Gao (2017)³⁰ and Trabelsi and Siyahhan (2021)¹⁴. Furthermore, academic literature states that even the end of the relationship is timed from the same side, since exit decisions are shaped by the several agency relationships the investor manages at once

rather than by the needs of any single company (Sethuram et al., 2021)⁹. Summarizing the above, the literature lacks a model of the founder's decision, the company's side of the timing problem, for instance when to enter the capital market, as if the founder simply responded to the investor's option exercise. The theory, in short, models the timing of money going out of funds, not the timing of companies coming to market.

From the practitioners' point of view, instead, their sources directed at the founder provide what theory overlooks, starting from the company's current state. The first document involved is the YC seed guide, which explains that investors decide to commit to a startup only when it demonstrates a convincing story accompanied by real product adoption by consumers; therefore, once this state is reached, the guide recommends raising funds as soon as possible. It follows that readiness is measured rather than judged, since for investors, a company becomes worthy of funding when it reaches a product adoption growth threshold of about 10 percent per week. (Ralston, 2016)⁶³. The guide also recommends raising enough funds to make it possible to reach profitability, if not in the first round, then at least in the next funding milestone, typically between 12 and 18 months. Reading this rule between the lines, it becomes clear that it refers more to time than to amount, since choosing how much to raise means choosing the closing day of the round, the approximate date when the company will need to return to the market. To support what has been said above, it is important to cite Graham (2013)⁴⁴ and Altman (2015)⁴⁵, who offer two fundamental rules regarding the start date of fundraising. In particular, fundraising should be considered as a binary state: one deliberately enters and exits quickly, with the strongest position being when the company does not need the capital. Therefore, it is advisable to start raising funds early enough so that the option to exit the fund remains credible.

Focusing on the second constraint, the investor's position, Hruska (2025)⁵⁹ notes that the founder should view the investor's cycle as a system to navigate. It is essential to carefully choose the most suitable investor and do so at the right time, because a fund that has already invested in other companies will not invest again, even if the proposal is valid; therefore, the correct approach is to align with each fund's position, rather than with the company's readiness alone. The material directed at investors presents the same alignment but from an internal perspective; in this regard, the material from Indaco

⁶³ Ralston, G. (2016). *YC Guide to Seed Fundraising* [Y Combinator].

Venture Capital highlights that the significance of an agreement is measured by its ability to reach an important milestone, such as attracting the next funding round or achieving an exit. Consequently, the fund aims to synchronize its capital with the timeline of the milestones the founder uses to plan the strategy, avoiding setting deadlines independently; instead, both parties interpret and consider each other.

The third constraint concerns the market and how its state influences the dynamics described above. For an accurate analysis, reference can be made to Carta's 2025 revision⁶⁴, based on the companies using its platform. This revision reports that the median time between primary funding rounds significantly exceeds the interval suggested by the YC seed guide; specifically, Carta indicates that the period between seed and the first Series A round is 2.1 years, from A to B is 2.6 years, and from B to C is 2.5 years, compared to about a year and a half for companies raised between 2018 and 2021. According to All Things VC (2025)⁶⁵, the 12-18 month planning now falls below the median in all transition phases, and sector aggregations at the beginning of 2025 reflect the same context, with capital directed toward operations of varying sizes and a transition between phases that is slower and more selective compared to the previous cycle. Figure 4.2 places the observed medians against the planning band.

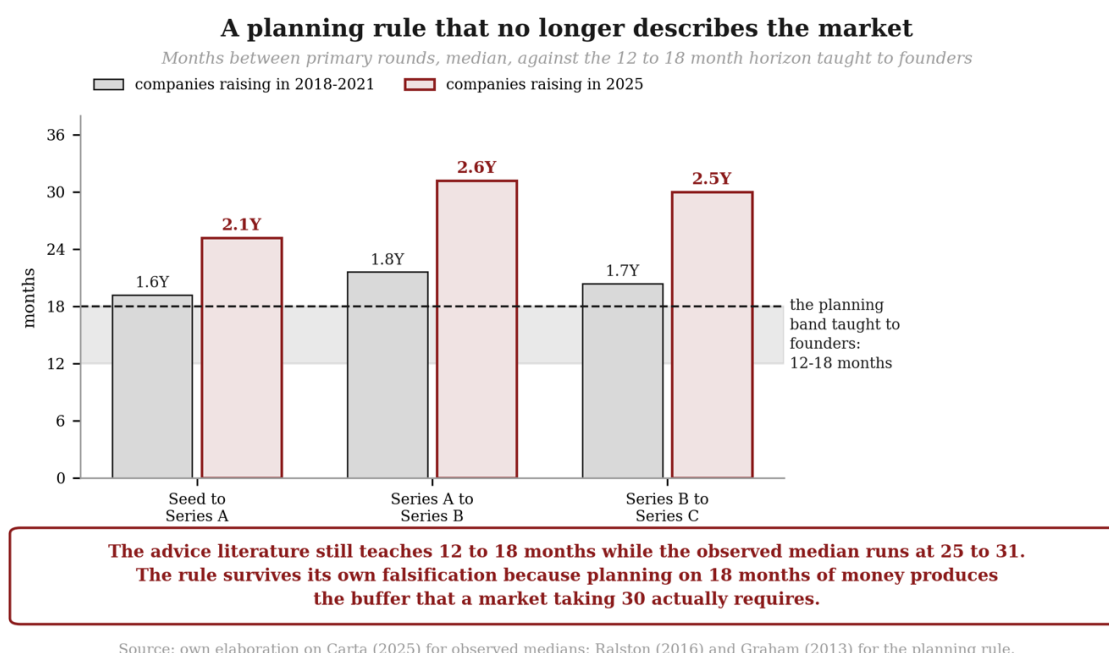


Figure 4.2. A planning rule that no longer describes the market.

⁶⁴ Carta (2025d). *State of VC 2025*.

⁶⁵ All Things VC (2025). *The Big Book of Venture Capital – Q1 2025*.

Adding the three constraints to the theory yields two outcomes, the first is an unmodeled extension: the start date for the company's capital collection, determined by its readiness and strategy, remains stable and recurring across practical sources; however, this moment is not reflected in the theoretical models, which specify only when money exits the fund and not when the company enters the market. The second outcome represents a perspective inversion, similar to the one described at the beginning of chapter 3. In the theoretical model, the investor invests capital over the life of the fund, deciding for themselves the most opportune moment to invest, while in practical reality, it is the founder who plans and decides the timing of entry, aiming to reach a specific investor at the most opportune moment in their cycle. In any case, the variable remains unchanged, but the decision-maker is reversed.

There is also a third discovery, different from the previous ones, as it explains why market data is so important. On this decision-making point, practice diverges not only from theory but also from its own rule, because although the practicing literature continues to teach a cycle of 12 to 18 months, the real market shows times between 25 and 31 months. Usually, a rule contradicted by data would be abandoned, but not in this case, because while the data show that the rule has stopped working as a forecast, it continues to function as a discipline tool: planning 18 months of financial resources in a market that requires 30 forces the company to maintain the very safety margin needed. The heuristic survives its falsification because it produces the correct behavior for a reason different from the one stated. No equilibrium model predicts a rule of this kind, and Chapter 5 will need to take it into account.

In conclusion, referring back to Table 3.2, the temporal decision presents an unmodeled extension and a perspective inversion, without direct contradiction to the Theory, and is based on the temporal and informational lenses as outlined in Table 3.3. Furthermore, as mentioned at the beginning of the chapter, it also prepares for the next decision, since setting the start date for fundraising also determines the conditions under which the company will set the Price, which is closely linked to the state of the market window, the milestones achieved, and the remaining options. The Price that the company obtains under these conditions and what such valuation entails in terms of ownership will be discussed in Section 4.3.

4.3 Valuation vs Dilution

The second decision analysed in this chapter actually concerns two simultaneous choices: the type of valuation to adopt and the ownership stake to be transferred to the investor. These two decisions are closely linked through simple arithmetic, as the percentage of ownership transferred to the investor corresponds to the invested amount divided by the company's post-money valuation; however, behind this simple arithmetic lies a real compromise. As with the decision analysed previously, this last one also proves to be high-stakes across all three criteria discussed in section 4.1. Going in order, it is worth noting that the consequences are asymmetric on both sides, as a founder aiming to maximise the primary valuation will have to accept more severe terms, stricter covenants, and a very high threshold of scrutiny, as warned in the practical documents of chapter 3 (Graham, 2013)⁴⁴; on the other hand, a founder who relinquishes a significant share of ownership in the first round will find themselves managing the dilution that accumulates over time and cannot then be recovered. The decision is further poor reversible, as the price set in the first investment serves as a basis for all subsequent rounds and related valuations, and a down round, that is, a valuation lower than that of a previous round, can further damage the cap table. Finally, regarding the issue related to information, this is the same content as in section 2.2.4, namely that for a company without an operational history, the data and inputs necessary for any type of formal valuation do not yet exist.

Regarding the theoretical material, it presents various evaluation methodologies instead of a single model. Similarly, the practitioners' material also details up to 8 valuation methods, including the Berkus method, scorecard comparisons for pre-revenue companies, comparable transactions, cost-to-duplicate, risk factor summation, discounted cash flow, and the Venture Capital method (Kauffman Foundation, 2007)⁶⁶. However, it is important to recognise that the venture capital method requires a more in-depth and accurate analysis, as it is a model focused on the investor's economy; in particular, this model starts from the expected exit value, considering the desired return of the investor and calculating the ownership stake that must be held today for everything to close correctly. It is essential to highlight the logical process adopted: it begins with the company's exit value, moves to the price paid by investors, and finally arrives at the acquired ownership stake (Ravichandran, 2025b)⁶⁷. In this context, the angel-investing

⁶⁶ Kauffman Foundation (2007). *Valuing Pre-Revenues Companies*.

⁶⁷ Ravichandran, V. (2025b). *Venture Capital Method of Valuation* [Teaching material].

materials from the Kauffman Foundation add a key adjustment that connects theory to practice: since subsequent funding rounds will dilute initial investors, the target multiple must account for a three-to-five-fold gap between the growth of the company's valuation and that of the investor's share. As a result, a cash-on-cash return target of 5x to 10x actually turns into a 30x valuation requirement today (Kauffman Foundation, 2007)⁶⁶; therefore, even on its own terms, early-stage valuation theory already includes expected future dilution in today's numbers. Furthermore, the academic literature provides further confirmation of this dynamic by showing how founders are willing to accept measurably lower valuations (around 10-14%), in order to secure investment from more reputable investors; consequently, the observed negotiation price does not solely reflect the intrinsic value of the company, but already incorporates the reputation of the counterparty (Hsu, 2004)¹⁸.

The perspective of practitioners on the negotiation process and therefore on the valuation price picks up exactly where Section 3.3 left off: pre-money valuation is just one of many clauses within a broader negotiation, modifiable through variables such as the option pool, while the actual price from an economic standpoint remains implicit. What this section adds is the role played by the methods themselves; in this sense, the material from the Kauffman Foundation clearly describes this context: “valuation represents the most misunderstood phase of the entire investment process, with often complex negotiations that resemble a game of poker where each party tends to overestimate their position. Consequently, the primary aim of teaching these methodologies is to provide the parties with a common ground on which to understand each other” (Kauffman Foundation, 2007)⁶⁶. This objective should be interpreted literally: from the professionals' perspective, the methods are not used to measure value in an absolute sense, but rather to structure the discussion around the Price, since a calculation made through a scorecard or the venture capital method provides the negotiation with a shared vocabulary and a solid starting point, just as the standard term sheet provided the negotiated architecture analysed in Section 3.3. This interpretation aligns with what was highlighted in Chapter 3, namely that funds teach these methods to their junior analysts, defining them as highly speculative precisely for those companies that need them most (Harlem Capital, 2022)⁴⁸. Taking a further step, the analysis of market data shows what negotiations actually produce, highlighting the dispersion of valuations as the primary significant element.

Based on a sample of around three thousand funding rounds in the United States between September 2024 and August 2025, Carta's data indicate a median pre-money valuation in the seed stage of approximately 19 million dollars, with the 25th percentile at 11 million, the 95th at 72 million, and the 99th at 161 million; for Series A rounds, the median rises to 58 million with a 99th percentile of 716 million (Carta, 2025c)⁶⁸. Summarising the above, the data therefore show how companies at the same stage of development and within the same market exhibit a very wide range of pricing, with the upper extreme completely detached from the rest of the distribution; in this sense, it is therefore difficult to reconcile such a degree of dispersion with the hypothesis that the price is simply the result of applying standard valuation methods to companies. On the other hand, a much more consistent explanation is the link to price dynamics driven by competition among investors and specific windows of opportunity; it is no coincidence that, within the same dataset in 2024, median pre-money seed valuations for AI companies were 41% higher than those of comparable non-AI companies, namely 18.1 million dollars compared to 12.9 million (Carta, 2025d)⁶⁴.

The second finding from the data concerns the consistency of the ownership percentages transferred round after round, contrary to what theory predicts. Analysis of median data on the equity of 6,350 US software startups shows that founders retain 56% of the shares after a pre-priced seed, 36.7% after the Series A round, 24.5% after the Series B round, and 16.9% after the Series C round; by contrast, new investors acquire 20.7%, 20.1%, 16.4%, and 12.3% of the company in each round (Carta, 2025e)⁶⁹. In light of this, the element that remains stable round after round is not the valuation but the share transferred, approximately one fifth of the company in the early stages, then decreasing over time, a percentage that also complies with the dilution rule recommended by practitioners (10-20% per round, maximum 25%) (Ralston, 2016)⁶³ and the benchmarks illustrated in Section 4.1. When these data are analysed together with those in Section 4.2, it becomes clear how the practice actually in use overturns the theory; in fact, the amount raised depends on the runway rule, and the percentage of ownership transferred on the market norm, while valuation is simply the residual variable. In summary, while theory holds that value determines price and ownership stake, in the real market the amount raised and the percentage of equity are fixed beforehand, leaving valuation as the final

⁶⁸ Carta (2025c). *Startup Valuation on Steroids*.

⁶⁹ Carta (2025e). *VC Startup Ownership by Stage*.

variable.

The analysis of the comment attached to the standard term sheet shared by Italian Founders Fund is useful in relation to the above. The comment explains to founders that, although the amount of the investment and the startup's valuation are the primary elements to consider, the most important aspect is the total dilution of the round and its distribution between the investor and the founder. In particular, the fund indicates a dilution range of 15% to 20% for most rounds, emphasizing that a startup's position within this range depends on its bargaining power, solid traction, or the presence of competing offers, which allow to give up less equity. The comment concludes by suggesting that founders verify whether the level of dilution aligns with market parameters, avoiding being misled by an attractive nominal valuation (Italian Founders Fund, 2026)⁵¹. This step is important because it summarizes all the elements of the investment described earlier, presenting them from the investor's perspective, according to which the equity stake is the main variable, competition determines its position, and valuation reflects the derived value. Furthermore, the same source confirms the mechanism behind this derivation, noting that when the option pool is created before, the dilution funding it falls entirely on the founders and existing shareholders, while the incoming investor's percentage remains unchanged.

It is also important to consider the case in which the hypothesis of always increasing valuations is no longer valid, at which point the contractual mechanisms discussed in section 3.3 begin to generate real value transfers. An example of a three-round study present in the repository helps to clarify this situation: it concerns a company that goes through the stages of Seed, Series A, and Series B with valuations lower than the previous round, activating the anti-dilution clauses agreed upon at entry and determining who should absorb the loss of value. In the analysed case, a 'weighted average' protection is used, which allowed seed investors to recover approximately 121 thousand dollars in value, but caused a cumulative dilution of 27.6 percentage points over the three rounds for the founders (Ravichandran, 2025a)⁷⁰. Cases like this, called "down-rounds", highlight the temporary nature of the trade-off between valuation and dilution, since a price accepted today constrains every future round, and a clause signed today can lead to a transfer of shares years later under completely unforeseen conditions. It should also be

⁷⁰ Ravichandran, V. (2025a). *Startup Valuation & Anti-dilution Provisions* [Teaching material].

emphasized that dilution does not result only from capital raising but begins with the initial division among co-founders (often unequal), with grants given to consultants, the option pool for employees, and only afterward with investment rounds; the founder's equity path is therefore the cumulative result of multiple small decisions, most of which are made well before an investor's entry (Carta, 2024b)⁷¹.

In light of the analysis in this section and Table 3.2, the decision between valuation and dilution reveals a true perspective inversion. According to theory, the share of participation should be calculated based on the company's valuation, whereas in practice it is the ownership stake acquired by investors that determines the company's valuation. Furthermore, two extensions not considered by traditional models are associated with this inversion: the use of valuation methods as negotiation tools rather than measurement tools, and the management of dilution as an equity reserve to be planned and allocated across different funding rounds. It is important to emphasize that the latter represents a dynamic that no model in Chapter 2 treats as an object of planning, although market data show it to be extremely regular.

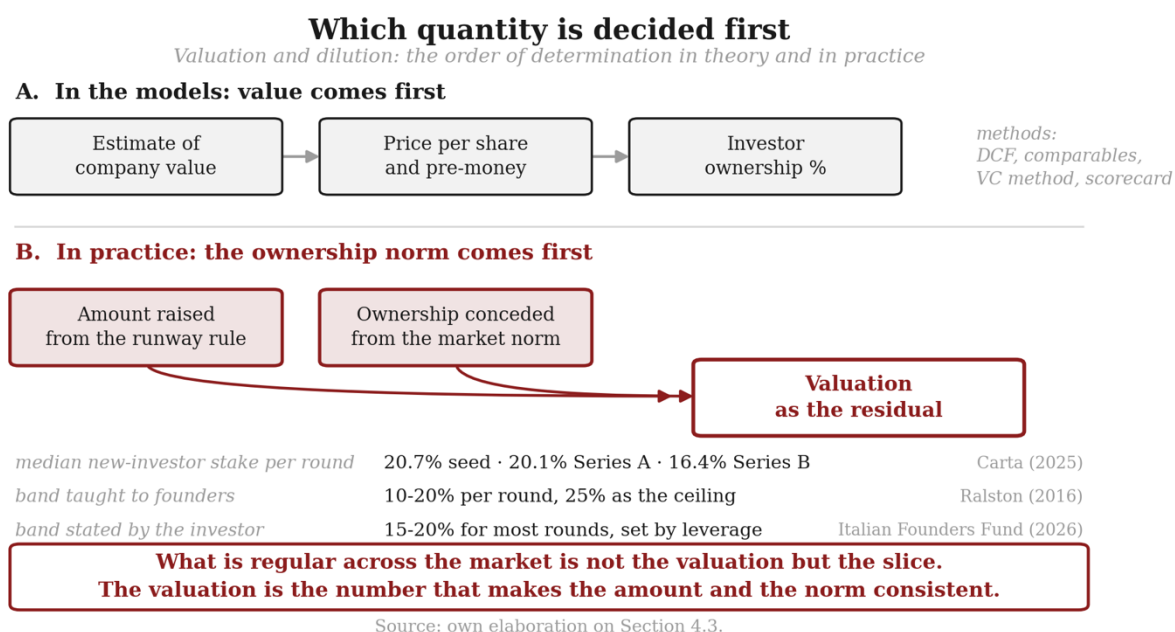


Figure 4.3. Which quantity is decided first.

Summarising what has been discovered, there is no real contradiction between theory and practice, but rather a point of convergence where theory must adapt to reality. This occurs for two reasons: the first concerns future dilution, which requires that the price

⁷¹ Carta (2024b). *Thinking About Founder Dilution*.

calculated today must take into account the shares of the company that the founders will have to cede in future financings (as demonstrated by the Kauffman Foundation model); the second relates to the reputation of the investor, meaning that the value and reputation of the investor entering the company influence the final price of a startup, as shown by Hsu's study¹⁸. The key factor in understanding this mechanism is time, because as previously explained, decisions and stability prices today influence future rounds, while contractual clauses can be reactivated later to correct the past. For this reason, one should not view a single financing as an isolated event, but rather the entire journey of the company. The consistency of this trajectory leads to the question addressed in the next section: if founders systematically lose majority control around Series B, what exactly do they get in exchange for that control, and how is this trade negotiated?

4.4 Growth vs Control

The third decision analysed concerns what the founder must relinquish in exchange for the capital provided by investors. Usually, founders grant a series of rights regarding the management of the company, such as seats on the Board of Directors, veto rights on certain decisions, obligations to sell in specific circumstances, and restrictions on their own equity shares; from this arise two relevant questions that this section addresses in detail, namely what the capital actually acquires and what determines the cost in terms of control. This decision has even more significant consequences than those previously analysed, qualifying it as high-stakes in all three aspects examined in Section 4.1: firstly, the consequences present an asymmetry that only emerges afterwards; control rights remain inactive as long as things go well, but become decisive during crises; among the four decisions, this is the least reversible, since a right granted in the Series A round carries over into all subsequent rounds and tends to become more rigid over time (as highlighted in Chapter 3); finally, the informational problem is particularly severe, as the value of a control right depends on future disagreements that neither party can predict with certainty at the time of signing the term sheet.

Moving on to the theoretical position on this matter, it appears to be the most solid among the four decisions discussed. According to the Theory of Financial Contracts, rights over cash flows and control rights are separable and allocated distinctly, with control passing to investors when the founder's continued involvement becomes less advantageous, and such allocation reflecting the risks identified during the evaluation phase (Kaplan and

Strömberg, 2003)¹¹; the Agency Theory, on the other hand, provides the fundamental motivation, namely that the presence on the Board of Directors and veto rights create the monitoring channel and the emergency brake that make an equity investment without guarantees tolerable (Jensen and Meckling, 1976⁵; Sahlman, 1990³). Chapter 3 confirmed that these tools exist in practice and are frequently used, but what the theory does not discuss is the founder's side, that is, how much control is worth relinquishing in exchange for a certain amount of capital and on what basis this judgment is made.

Regarding the practitioner sources, they indicate what the founder should obtain in return, and it is the investors themselves who clarify this. In the Indaco Venture Capital model, the size of a round is assessed based on its ability to enable companies to reach a significant milestone, sufficient to attract the next round or an exit (Bonivento, 2025)⁴³; therefore, the capital does not represent abstract growth, but an increase in empirical evidence that makes the company once again fundable. From this exchange between investors and founders, two consequences arise: the first concerns the time perspective, as the value of the exchange cannot be assessed in a single round, since the founder who cedes control in the Series A round is aiming for conditions that will make the Series B round possible; thus, the value of what is acquired depends on whether the next round actually takes place. The second consequence is the asymmetry of the exchange, as the two parties do not exchange the same resources: the investor obtains permanent rights that can be activated in negative scenarios, while the founder gains an opportunity that expires if the milestone is not achieved.

In light of this asymmetry, market evidence shows that the negotiation does not concern the possibility or not of ceding control, but rather how it is structured and granted. In this regard, an investigation of 588 term sheets issued in the United Kingdom in 2024 highlights the presence of representation on the Board of Directors in 87% of cases, drag-along clauses in 84%, investor consent rights in 77%, founder vesting in 63%, and leaver clauses in 56% (HSBC Innovation Banking, 2025)⁵⁴. The control instruments listed above are the same as those cited in the standard models of Section 3.3, and their almost universal presence confirms the fact that granting control is inevitable; the founder can only decide how to configure it, not whether to accept it or not.

The real question then becomes what determines the price of this control package, and on this point, theory and practice agree, indicating bargaining power as the key variable.

As previously mentioned, in fact, according to the Italian Founders Fund, this power directly stems from the company's performance, since strong operational traction generates competing offers among multiple investors, allowing the founder to negotiate from a position of strength and defend their control. In this way, growth is no longer just an investment objective but becomes the actual currency with which the founder regains decision-making autonomy; however, the 'exchange rate' between the growth of the individual startup and the control ceded is also influenced by overall market dynamics. Aggregated data show a dual trend in this regard: in the early stages (seed), the increasing competitive pressure among investors has made term sheets more favourable to founders, with the proportion of "founder-friendly" contracts rising from 14% in 2021 to 32% in 2024; in later stages, larger funding rounds tend to have lower valuations, more complex corporate structures, stricter protections in case of downturns, and explicit guarantees against down-rounds (HSBC Innovation Banking, 2025)⁵⁴. What follows is the fact that the power relationship between growth and control moves in two opposite directions, as it improves for the company when its traction is strong and investors compete to finance it, but it inevitably worsens as the company progresses through subsequent rounds. Investors' control therefore tends to tighten during phases when the founder's shareholding is already decreasing more rapidly, and since none of these factors are directly under the founder's control, this decision under analysis is clearly the least free and autonomous compared to those previously discussed.

In this scenario of market forces, practitioner founder-facing materials accept this approach and work within it. Hron's guide for first-time founders is organised around the same distinction used by the legal sources in section 3.3, and its main advice is to focus on terms with the greatest impact and avoid being blinded by economic aspects to the point of ceding more control than one can afford, as this will determine future decisions (Hron, 2023)⁷². The guide also discusses an additional step on a topic where theory does not provide guidance, namely classifying clauses based on how worthwhile they are to negotiate, assigning each point a level of importance: high, medium, or low. Specifically, the threshold for forced conversion is considered low, while founder vesting is regarded as high priority, and in this regard, the guide advises founders to always strive for recognition of the work done, a perspective confirmed by the investors cited in the guide,

⁷² Hron, B. M. (2023). *Negotiating Your First Term Sheet*.

who recognise it as standard practice to consider about a quarter of the founder's shares as already vested. This type of material is professional knowledge in its purest form, not a theoretically optimal contract model, but rather a 'triage' rule of negotiation essential for closing the deal in the shortest possible time.

On the investors' side, instead, comes the explanation of why this triage is necessary, presented in the form of practical advice rather than a rigid strategy. When presenting the reserved matters related to their term sheet, Italian Founders Fund notes that such lists are standard in almost all venture capital rounds worldwide, and therefore, negotiating them item by item would only be a waste of time, especially if the startup is in the pre-seed or seed stage; on the contrary, what should be understood is the real function of these clauses, which is not to manage daily operations, but to protect the minority shareholder against decisions that could seriously damage the investment, such as the sale of the company or the creation of substantial debts. In light of the above, two key points should be highlighted: first, the conventional efficiency, which indicates that the standard package is not just tolerated by investors but is recommended to founders as the most effective choice, transforming market regularity into shared practical knowledge; second, trust-based allocation, where the founder who accepts this advice entrusts control rights allocation to a market convention. This emphasizes the relational dimension discussed in chapter 3, contrasting with the Agency Theory view, which treats it purely as a contractual design.

In addition to the analysis of individual clauses described above, the guide also offers two important structural reflections: the first concerns legal expertise, while the second relates to the true nature of control rights. Specifically, Hron notes that twenty years ago, a company would examine every point of the negotiated term sheet with the help of a lawyer, progressing negotiations over weeks; conversely, today founders sign without consulting a lawyer, giving investors a clear advantage, especially when the founder does not know what the standard terms are. The asymmetry at this stage is therefore not only informational but also constitutes a gap in professional expertise between those who negotiate a few term sheets in their lifetime and those who negotiates many every year. Regarding the second reflection, the guide highlights how, in the discussion, redemption rights provide investors with the necessary contractual power to extract concessions from reluctant founders who are hesitant to seek an exit (Hron, 2023)⁷². Therefore, while

in theory control rights serve as protection against founder misbehaviour, in practice they also act as a negotiating leverage to be used in future negotiations.

At this point, it is useful to digress on empirical data concerning ownership, which concretely show how the exchange of control and contractual power evolves. The data, based on a sample of over 45,000 US startups, indicate a 56.2% ownership for the founding team after the Seed round, 36.1% after Series A, and 23% after Series B; more specifically, investors surpass 50% stake when the post-money valuation ranges between 50 and 100 million dollars, then stabilise at 63.6% in companies valued between 250 and 500 million, and at 66.5% beyond a billion (Carta, 2025b)⁷³. These data thus demonstrate how founders lose the majority of their shares at a predictable point in the process, unlike decision-making rights, which follow different timelines as they are regulated by the composition of the Board of Directors and the thresholds for consensus, negotiated separately. This can allow a minority founder to control operations or, conversely, a majority founder to lack real managerial power. The practice thus confirms the theoretical separation between cash flow rights and control rights in the clearest possible way, demonstrating how the two elements move with different timings. It is also noteworthy the gradual tightening regarding the founder's own shares; the average duration of vesting for founders is indeed 1.2 years during the Seed phase, then extending to 4.7 years in the Series B round and 8.1 years in the Series D round, as investors regularly request re-vesting from founders approaching the completion of the period; in this regard, the practical advice related to these data aligns with the same heuristic outlined in this chapter, namely "let the investors ask first" (Carta, 2025a)⁷⁴. In light of the discussion, it can therefore be stated that what the founder concedes is not a fixed quantity established at the start, but a position that reopens and is renegotiated at each round. Figure 4.4 compares the ownership trajectory against the presence of control provisions.

⁷³ Carta (2025b). *Founder Ownership Report 2025*.

⁷⁴ Carta (2025a). *Foundational Equity*.

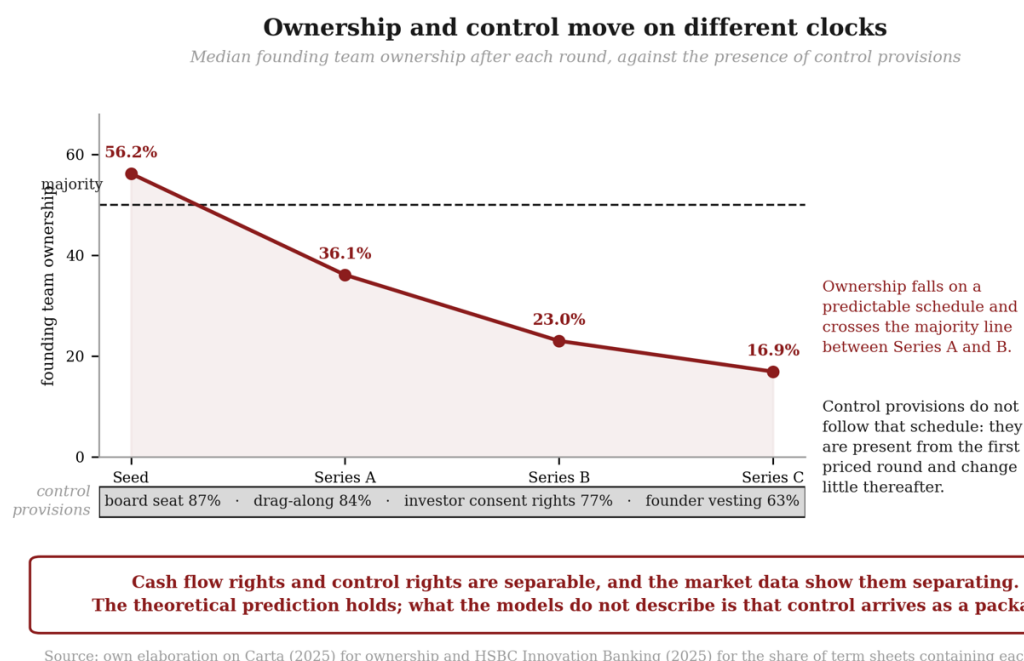


Figure 4.4. Ownership and control move on different clocks.

In conclusion, returning to Table 3.2, the relationship between growth and control represents the section that provides the strongest empirical confirmation of the theory among the four analysed, as the distinction between rights over cash flows and control rights, together with the use of monitoring and veto tools and their concentration in high-risk rounds, aligns perfectly with the theoretical predictions. The observed divergences are not contradictions, but rather extensions of the theory, and there are three: the standardisation of the control package, that is, the fact that control is transferred as a standard package with configurable parameters rather than being written clause by clause; the asymmetry of expertise, that is, the difference in professional competence between the investor and the founder during the negotiations of the term sheet, which no theoretical model represents; and the future bargaining leverage, that is, the contractual power that the control right confers on the investor, expanding their role beyond the contingent allocation predicted by the theory. Furthermore, there is a perspective inversion concerning the very direction of the exchange, since while in theory one asks how the investor should allocate control to protect capital from agency risk, practitioners instead consider control as the price the founder pays for the growth acquired with the capital, with the final position within the standard package determined by the founder's bargaining power and the state of the market; the object of the exchange remains the same, but the part of the relationship whose problem is analysed is reversed. In relation

to Table 3.3, the dominant approach remains organisational, as it concerns decision-making rights within an organisation intended to expand and involve different investors with varying roles.

All that has been discussed so far must be translated into a financial instrument that includes price, ownership, and control terms, which will be analysed in Section 4.5.

4.5 Choice of Financing Instrument

As anticipated at the end of the previous section, the last of the four decisions analysed is the one that encompasses and formalises the previous three, since price, shareholding interests, and control rights must indeed be incorporated into a financial instrument (security). In the early stages, the founder and the investor usually choose between options: a priced round of Convertible Preferred stocks, a convertible note, or a simple agreement for future equity (SAFE); a choice that often looks as a purely technical matter and is commonly treated as such, thus making it high-stakes according to the three dimensions described in section 4.1. In depth, this decision presents a strong asymmetry in its consequences, as the chosen financial instrument determines what happens in unplanned scenarios, such as insolvencies, early acquisitions, or a funding round that never arrives; furthermore, it has low reversibility, since the instruments accumulate in the cap table and are converted during subsequent rounds, meaning that the terms of today define everything that will follow. Regarding the informational aspect, the main issue is that deferred instruments are specifically designed to manage the inability of both parties to assign a value to the company at that moment, thus being chosen to postpone a decision that cannot yet be made.

Faced with these options, the theory expresses itself by defining convertible preferred stocks as the most efficient solution, as they separate cash flow rights from control rights and allow for their allocation scenario by scenario, the exact setup observed in empirical literature on venture capital operations (Kaplan and Strömberg, 2003)¹¹; furthermore, all the instruments prescribed by the agency model in Chapter 2, such as staged financing, downside protection, board representation, and veto rights, are incorporated into this specific security. On the other hand, however, regarding convertible notes or SAFEs, as previously stated, these defer the allocation of both cash flows and control rights to a later event, but for the theory, this does not constitute an equilibrium contract, but rather the absence of a contract itself, since the parties agree today on the price to avoid having to

agree later.

In contrast to the theoretical framework, practitioners describe this choice using language that does not address contractual efficiency, but instead focuses on speed, cost, and simplicity. Referring back to chapter 3, the analysed legal sources provide precise operational thresholds where one instrument is more advantageous than the other; specifically, for rounds of approximately 500,000 dollars or less, a convertible note is simpler, faster, and cheaper compared to a preferred stock equity round whereas above around one million dollars, the issuance of preferred stocks justifies its costs, even in the seed phase (Foley Hoag, 2014)⁷². Regarding the founder-facing guides, these follow the same rule but in the opposite way, presenting deferred conversion instruments as the preferred solution for raising capital before establishing a precise valuation (Ralston, 2016⁶³; Elayan, 2016⁵³). However, it is the comparison of Oturu, designed for founders, that highlights the differences according to the same legal criteria; specifically, Oturu recommends using convertible notes in the early stages, when valuation is uncertain or a funding round with a short-term fixed price is anticipated, and to favour preferred equity for larger rounds, when investors require immediate allocation of ownership shares and control rights (Otur, 2025)⁷⁵. An interesting aspect is that empirical literature does not justify the choice between different tools as a solution to a problem; instead, it relies solely on cost considerations to close the round, the time required, and the company's ability to defend a specific figure.

Below is a shared vocabulary; however, these instruments are not equivalent, and technical differences influence their economic impact. In detail, a convertible note is formally debt because it accrues interest and has a maturity date, but this means that if a qualifying round is not realized, the investor can request the return of capital from a company that has already spent those funds; however, empirical literature interprets this situation as an opportunity for renegotiation rather than a true default (Elayan, 2016; Oturu, 2025). Conversely, the SAFE is not a debt, as it does not accrue interest, has no maturity date, and does not require repayments, thereby removing both the pressure on the founder and the protection for the investor (Carta, 2024a)⁷⁶. It should be emphasised, however, that both instruments share the same two protective mechanisms, namely the

⁷⁵ Oturu, D. (2025). *A Founder's Guide to Convertible Notes and Preferred Equity*.

⁷⁶ Carta (2024a). *SAFE Fundraising* 101.

valuation cap and the conversion discount, and both convert into a future round pricing, but their respective triggering events differ: on the one hand, the SAFE conversion generally occurs automatically at the next pricing round, regardless of the amount raised; whereas for the convertible note, conversion requires a qualified financing that exceeds a certain threshold, remaining an enforceable debt if the round falls short of expectations (Carta, 2024a)⁷⁶. In other words, the choice of instrument entails a different distribution of risk precisely in the scenarios where the initial plans do not materialize, that is, in the scenarios that determine the real value of these decisions.

The second noteworthy technical detail is what transforms a simplification tool like the SAFE into a genuine decision of dilution. For the same headline cap, in fact, a pre-money SAFE and a post-money SAFE generate different equity shares. In the practical example provided by the report, an investment of 500,000 dollars with a cap of 5 million results in 500,000 shares in the pre-money version and approximately 50,000 more shares in the post-money version, since the holders of the converting SAFEs are included in the denominator (Carta, 2024a)⁷⁶. The practitioner material clarifies that these differences are amplified when multiple funding rounds are carried out via SAFEs, and that post-money SAFEs cause greater dilution for the founder; thus, the same mechanism described in section 4.3 reappears, just as it does with the option pool: an invisible defining choice in the nominal data determines who bears the dilution. Consequently, what this means is that a founder who chooses a SAFE for its apparent simplicity has actually made a decision on the price without having priced anything.

To better understand why deferred conversion instruments dominate the early stages, despite the complexities analysed, it is useful to consider market data. According to information provided by Carta, the use of SAFEs virtually covers the entire market in the early phases, including various types of investors such as business angels, accelerators, incubators, relatives and friends, up to venture capital funds in seed rounds, which aim to make the investment process quicker and more streamlined (Carta, 2024a)⁷⁶. Moving forward, an investigation conducted in the United Kingdom on 588 term sheets confirms the same trend on the operations side; specifically, convertible instruments appear in about one-third of Venture Capital term sheets in 2024, an increase compared to about a quarter in the previous year (HSBC Innovation Banking, 2025)⁵⁴. It should therefore be emphasised that these instruments, originally created as a bridge awaiting a valuation

round, have become the standard entry point into the market, bringing about a qualitative rather than quantitative change, since the instrument that Theory identifies as the most efficient (price preferred stock) is no longer the channel through which the majority of capital enters in the initial stages.

In light of the above analysis and referring back to the framework of Table 3.2, the decision regarding the financial instrument shows the most evident perspective inversion among the four considered. Summarising what has been discussed, on one hand, the Theory asks which security best allocates rights in the presence of agency risk, responding with convertible preferred stocks; on the other hand, practitioners ask which security allows for closing a funding round quickly, at low cost, and without needing to agree on a valuation, responding with deferred conversion instruments, specifically SAFEs in the early stages; these two questions therefore have different objects and objectives, as the Theory optimises the contract, while practice optimises the conversion. In addition to this inversion, there are also two extensions not modelled by the Theory, one concerning the standardisation of instruments, the other the sequential nature of deferred conversion instruments; specifically, the first relates to the fact that these contracts are now market products with public documentation and support from platforms, therefore choosing an instrument is equivalent to selecting a template rather than designing a bespoke contract (as documented for the clauses of the term sheets in section 3.3); the second concerns the fact that the more SAFEs accumulate over time, the more they convert simultaneously and therefore produce a diluted effect that no single decision makes visible. However, these are not direct contradictions of the Theory, and in fact there is a point of confirmation worth emphasising: when the rounds become substantial, even practitioners recommend the use of priced preferred equity, and they point out the operational thresholds beyond which the cost of structuring a formal contract becomes advantageous, thus confirming the interpretative keys of the temporal and organisational aspects, as outlined in Table 3.3. Thus, the analysis of the 4 decisions ends; section 4.6 will examine what they have in common.

4.6 Synthesis: Where Professional Knowledge Diverges from Theory

The analysis of the four decisions has been completed, but although they have been examined separately, they are by no means independent of each other. As anticipated at the beginning of the chapter, in fact, the timing defines the conditions under which the company is evaluated; the valuation sets the cost for obtaining ownership; ownership negotiation runs alongside the granting of control rights; and finally, the chosen financial instrument encompasses all three elements in a single security. This section therefore aims to re-examine and synthesise the four analyses in an integrated manner, and for this purpose, Table 4.1 has been constructed, which summarises the results obtained in the same format used at the end of Chapter 3, applying to each decision point both the divergence type from Table 3.2 and the interpretative lenses from Table 3.3.

Table 4.1. The four high-stakes decisions: theoretical prescription, observed practice, type of divergence and prevailing lens. Source: own elaboration on Sections 4.2 – 4.5

Decision point	What the theory prescribes	What practice does	Type of divergence and prevailing lens
4.2 Timing of Capital Raising	The models describe the investor's clock: capital is deployed along the life cycle of the fund, and each tranche is released when the value of waiting for information no longer exceeds the risk of losing the deal.	Founders decide when to enter the market using runway rules and milestone planning, and try to reach the right investor at the right point of that investor's own cycle. The advice teaches a 12 to 18 month cycle while the market runs on 25 to 31 months between rounds.	Unmodeled extension and perspective inversion. Temporal and informational lenses. The heuristic survives its own falsification because it produces the buffer the slower market requires.
4.3 Valuation vs Dilution	Value is estimated first, by one of several methods, and the price and the investor's ownership share follow from it.	The amount comes from the runway rule and the ownership conceded comes from a market norm of roughly a fifth of the company per early round; the valuation is the number that makes the two consistent. Methods are used to structure the negotiation rather than to measure value.	Perspective inversion, with extensions on methods as negotiation devices and on dilution managed as a multi-round budget. Temporal lens.
4.4 Growth vs Control	Cash flow rights and control rights are separable and allocated separately, with control shifting to investors in the states where the founder's continuation is less attractive.	Control travels as a standard package present in most term sheets, with configurable parameters rather than clause-by-clause design. What the capital buys is the milestone that makes the next round possible, and the price in control is set by the founder's leverage and by competition among investors. Ownership and decision rights move on different clocks.	Strong direct confirmation of the separation, plus extensions on the standard package, on the asymmetry of professional competence and on control rights used as future bargaining power. Organizational lens.
4.5 Choice of Financing Instrument	Convertible preferred stock is the efficient security, because it allows rights to be allocated state by state under agency risk.	At early stage the instrument is chosen for speed, cost and the ability to close without agreeing a valuation, which makes deferred instruments the standard entry point. Practice returns to priced preferred equity when rounds become large.	Perspective inversion, with extensions on the standardisation of instruments and on their use in sequences that compound dilution. Confirmation at larger round sizes. Temporal and organizational lenses.

From the cross-sectional analysis and reading of the table, it is possible to recognise three recurring patterns. Proceeding in order, the first concerns the type of divergence; in this chapter, in fact, the prevailing category becomes perspective inversion, present in three

out of four decisions, unlike in chapter 3 where the dominant category was unmodeled extension, that is, the addition of new mechanisms to those described by the Theory. The reason for this difference between chapters is due to the structure of the object of analysis, because if a process can be described from a single point of view, on the other hand, a decision by its nature has two sides and therefore two perspectives (although the theoretical corpus of chapter 2 considers only one). The Agency Theory, staged financing, contractual design, and evaluation are entirely constructed from the investor's point of view; conversely, the founder's problem, namely when to enter the market, how much ownership to cede, how much control to grant and which instrument to accept, finds no consideration within the academic literature. Therefore, the only clear answer that the thesis can offer to SRQ2 is that practical documents do not present an alternative theory on the same subject, but instead represent the missing half of the object, since high-stakes decisions are jointly determined, while the academic account remains fundamentally one-sided.

Focusing on the second scheme, this concerns the form in which professional knowledge takes in filling this gap; in all four decisions, in fact, the rules of practitioners are based on fixed quantities, not on optimisation models: 18 months of runway, from 10% to 20% of the company per round, a quarter of the founders' shares already considered matured, or 500,000 dollars as the threshold between a convertible note and a priced round, are not numbers derived mathematically, but conventions circulating in manuals and taught as such. What these rules have in common is that they remain usable when the inputs an optimisation would require are missing, since each is stated as a range rather than as a point, and none of the sources presents its own figure as a provisional value awaiting better data. The rule on timing in section 4.2 is proof of this, since despite the planning horizon recommended no longer matching the observed market, it continues to be taught because the behaviour it induces is correct in a market that has slowed down. Whether rules of this kind are preferable to calculation under such conditions is a question this evidence cannot settle, and Chapter 6 returns to it; anyway, the evidence shows that practitioners do not treat them as approximation to be refined.

Moving on to the third scheme, this recurrence concerns the elements that coordinate the two parts in the absence of a pricing mechanism, namely the fact that in each decision the reference point is a market norm. This is the case with the grammar of figures and phased

timings, illustrated in the chapter introduction, the ownership gap per round, the standard control package, or the typified instrument with its related public documentation. Such norms serve the same function as standard clauses in term sheets, as described in Section 3.3, producing a similar outcome: in practice, the decision variable is not the absolute value, but the deviation from the norm. For example, a valuation significantly above the average or the use of an unusual instrument for the growth phase are interpreted as signals about the counterparty; for this reason, practical sources warn founders that conditions more stringent than the standard indicate something about the investor, and that a fund deviating from the norm must be able to justify itself. The result is that both parties negotiate against a shared expectation, and the negotiations is about distance from it.

In addition to what has been described above, a fourth observation is noteworthy, which traverses all three analysed schemes and proves to be fundamental for what follows. When considered together, each of the four decisions represents a single link in a chronological sequence, whose real cost only becomes visible afterwards: this is the case with dilution that accumulates and is gradually realised from one round to the next; with control clauses that become more stringent as funding rounds progress; with deferred conversion instruments that are added and converted simultaneously; with the valuation agreed upon today that sets the reference base for the next round; finally, with the clauses agreed upon at entry that transfer equity shares years later, under conditions no one had foreseen. The practitioner literature recognises this dynamic and manages it informally, through advice on founders' ownership trajectories, re-vesting rules, and warnings about precedents; conversely, the theoretical models consider each decision as an independent optimisation problem and therefore separate. In summary, practice tends to treat the entire pathway as the unit of analysis rather than individual rounds, unlike theory, which does not present any framework based on the trajectory.

Approaching the conclusion in this way, when considered together with Chapter 3, the evidence gathered supports a single and solid conclusion regarding the relationship between theory and practice. Through nine analytical comparisons concerning the stages of the process and decision points, the sources from practitioners did not show direct contradictions with the theoretical frameworks; specifically, the confirmations of the theory focus on areas where the structure is observable and stable, such as the

architecture of the investment process, the separation between rights on cash flows and control rights, as well as the return to priced preferred equity when rounds become significant. On the other hand, divergences take the form of extensions or perspective inversions, exactly what one would expect when a model is correct within its initial assumptions but is also asked to interpret and consider situations outside of them. Therefore, the professional knowledge documented in these two chapters does not constitute a refutation or correction of the theory; rather, it is its natural complement, since it possesses precisely what the theory lacks, namely the founder's point of view, quantity rules rather than optimisation models, market norms rather than pricing mechanisms, and advice focused on the overall path rather than on individual rounds.

In conclusion, these four properties also constitute the specifications of what a bridging framework must contain, directly addressing the issue raised by SRQ3. It is therefore the subject of Chapter 5 to develop this framework, using as analysis dimensions the gaps documented in Chapters 3 and 4, and as study material the heuristics, norms, and trajectories that practitioners employ without formalising them. Figure 4.5 summarizes them below.

What professional knowledge does that the models do not <i>Four properties recurring across the four decisions, and the specification they give to Chapter 5</i>		
1	It addresses the founder's side The theory models the investor's problem at every stage. The practitioner corpus supplies the decision the founder actually faces.	<i>Timing, valuation, control, instrument: perspective inversion in three cases out of four</i>
2	It works through quantity rules Eighteen months of runway. Fifteen thousand per engineer per month. Fifteen to twenty per cent per round. Four years of vesting. Half a million as the threshold between a note and a priced round.	<i>Taught as conventions, not as estimates: the 18-month rule survives its own falsification</i>
3	It coordinates through norms With no price mechanism for governance, the market standard is the reference point, and the decision variable is the distance from it.	<i>Deviations are read as signals about the counterpart, not as tailored solutions</i>
4	It manages trajectories Dilution compounds, control tightens, instruments stack, anchors propagate. Costs appear rounds after the decision that created them.	<i>The unit of analysis is the path, not the round</i>
These four properties are also the specification of the bridging framework that SRQ3 requires.		

Source: own elaboration on Sections 4.2-4.6 and on the three lenses of Section 2.2.5.

Figure 4.5. What professional knowledge does that the models do not.

CHAPTER 5 – FRAMEWORK: BRIDGING THEORY AND PRACTICE

Chapter 4 concluded with a functional specification rather than a simple summary, from which four fundamental properties emerge that the documented professional knowledge in the two empirical chapters has demonstrated to possess; specifically, it has become evident how practice addresses the founder's perspectives and not only those of the investor, how it operates through quantity rules rather than optimisation models, how it coordinates the parties through market norms instead of prices, and how it manages multi-round trajectories rather than isolated financing events. What is crucial to understand is that these properties are not merely a summary of practitioners' work, but rather the requirements that any framework capable of connecting the two bodies of knowledge must satisfy. Therefore, this chapter focuses on developing such a framework, providing an answer to SRQ3, which asks: what framework can bridge the gap between theory and professional practice to guide founders and investors in early-stage funding decisions?

Regarding the structure of the chapter and the process of constructing the model, this occurs through three fundamental steps. Starting from Section 5.1, the three gaps that Section 2.2.5 had deduced from the theoretical models are revisited, even before examining the operational documentation, by verifying the impact of practitioners' evidence on them and adding a fourth dimension that the theoretical analysis could not foresee and that only emerged from the decisions analysed in Chapter 4. Moving forward, we arrive at Section 5.2, which develops the actual framework, first defining the specifications, then the structure, and finally articulating it as a procedure that each of the two parties can apply in a funding round; lastly, Section 5.3 applies the framework to one of the four decisions and identifies the conditions under which it does not apply. However, it is appropriate to present and clarify from the outset the guiding principle that governs the entire development of the model, namely that the framework is not intended to replace the models examined in Chapter 2 nor to constitute an alternative explanation of the same object; the primary function of the framework is to establish where these theoretical models are binding and where they cease to determine the decision, and then to provide the tools practitioners deploy in the remaining space.

5.1 The Professional Knowledge Gap: Key Dimensions

As anticipated in the chapter introduction, the three gaps outlined in section 2.2.5 were not empirical observations, but rather deductions derived from the theoretical frameworks themselves; the three gaps were indeed formulated by examining under which conditions the theory's predictions continued to hold, noting that venture capital in its early stages did not fully satisfy these conditions. It should be emphasised that these gaps were developed prior to any comparison with practice, thus operating as formal hypotheses, since if the theoretical reasoning had been solid, professional practice would have deviated from the models only along those three directions. Chapters 3 and 4 tested their validity, and this section presents the verdict, adding a further dimension that the theoretical analysis could not have foreseen.

Proceeding in order, the first gap concerns the unit of analysis, namely the fact that theoretical models are based on a bilateral relationship, which involves a single principal facing a single agent, or a single investor evaluating a single company. Such models were therefore destined to represent reality in a distorted manner, since decisions are made within partnerships composed of multiple subjects with different levels of information and authority, as subsequently confirmed by practitioner evidence. From this, it can thus be stated that the decision-making nature of funds is undeniably organisational, as opportunities are primarily filtered based on their degree of coherence with the fund's phase, size, and geography, rather than purely on merit, and two partners of the same investment committee regularly arrive at divergent conclusions about the same evaluated company, as discussed in section 3.1. However, the most significant discovery concerns the term sheet, which legal studies and associations consider a market standard rather than a contract negotiated individually (as highlighted in section 3.3). This trend is confirmed by the list of reserved matters, described by investors as a uniform standard in almost all global funding rounds (see section 4.4); furthermore, ownership bands considered during negotiations, circulate as part of the professional language and are now common knowledge. In light of what has been described, therefore, these results indicate that it is not merely the failure of a bilateral model at the level of a single fund, but a market decision; consequently, the most relevant unit of analysis includes the set of funds, shared practices, and industry conventions, rather than the individual fund.

Regarding the second gap, this concerns the temporal dimension; specifically, the

contractual models analysed in Chapter 2 treat the terms agreed during structuring as a static optimisation problem; however, governance in Venture Capital is expected to be dynamic, with clauses reinterpreted as circumstances change. The above is indeed confirmed by empirical evidence, which not only demonstrates the dynamism and evolution of contracts over time but also the fact that no single round constitutes a self-contained decision. Consider, for example, a valuation accepted today that sets the benchmark which the next round must surpass (as shown in section 4.3); anti-dilution provisions agreed upon at the entry and remaining inactive for years, only to transfer company shares under unforeseen conditions; the vesting of founders, which is not executed just once but is reopened as founders approach its expiration, with median durations extending from just over a year in a priced seed round to over eight years in Series D (as discussed in section 4.4); deferred conversion instruments that accumulate and convert simultaneously, so that the dilution they generate only becomes visible once each layer of the stack is fixed (section 4.5). The key point is that each of these mechanisms operates across multiple rounds rather than within a single one, making the gap even more pronounced compared to what is stated in section 2.2.5, since none of the frameworks examined in Chapter 2 considers the trajectory as its object of study, unlike in practice, where the trajectory is treated as the operational unit of analysis.

Moving on to the third gap, the object was what is considered 'information', since signaling theory formalises exclusively observable, verifiable, and costly-to-produce signals, while agency theory only considers contractible outcomes; however, this suggested that both theories excluded relational and experiential knowledge on which practitioners openly rely. Reviewing empirical evidence, it shows how the belief regarding investment in a startup is built through interpersonal interaction and is consolidated before formal verifications that theoretical models place upstream of the decision (Section 3.2); the fact that investors act based on second-order evidence and therefore observe the behaviour of other credible investors with the same intensity as they evaluate the signals produced by the company itself (Section 3.1); how the relational component is not limited to meetings prior to the signing of the contract but even emerges within the legal instrument, in the cover letter that the fund sends to founders at the opening of its term sheet (Section 3.5). The key point, however, which is fundamental to understand for the framework, is that these are not missing pieces of information that better disclosure could fill, but rather a type of information that models are not structured

to convey, as it resists attempts to make it observable, verifiable, or contractible.

In addition to the three gaps highlighted in Chapter 2, a fourth dimension emerges from the analysis of practitioners' documents that Section 2.2.5 could not have anticipated, as it is only visible when examining decisions rather than processes. In fact, in Chapter 3, the theoretical explanation of the investment process was compared with the practitioners' perspective, revealing that the dominant form of divergence is the unmodeled extension, which consists of the practice adding new mechanisms to those described by theory; conversely, in Chapter 4, the dominant form is the perspective inversion, which manifests in three of the four decisions analysed. The reason for this is structural and not accidental, as a process can be described from a single point of view, whereas a decision has two sides, even if the theoretical framework formalises only one; specifically, agency theory, staged financing, contractual structuring, and pre-revenue valuation are all models constructed from the investor's perspective, aiming to identify the best capital deployment under conditions of informational asymmetry; in contrast, the founder's problem, which is the mirror image of each of the four decisions examined in Chapter 4, is not addressed by theory. Practitioners' literature therefore does not provide a competing theory of the same object, but rather the missing half of it, and the frequency of perspective inversions observed in Chapter 4 is the measurable consequence of this absence.

The four discussed dimensions represent the axes along which the theory underdetermines the decision, and they are not equivalent to each other: the first three describe conditions that the models hypothesise but that the practice of early-stage decision-making does not satisfy, therefore along these axes the theory is correct within its own assumptions but remains silent outside of them; the fourth dimension, on the other hand, describes an aspect that the theoretical models do not address, namely the problem of the other party in the negotiation. In this regard, Figure 5.1 illustrates the four dimensions together with the sections in which each of them is documented, defining the space that the framework must occupy.

The four dimensions along which theory under-determines the decision <i>Three dimensions were derived from the theoretical frameworks in Section 2.2.5 before any evidence was read. The fourth became visible only when decisions, rather than the process, were examined</i>			
DIMENSION	WHAT THE MODELS ASSUME	WHAT THE EVIDENCE SHOWS	DOCUMENTED IN
Organizational unit of analysis	One principal facing one agent	Decisions shaped at the level of the market: fit filters, committees, and a term sheet standard nobody designs	3.1, 3.3, 4.4
Temporal structure	The contract as a static optimisation	No round is self-contained: anchors propagate forward, clauses operate backward, instruments stack	4.3, 4.4, 4.5
Scope of information	Observable, verifiable and contractible signals only	Conviction formed interpersonally, second-order evidence, a relational layer inside the legal instrument	3.1, 3.2, 3.5
Perspective	The investor's problem, formalised alone	The decision has two sides; the founder's half has no equivalent formal treatment	4.2 - 4.6
The first three are conditions the models assume and early-stage practice does not meet. The fourth is not a condition the models fail: it is a question they never asked.			

Source: own elaboration on Section 2.2.5 and on the evidence of Chapters 3 and 4.

Figure 5.1. The four dimensions along which theory under-determines the decision

5.2 Framework Development

Section 4.6 concluded by observing that professional knowledge possesses four properties that theoretical models lack; however, what is interesting is that, when read as empirical results, these properties describe what practitioners do; when read as requirements, instead, they establish the conditions that a framework must satisfy in order to connect the two bodies of knowledge, and it is in this second sense that they are employed within this section. It is important to emphasize that a framework that satisfies only some of these would fail in a specific and predictable manner, as in the cases listed below: a framework that ignores the founder's point of view reproduces the asymmetry identified in Section 5.1; one that prescribes optimization models requires inputs that early-stage decisions do not have; one that presupposes a price mechanism overlooks the ways in which parties actually coordinate; finally, one that treats each round as a separate problem ignores the pathway along which the cost of every early decision is eventually settled. Therefore, by reading these four requirements in this sense, it can be stated that each corresponds to a precise and documented mode of failure.

It is equally important to specify that the framework will not aim to replace the models reviewed in Chapter 2; in fact, Chapters 3 and 4 have not produced any clear contradiction with the theoretical frameworks, which means that these models are not incorrect, but

simply remain silent beyond a certain point. From this, the first task of the framework follows: to serve a diagnostic rather than prescriptive function, that is, to establish for a given decision to what extent the theoretical models determine its solution, and only at that point to provide what practitioners use beyond that limit. However, it must be stated that what is constructed here derives solely from the empirical evidence of Chapters 3 and 4 and has not been tested on decisions unrelated to that evidence; specifically, it is a framework understood as an organised set of decision rules with a documented provenance, and not as a validated instrument.

As noted so far, another requirement the framework must meet is that it be applicable to both parties, namely the investor and the founder, since a framework that addresses only one side of the negotiation would simply repeat the very mistake it was designed to correct. It is therefore necessary to note a consequence, namely that it is precisely because both parties can follow the same procedure that the documented coordination in Chapters 3 and 4 can work, because a market norm is only useful if it is expected that the other party also knows it, and a founder who can anticipate how an investor will interpret a particular position approaches a negotiation very differently from someone who cannot.

Moving forward, Chapter 3 concluded by describing what practice adds to the process as a second layer of knowledge that theoretical models do not contain, namely organisational, temporal, and relational knowledge. This stems from the fact that models constitute a benchmark layer that establishes what should happen when their considered conditions are met, and they remain the correct point of reference where such assumptions are confirmed; conversely, practice constitutes an operating layer that provides what decision-making requires when those conditions do not hold. It is important to emphasise, however, that the two layers are not rivals, neither is one a degraded version of the other; rather, they are complementary: the benchmark layer explains why venture capital tools have the structure that characterises them, while the operating layer is more practical and specific, for example, explaining how to manage negotiations on a term sheet with only a few days of exclusivity remaining. Confusing these levels and treating them differently leads to misguided and unproductive negotiations, such as treating the output of a valuation model for a company without operational history as an objective measurement, or ignoring theoretical models simply because their results cannot be directly applied.

The structure of the operating layer is not arbitrary, and this is the central thesis of the chapter; each of the four dimensions along which the theory under-determines decisions indeed has a corresponding rule in professional practice, and the four rules are not a collection of suggestions but a structured set of responses to the limits of theoretical models. To be more specific and to justify the above, where models formalise only one side of the negotiation, practice formulates the decision from both perspectives; where the inputs required by optimisation do not exist, practice works with fixed quantities stated as ranges to ensure robustness; where there is no price mechanism, practice coordinates on market norms and treats deviations from them as the true decision variable; finally, where models consider each round concluded, practice economically evaluates the decision throughout the entire startup process. In this regard, the four correspondences, together with the evidence supporting each, illustrated in Table 5.1, are discussed below one by one, as two of the four are direct, while the remaining two require a fuller argument.

Starting from the rule concerning the consideration of both parties in the negotiation, this corresponds to the dimension of perspective, and the match is exact because such a rule is the direct negation of the theoretical defect. Section 5.1 indeed established that the theoretical corpus formalises the investor's problem, leaving that of the founder without an equivalent treatment, and that the observable consequence is the frequency of perspective inversion observed in the decisions examined in Chapter 4; specifically, the practice formulates the decision from both perspectives before adopting it, considering what one party desires and how that decision appears to the counterparty. Therefore, it is a correction of a known bias in the available analytical tools, and its effect is visible in the evidence already collected and discussed, such as, for example, a case where a founder understands that a fund has already deployed all its capital and therefore will not invest regardless of how excellent the company might be, thus applying the correction to timing decisions (Section 4.2); or another case where an investor deals with founders who evaluate the share of ownership transferred rather than the mere valuation, and therefore will apply the correction to the valuation method decision (Section 4.3).

Continuing with the trajectory rule, this answers to the temporal dimension, and also in this case, it involves a direct correspondence; specifically, it recognises that no round is self-contained, and therefore a decision evaluated solely on the individual round is

assessed on the wrong object. Regarding the operating instruction, this involves pricing each decision along the path it opens, considering which benchmark a particular evaluation will force the next round to overcome, what a certain clause will determine if the following round closes at a lower price, and what the chosen financial instrument at the time of conversion will produce along with those that follow. Practitioners already perform this multi-round pricing and forecasting operation informally, through analysing the founders' ownership history, the revesting norms, and warnings about contractual precedents; therefore, the contribution of the framework in this area is modest and needs to be expressed precisely: it provides a name and a formal structure for an analytical operation that practice already performs correctly without formalising it, and it is precisely this step that makes such a process transmissible and teachable.

It is now the turn of the rule concerning robust quantities, which addresses the relative scope of information, but in this case the correspondence requires an argumentation that only empirical evidence cannot provide. Starting from chapters 3 and 4, it is shown how practitioners operate with fixed quantities, for example, recommending an eighteen-month runway, ceding 10 to 20% of the company per round, considering a quarter of the founders' capital as already matured, and using half a million dollars as the threshold between a convertible note and a priced round; however, none of these figures are derived from analytical models, and each circulates through the advice literature and is taught as an industry convention. The fundamental point is that evidence shows these quantities are actually used and illustrates how they are employed, but it does not demonstrate that these heuristics are superior to analytical calculation, nor does the framework claim that they are.

In this regard, however, empirical evidence demonstrates a more limited fact, which is sufficient to establish an operational rule; specifically, three elements consistently emerge from the analysis of the corpus: firstly, quantities are expressed as ranges rather than as point estimates, so the application of the rule does not require estimates that the parties are unable to formulate; secondly, they are taught without qualification, meaning that no source presents its figure as a provisional value awaiting better data; finally, at least one of them continues to be taught even after the data have contradicted it, as documented in Section 4.2. Regarding the last point, this concerns the 12-18 month planning horizon recommended by practitioners, which today falls below the observed median of 25-31

months between rounds; however, this heuristic persists because a company planning based on 18 months of cash flow maintains exactly the safety buffer required by a market that employs thirty months; therefore, if evaluated as a forecast, the rule fails, but if evaluated based on the behaviour it produces, it does not fail at all. As for the question of whether such rules are preferable to formal calculation, this is a topic to which the present evidence cannot respond, and Chapter 6 will revisit it as a direction for further research; what the framework derives from the evidence is a more contained and broadly defensible instruction, which recommends that, in the absence of the required inputs for a point estimate, one should operate within the range already used by the market and evaluate each quantity based on the results produced by its adoption, rather than its accuracy.

The focus of the analysis now shifts to the fourth rule, namely the rule concerning market norms and deviations from them, which pertains to the organisational dimension, and it is appropriate to clarify its conceptual placement. The function of norms is to transmit information; therefore, one might be tempted to classify them under the informational dimension. However, the two dimensions address structurally different problems: the informational gap concerns the individual company, responds to the question “What can we know for certain about this specific startup?”, and is a gap resolved by robust rules, which allow decisions to be made even in the absence of specific data that are impossible to obtain; on the other hand, the organisational gap concerns market coordination, meaning it responds to the question “What can we expect from a counterparty we do not know and that operates within a fragmented ecosystem?”, and the difficulty here is not evaluating the company but reducing negotiation friction. Market norms directly address this second need, because when contractual standards, ownership bands, and sector benchmarks are publicly available, founders and investors already share the same starting point; in this sense, negotiations do not need to restart from scratch on every clause of the entire contract, but can focus solely on a few critical parameters, as documented in section 3.3 and confirmed by investor literature in section 4.4.

It must be recognised that the informational effect of the rules is real, but it is a secondary effect. In practice, once a market norm is established, any deviation from it becomes immediately visible and consequently transmits a signal that was previously impossible to capture; specifically, it can send a signal about the investor, such as in the case of a more

severe liquidation preference compared to the market standard, and thus about their aggressive attitude; on the other hand, it can send a signal about the company, such as in the case of a valuation above the standard band, thereby revealing the strength of the startup or the competitive dynamics of the deal process. It can therefore be stated that the norm transforms an invisible factor (in this case, the counterpart's true intent) into a measurable metric (the distance from the standard); however, the rule is only able to generate such information because it is primarily a coordination device. Regarding operating instructions, they are therefore structured in two sequential steps: identifying the market standard before making any decision, and negotiating the deviation rather than the absolute value, interpreting the deviation proposed by the counterparty as a key piece of information about their true intentions.

Table 5.1. The four dimensions of the gap and the operating rules that answer them. Source: own elaboration on Section 2.2.5, 3.5, 4.6 and 5.1.

Dimension of the gap	What the models leave undetermined	Operating rule in practice	Evidence in Chapter 3 and 4
Organizational unit of analysis	There is no unitary counterpart and no price mechanism; the decision is shaped at the level of the market.	Rule of the norm and the deviation: identify the standard, decide the distance from it, and read the counterpart's distance as a signal.	Standard term sheet clauses (3.3); reserved matters as a global standard (4.4); the stage grammar set out in the introduction to Chapter 4.
Temporal structure	Each round is treated as a closed optimisation, while the cost of a decision is settled across rounds.	Rule of the trajectory: price the decision over the path it opens rather than over the round.	Valuation as the anchor for the next round (4.3); revesting as founders approach full vesting (4.4); deferred instruments converting together (4.5).
Scope of information	The inputs an optimisation requires are unobservable, unverifiable or non-existent when the decision is taken.	Rule of robust quantities: work with the range the market already uses, and judge a quantity by the outcomes following it produces rather than by its accuracy.	The 12 to 18 month runway rule (4.2); the 10 to 20 percent ownership band per round (4.3); the 500 thousand dollar threshold between note and priced round (4.5).
Perspective	The models formalise the investor's problem; the founder's decision has no equivalent treatment.	Rule of the two sides: state the decision from both sides before taking it.	Perspective inversion in three of the four decisions (4.2, 4.3, 4.5); Table 4.1.

By analysing and carefully reading Table 5.1, the three examined elements combine to form a true procedure. Reading the table in this way, the first step of the procedure involves placing the decision under consideration within the four dimensions of Figure 5.1 and checking which of them are actually active, since not all are relevant in every

circumstance; for example, in a large later-stage round, the choice of financial instrument activates few dimensions, as the company has an operational history, the counterparties are well identified, and the issued security corresponds to that prescribed by theoretical models; conversely, in a pre-seed stage, the same choice activates almost all of them. The number of active dimensions will be crucial, as it measures how far the benchmark layer determines the final answer, making the first step the diagnostic moment and establishing the extent to which the remaining part of the procedure is necessary.

Moving on to the second step, this employs an instrument already developed in the thesis; in fact, for the decision under examination, the typology set out in Table 3.2 summarises what has been observed from empirical evidence, classifying it into four possible verdicts: direct confirmation, unmodeled extension, perspective inversion, or contradiction. These verdicts are fundamental, as each provides a precise instruction on how to utilise formal models; specifically, a direct confirmation implies that the theoretical model can be applied as it stands, as described in section 4.4, where the separation between cash flow rights and control rights holds in practice, making the theoretical explanation of the function of control rights reliable; an unmodeled extension, on the other hand, indicates that the model is correct but incomplete, and that the omitted factors should be derived from practitioners' experience rather than deduced from the model itself; regarding the perspective inversion, this is the most significant outcome, as it implies that the model is not incorrect, but based solely on the counterparty, and must therefore be reformulated from the perspective of the interested party before being used, as required in section 4.3 for any valuation method when the actual negotiated variable is the ownership band; finally, contradiction would require completely discarding the considered model for the specific decision.

The third and final step applies the operating rules corresponding to the active dimensions, in the versions discussed previously and summarised in Table 5.1. It is important to note that, in the case where all dimensions are active, a specific order of application of the rules must be followed; in particular, the rule of the two sides must be applied first, since reformulating the decision from both perspectives can alter the very object to which the other rules are applied; then follows the rule of the norm, as the market standard constitutes the reference point against which any quantity is evaluated; this leads to the rule concerning the robust quantity, which must be used as a deviation

from this standard, rather than as an independent and isolated estimate; finally, the rule of the trajectory must be applied as a final test, to verify whether the resulting position is sustainable over multiple financing rounds, rather than limited to the current one.

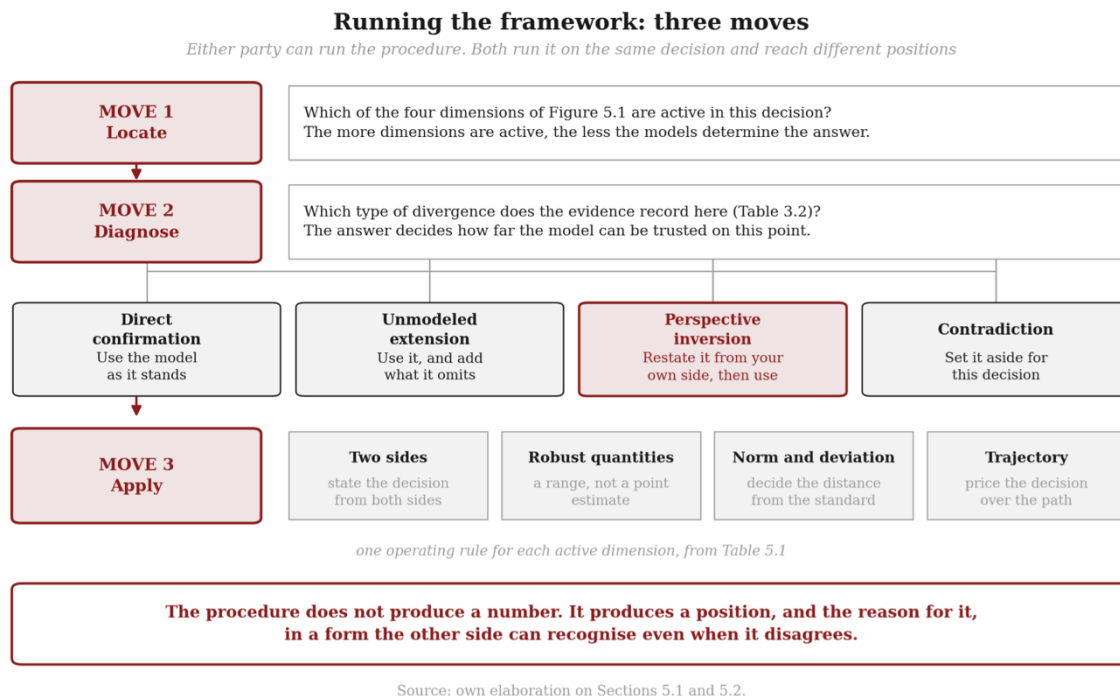


Figure 5.2. Running the framework: three moves.

Two fundamental characteristics of the procedure are worth emphasising, as they determine what it can and cannot deliver: the first concerns the fact that the procedure does not produce a numeric output, but rather a negotiating position accompanied by its rational motivation, expressed in terms that the counterpart can understand and recognise, satisfying the requirements of a negotiation conducted on the basis of shared norms (so that a purely quantitative evaluation model applied in isolation is unable to provide); the second concerns the fact that different parties arrive at different positions, meaning that two parties applying the same procedure to the same decision will reach different negotiating positions. The latter outcome is the intended result and not a defect of the model, as the rule of the two sides ensures that each actor understands the other's problem, but does not oblige them to share the conclusions; therefore, the shared procedure does not produce automatic convergence between the parties, but legibility. What has been described is crucial, because a disagreement focused on deviation from a market norm that both parties have mapped to the same reference point is infinitely more

manageable than a dispute in which each side calculates different figures using different methods.

Having reached this point, it is equally important to explicitly state three limitations of the model, and their formulation is inherent to the very definition of the framework. Proceeding in order, the first limitation is the boundary of application, as the framework was designed for early stages venture decisions, and its usefulness diminishes as the conditions that generated the analytical gap become less relevant; specifically, once a startup develops an operating history, formal valuation methods are able to recover the inputs they require; similarly, as funding rounds become larger, the practice itself tends to employ the instrument prescribed by formal theory, as documented in Section 4.5. Therefore, beyond that threshold, the benchmark layer increasingly determines the decision, and the operating layer becomes less necessary; consequently, a framework built for the opposite scenario should not be applied in such a context.

Moving on to the second limit, this concerns the rule of the norm, as it presupposes a market where standards exist, circulate publicly, and are recognised by both parties; however, the empirical evidence supporting this condition comes from the United States, the United Kingdom, and Italy, but where a set of shared standards has not yet been established, the operational instruction to identify in accordance with the norm before determining deviation has no anchoring point; therefore, in such cases, the rule fails directly rather than gradually degrading. Finally, regarding the third limit, this has already been mentioned, but it is necessary to emphasise it here because it dictates how the next section should be interpreted; specifically, the limit concerns the fact that the framework has been derived from the empirical evidence collected in Chapters 3 and 4, and has not been tested against external datasets. Section 5.3 will apply it to one of the four main decisions solely to demonstrate it operates in practice, thus providing an illustrative application but not an empirical validation test.

5.3 Practical Applications of the Framework

As anticipated at the end of the previous section, this document aims to apply the framework to one of the four decisions analysed in Chapter 4, providing a practical illustration rather than an empirical validation test, since the decision used for this purpose belongs to the set of evidence from which the framework is derived, but does not demonstrate its effectiveness on external cases. The decision chosen for application is the Valuation and Dilution decision, namely the only one among the four examined where all four dimensions of Figure 5.1 are active simultaneously, thus allowing the entire framework to be observed in action rather than just a part of it. It is important to note that the procedure will be carried out twice, once from the founder's perspective and once from the investor's perspective; this dual application is necessary because the thesis that both parties can apply the same method but arrive at different positions is the strongest assertion in Section 5.2, and therefore requires the most practical demonstration.

Proceeding in order, the first move locates the decision within the system of the four dimensions, all of which are active for a well-documented reason: the dimension of Perspective is active at the core of the decision, as theoretical models calculate the ownership stake starting from an estimate of the value, while market practice determines the amount to be raised through the runway rule and the share transferred using a market norm, leaving the valuation as a residual figure (Section 4.3); the scope of information is active because the company does not possess an operating history, and consequently the inputs required by the discounted cash flow methods or comparable transaction multiples do not exist, which is the condition established in Section 2.2.4; regarding the organisational dimension, it is active because the reference quantity is a market-wide band rather than an isolated bilateral agreement, specifically the new median investor acquires 20.7% in the Seed round and 20.1% in the Series A, advice literature suggest a share between 10% and 20% per round, and investor literature indicates the 15-20% range as its operational band; finally, the temporal dimension is active because the price agreed today acts as an anchor for subsequent financing rounds, and the current contractual clauses will demonstrate their effects over the years, as shown by the case of the down round discussed in Section 4.3. Having all four dimensions active represents the maximum complexity, meaning that the benchmark layer can only determine a minimal part of the final decision.

Moving on to the second move, this diagnoses the divergence, and for this specific decision, the type of Table 3.2 indicates a perspective inversion and two unmodeled extensions. The operational instruction resulting from Section 5.2 is very precise; specifically, regarding the perspective inversion, the valuation models are not incorrect and therefore should not be discarded, but must be reformulated from the founder's point of view before they can be used; as for the two unmodeled extensions, the use of models as negotiation tools and the management of dilution as a budget across multiple rounds indicate that the models are incomplete, and therefore what is omitted from them must be derived from practitioners' experience rather than inferred from the models themselves. However, it is important to note two points where theory and practice agree: the divergence factor that incorporates future dilution into the current objective, and the reputational discount that embeds the counterparty's value into the observed price; consequently, both must be maintained, as a framework that dismisses the confirmed elements along with the divergences would end up eliminating also what works.

Regarding the third step, this applies the four operational rules in the sequential order established in Section 5.2. From the founder's perspective, the rule of two parts modifies the object of the decision, as the Venture Capital Method works backwards from a hypothesised exit value to derive the ownership stake the investor must hold today for their return to be sustainable; this is a valuation method from the investor's point of view, but from the founder's side, this operation sets the minimum constraint for the investor to invest, establishing a return constraint rather than a real estimate of the company. Continuing with the rule of the norm, the market standard at the Seed stage is approximately one fifth of the company; however, the key variable for the founder is not the absolute level of the stake but the distance from that range, combined with the analytical motivation justifying the deviation. As for the rule of robust quantities, this sets the amount to be raised by multiplying the months of financial autonomy needed to reach the next milestone by the monthly consumption rate (the figure defined in Section 4.2), rather than using a numerical value derived from an assessment that the founder would be unable to defend; therefore, the valuation emerges as a residual variable, that is, as the arithmetic value that makes the amount raised and the equity stake transferred consistent.

We thus arrive at the application of the final rule, namely the trajectory rule, which functions as a test of the sustainability of the resulting position; in detail, the median share held by the founders is 56% after a Seed round, 36.7% after a Series A, and 24.5% after a Series B. Consequently, a founder who cedes 25% instead of 20% does not simply lose 5 percentage points, but forces the entire subsequent path to start from a lower level by 5 points, and each subsequent round will amplify this deviation through capitalisation. This test also captures what the façade figure conceals, namely that whether the option pool is created before or after the round will determine who bears the financial cost; therefore, a founder who exchanges one percentage point of equity for strategic placement of the pool can conclude a better agreement than someone who merely negotiates the nominal valuation. Furthermore, the test analyses what price the current agreement imposes to be exceeded in the next round and what anti-dilution formula will apply in the event of a down round, as in the practical case in Section 4.3, where a weighted average clause recovers approximately 121 thousand dollars in favour of protected investors, against a cumulative dilution of 27.6% absorbed by the founders over the three rounds. In light of what has been observed so far, it can therefore be stated that the procedure does not provide a valuation but a complete negotiation position; in this specific case, an amount determined by the runway, an ownership share expressed as a deviation from the market standard, and a set of clauses whose real cost has been calculated over the entire trajectory rather than on a single round.

Changing perspective now, the same four rules are applied from the investor's point of view, resulting in a different position of great analytical interest. Starting with the rule of the two sides, this requires the investor to consider and formulate the founder's problem, as observed in the investor literature examined in Section 4.3, which reminds founders that the crucial variable is the total dilution in the round rather than the headline valuation they initially tend to focus on; moving on to the rule of the norm, this identifies the same market benchmark but follows an opposite direction regarding the decision on deviation, as positioning above the benchmark (demanding a larger share) risks losing a deal and signals excessive aggressiveness, but at the same time, falling below it risks leaving the investor with a stake too small to influence the fund's results, as demonstrated by the portfolio economics illustrated in Section 2.1.2, where overall returns depend on a few winning positions being large enough to repay the fund. Regarding the rule of robust quantities, this provides the investor with a target range rather than a precisely calculated

share, as in the case of Kauffman's divergence factor, which constitutes a fixed multiplier that incorporates the expected future dilution into the current ownership requirement, avoiding the need to estimate it with analytical forecasts; finally, the trajectory rule is applied to the investor's own share, which involves the inclusion of anti-dilution provisions and pro-rata rights, existing precisely to protect the investor's equity position across future funding rounds.

Once the procedure has been applied from both parties' perspectives, comparing the two application paths clarifies what the framework produces and what it does not. As mentioned in the previous section, the framework does not generate an agreement, since the founder concludes the process with a position aimed at protecting their own ownership trajectory, while the investor aims to safeguard their stake net of future dilution, generating two genuinely opposing objectives; however, the shared procedure ensures that both parties discuss and disagree over the same target quantity, as both have identified the same market benchmark at the same point in the process, and both are aware that the valuation is a residual variable and not the central object of the negotiation. Consequently, the negotiation will focus on deviations from the market norm and the motivational levers that justify them, namely a well-defined issue on which concrete arguments and evidence can be presented. This represents the added value that Chapter 4 alone did not provide, since it demonstrated how practice performs the theoretical arithmetic backwards, but did not specify how a party should behave in this regard; in this respect, the framework provides an answer, specifically indicating that each party should negotiate the variable that is actually driving the transaction, treating headline valuation as the simple arithmetic consequence it truly is.

From the above, there are also two asymmetric practical implications: for the less experienced party (usually the founder), the procedure replaces the knowledge that would otherwise only be gained through completing multiple financing rounds, as it precisely indicates which metric to observe, where the market benchmark lies, and over what time horizon to calculate the real cost of the clauses, thus reaching its maximum value precisely where Section 4.4 documented the widest gap, namely between those who negotiate a handful of term sheets in a lifetime and those who negotiate dozens each year; conversely, for the experienced party (the investor), the procedure adds little to what experience already provides, but it has the utility of making a negotiation position

explainable and verifiable, since an investor able to demonstrate that the requested equity share falls within a documented market band and that deviations from it reflect real levers of the company provides an argument that the counterparty can verify, and this is an approach that in a negotiation process is worth much more than an assertion about the company valuation. The last implication concerns teaching and instruction, and is the reason why the framework takes the form of a guided procedure rather than a formal theoretical model, since a model requires quantitative estimation, and its estimation necessitates informational inputs that early-stage venture decisions do not have; conversely, a procedure is structured into steps defined in a strict sequential order, where each step is anchored to empirical evidence, and can therefore be learned in a single session and applied in practice within the same week.

At this point, reviewing the architecture of the work, it is important to note that the framework integrates all elements of the thesis into a cohesive system: the four dimensions provide the conceptual diagnosis; the typology in Table 3.2 issues the applicability verdict on theoretical models; the four operating rules offer the negotiation instructions; finally, the evidence of Chapters 3 and 4 provide practical cases to support each step. This makes the results of the thesis transmissible in an operational form that neither a traditional literature review nor a simple collection of practitioner documents could have offered, achieving one of the fundamental objectives that this research set out to accomplish.

The framework has now been specified, structured, and demonstrated in its practical application; Chapter 6 will follow, revisiting the three research questions in light of all four empirical and analytical chapters, defining what the thesis can and cannot support based on the evidence collected, and outlining the necessary conditions for a future empirical test of the framework itself.

CHAPTER 6 – CONCLUSION

This thesis set out to determine the extent to which professional knowledge related to the investment process in venture capital diverges from the representation provided by the academic literature on the same process, and what that analytical distance reveals. To this end, four analytical chapters have been conducted, which now enable an answer to this question; therefore, the sections that follow present these answers, explicitly state the original contribution offered by the work, clarify what the empirical evidence does not permit to be claimed, and indicate the directions along which further investigation can be developed.

6.1 Findings and Answers to the Research Questions

Proceeding in order, the analytical comparison began where SRQ1 directed it, namely by examining the investment process in its sequence, since the question asked how practitioners conduct due diligence and deal structuring in relation to what is prescribed by academic literature; in this regard, Chapter 3 retraced the five stages, from origination to post-investment governance, verifying for each whether the descriptions provided by practitioners aligned with the theoretical models. Overall, this correspondence exists, and it has indeed been demonstrated how the mechanisms outlined by theory are employed in the order used; however, from the analysis of practitioners' documents, it emerged that the signing of the term sheet actually occurs halfway through due diligence rather than at its conclusion, thus demonstrating that the substantive investment decision precedes the formal verification that literature places beforehand. It is equally important to note that, around this exception, operational practice introduces three elements not represented in traditional models, which are listed below: firstly, due diligence is not configured as a single activity but as a process divided into two stages, namely the building of conviction before the decision and the verification of representations in subsequent phases; secondly, negotiations focus on a limited number of economic parameters, while the remaining contractual architecture adopts market standards preserved by legal intermediaries rather than being tailored for each individual deal; finally, the relational dimension does not replace the contractual negotiation but is situated within the contractual instrument itself.

Moving on to the SRQ2, this shifts the focus from the investment process to the fundamental decisions made within it, asking what the high-stakes decision points are

and how the two parties approach them. This analytical shift altered the results in a manner unanticipated during the study's initial design; specifically, in three of the four decisions examined in Chapter 4, the divergence observed does not constitute an extension but a perspective inversion, wherein theory and practice describe the same economic parameter from opposite angles and with opposing operational implications; in this regard, it is important to specify that the underlying rationale is structural rather than incidental, because while a process can be described from a single perspective (explaining why the previous chapter mainly highlighted extensions), a decision by its nature involves two opposing parties, of which the theoretical corpus formalises only one. In addition to this, based on the same evidence, three further empirical regularities emerge: practitioners operate using fixed heuristic thresholds rather than continuous optimization models, treating these metrics as established market conventions rather than dynamic estimates; they coordinate through market standards, so that the object of negotiation is the deviation from the norm rather than the baseline level; finally, they determine the value of strategic decisions by evaluating the trajectory of multiple future rounds rather than limiting themselves to the immediate funding round in isolation.

These above-listed regularities, together with the perspectival partiality of the theoretical framework revealed by the inversions, constitute the four properties of professional knowledge identified in Chapter 4, as well as the fundamental elements through which it was possible to respond to SRQ3. This question asked which conceptual framework could bridge the gap between theory and professional practice in order to guide founders and investors, and the observed regularities explain why the framework in Chapter 5 could be derived directly from empirical evidence rather than imported from external sources. In detail, the construction of the framework began with the examination of the three conditions deduced from the theory in Chapter 2, confirming all three and finding that for two of them, the scope of application was broader than the original formulation; subsequently, a fourth dimension was added, which could not be anticipated by the theoretical analysis because it is only visible when examining decisions rather than processes. Based on these foundations, the framework is based on a correspondence relationship, in which, for each dimension where theory underdetermines the decision, professional practice adopts an operational rule in its place: where models formalise only one side, practice expresses the decision from both perspectives; where the necessary inputs for optimisation are missing, practice operates within the ranges expressed by

market conventions; where there is no single counterparty or price mechanism, practice coordinates around market norms and negotiates the related deviation; where models close the analysis round by round, practice prices the decision value throughout the entire financing process. These four rules thus form an operational-decisional procedure that each party can execute; and in this regard, Section 5.3 demonstrated how the two parties, applying the same procedure to the same decision, arrive at different positions, exactly the outcome a framework for two-sided decision-making should produce.

Once a response has been provided to SRQ1, SRQ2, and SRQ3, it is now possible to address the primary research question, which asked to what extent the professional knowledge of practitioners in the venture capital investment process diverged from academic theoretical prescriptions, and what such a gap revealed about the nature of the investment decision-making; therefore, the question is divided into two parts, which are addressed separately. Proceeding in order, regarding the extent of the divergence, the result obtained proves to be more precise than initially hypothesised when formulating the question; in fact, across the nine analytical comparisons (five process stages and four decision nodes), the corpus shows no explicit contradiction with the theoretical models. Direct conformities have been observed where the structure is observable and stable, such as in the overall architecture of the process, in the separation between cash flow and control rights, and in the return to priced preferred equity when the round amount becomes significant; conversely, the divergences identified take two forms, namely unmodeled extensions and perspective inversions, and their distribution provides a relevant analytical indication in itself, as extensions predominate when the object of analysis is the process, while inversions dominate when the object is a decision. Therefore, in light of what has been described, what emerges is that professional knowledge does not constitute a rejection or correction of theory, but rather occupies the space that theory leaves open when its conditions of applicability cease to hold.

What occupies such space also responds to the second part of the primary research question, namely what the analytical gap reveals about the nature of the investment decision-making, and provides the concluding thesis of this work. In detail, the distance between the two representations reveals that such decisions are not problems of constrained optimisation, as hypothesised by theoretical models, but rather coordination problems solved through shared conventions; and in this regard, three empirically

documented properties support this claim, namely: the bilateral nature of the decision by its very construction where the theoretical representation is unilateral, which explains why perspective inversion rather than error constitutes the characteristic form of divergence; the definition of its cost throughout the entire multi-year funding trajectory rather than at the exact moment of execution, which explains why practitioners manage evolving dynamics where models that conclude the analysis at the moment of signing cannot do so; finally, the market stabilisation provided by a system of norms known in advance to both parties rather than by an equilibrium price that clears the transaction, which explains why the constant metric across the market is the target ownership band rather than the valuation, and why an operational rule contradicted by quantitative data can continue to be taught and applied without misleading market participants. Consequently, a decision-making process of this nature does not represent a degraded version of optimisation as described by models, but a qualitatively different activity, whereby the theoretical models describe one of the inputs rather than the activity itself.

6.2 Contributions

This section aims to present the work carried out in terms of contributions rather than mere empirical results, identifying three noteworthy elements. The first contribution is of a theoretical nature and concerns Section 2.3.3, which interprets the sequence of the investment process as a cascade of residual asymmetries, in which each stage inherits the informational problem that the previous one was unable to resolve, applies the least costly mechanism among those available, and transfers the residual component to the next; therefore, according to this interpretation, the sequence of stages does not represent a widespread convention by pure chance, but rather the efficient order in which the available instruments should be applied based on their relative operational costs. To this must be added what the comparison conducted at the level of individual decision has made visible, namely the fact that examining decisions rather than stages has revealed a fourth dimension that a process-level comparison could not have shown, since a process can be described from only one perspective, whereas a decision structurally presents two. In this context, the frequency of perspective inversions observed in Chapter 4 is the measurable consequence, and it is precisely this dimension that organizes the framework of Chapter 5; however, the extent to which the underlying asymmetry extends beyond the corpus reviewed remains a separate issue, addressed in Section 6.3.

Moving on to the second contribution, this is of a methodological nature and lies in the research design of the comparative analysis. Specifically, professional knowledge is typically investigated through surveys, which record what professionals report in response to questions formulated by the researcher, according to categories predetermined by the latter; conversely, the present work directly examines the actual documents that professionals produce and circulate among themselves, including the operational instruments they directly employ rather than just their descriptions, comparing them with a structured review of the academic literature dedicated to the same object. Additionally, this contribution includes the typology of divergence developed in Section 3.5, as it emerged from the empirical material rather than being imposed a priori, and by assigning one of four categories to each comparison, it converts nine distinct qualitative evaluations into a rigorous, aggregable, and systematically arguable output.

Finally, regarding the third contribution, this is of a practical nature and resides in the framework developed within this thesis, whose utility is based on a structural property that was deliberate rather than incidental. In detail, this framework consists of a procedure structured into defined steps and following a fixed order, rather than an econometric model to be estimated, and therefore does not require those quantitative inputs that early-stage decision-making structurally lack; consequently, since both parties can execute the procedure independently, the resulting outcome is not an immediate agreement, but the operational readability of the negotiation, as two parties who identify the same market norm at the same point in the process and disagree merely on the relative distance from it conduct a negotiation that is significantly more manageable than two parties calculating different quantities using different methods. Moreover, this property makes the research results transmissible in a structured form that neither a standard literature review nor a collection of practitioner documents could yield, while the empirical material assembled throughout this work provides the necessary case studies for teaching and operationalizing this procedure.

6.3 Limitations

The statements contained within this thesis require a precise boundary, and since the limits of the research design have been previously outlined in Section 1.4.4, the following pertains to the limits of the empirical results, specifically detailing what the assembled evidence does not permit this thesis to claim.

Firstly, it is necessary to note that although the absence of explicit contradictions represents the most impactful result of this work, it is at the same time the one most susceptible to over-interpretation; therefore, it must be formulated for what it truly is, namely a result related to the examined corpus and not to the entire market. The practitioners who prepare such documents have in many instances been trained in the same concepts reviewed in Chapter 2, so a certain degree of convergence between the two representations can be inherited rather than independent; consequently, what the finding establishes is that professional discourse does not contradict the theoretical one, but it does not prove that operational practice (distinct from the discourse surrounding practice) never does so.

Secondly, a similar clarification applies to the foundational result upon which the developed framework is based, since the statement that the theoretical corpus formalises only the problem from the investor's perspective constitutes a claim limited to the literature identified through the systematic review described in Section 1.4.1, within the bounds of its temporal windows and disciplinary area. Therefore, a different search protocol or an extension of the investigation towards the literature on entrepreneurship rather than solely finance could reveal formal treatments of the decision from the founder's point of view that this review has not captured; consequently, the asymmetry documented here represents an asymmetry of the reviewed corpus itself, and the robustness of the aforementioned statement depends on the extent to which this corpus can be considered representative of the entire research field.

Thirdly, it is necessary to note that the selection of the four analysed decisions involves a different kind of limitation, since they were partly selected based on the conflicting indications provided by the practitioner corpus. This constitutes a reasonable but intrinsically self-limiting criterion, as it restricts the scope to decisions on which professionals express their views; consequently, equally relevant decisions, but on which the corpus remains silent, could not be examined, and their absence should not be

interpreted as evidence that such issues are settled.

Finally, the regularities observed during the analysis of practitioner documents have a validity boundary, which appears more limited than what the mere geographical dimension would suggest. As previously mentioned and specified, the quantitative evidence is predominantly of North American origin, the term sheets dataset covers the United Kingdom, while two of the three standardized templates compared are European; however, more critical than the geographical origin of the data is the underlying structural condition they reflect, since it is worth noting that each regularity documented here belongs to a market environment where standard transaction documents circulate publicly. In light of this, since the coordination based on shared norms precisely constitutes the mechanism that this thesis identifies as the element supporting the decision-making process, these findings cannot be extended to market contexts where this structural condition does not occur, in which the model would not merely weaken but break down entirely.

6.4 Future Research

The first research direction is the set of aspects that this work ideally leaves unresolved, namely the framework developed in Chapter 5, which was derived from the empirical findings of Chapters 3 and 4 and has not yet been tested outside of them. In this regard, a rigorous validation would require applying the procedure to decision-making domains that did not contribute to its original formulation, and the most informative version of such a test should be prospective rather than retrospective; specifically, both parties involved in a real financing round should execute the procedure independently, record their respective positions before the negotiation, and allow the final outcome to be observed. Such a research design would enable the determination of whether the procedure concretely alters party behaviour, which is a question fundamentally distinct from establishing whether it accurately describes existing practices (the only aspect to be addressed within the study).

A second research trajectory emerges from a question this thesis has deliberately left open; specifically, Chapters 4 and 5 document how practitioners operate using fixed quantities transmitted in the form of market conventions, and how at least one such metric continues to be taught even after empirical evidence has contradicted it. Determining whether heuristic rules of this kind are preferable to analytical calculation

under the structural conditions of early-stage investments represents a normative issue that current evidence does not allow us to resolve; providing an answer to this question would require both a different research design and the use of a branch of the literature not examined in this work, namely research into decision-making in contexts where the inputs necessary for a formal model are unavailable or unreliable. In this regard, the empirical case documented in Section 4.2 constitutes a natural candidate for precisely this type of investigation.

Finally, the last research direction is of a comparative nature and directly derives from the boundary condition articulated in the previous section, namely that the coordination mechanism identified in this work presupposes market contexts in which standardised transaction documents circulate publicly; consequently, the natural empirical test of this limitation is represented by a market in which this does not occur. In detail, examining how the same four decisions are navigated where no standardised framework has yet been established would clarify whether shared norms are replaced by alternative mechanisms, whether negotiation tends to extend to the entire contract, and whether the professional knowledge documented in this thesis constitutes a general feature of early-stage investing or rather a specific property of markets that have reached a particular level of institutional maturity.

In summary, the thesis took its first steps starting from a practical difficulty, namely the fact that a founder and an investor seeking guidance encounter two distinct bodies of knowledge that describe the same process without communicating with one another. The work concludes by providing an explanation of the reasons why they fail to communicate, along with an instrument designed to render one legible in terms of the other; however, whether this instrument will prove effective in the hands of the intended users for whom it was built remains the question it leaves behind.

APPENDICES

Appendix A – Articles reviewed in the structured literature review

The twenty-eight articles retained after the screening described in Section 1.4.1 and reviewed in Chapter 2.

The selection process and the criteria applied at each step are reported in Table 1.2. Articles are listed in alphabetical order of first author

#	Author	Title	Year	Source
1	Almubarak N.; Almulhim T.	Interdependence of Venture Capital Screening Criteria: A Decision Support Framework	2026	International Journal of Finance and Economics
2	Barrot J.-N.	Investor horizon and the life cycle of innovative firms: Evidence from venture capital	2017	Management Science
3	Bellavitis C.; Kamuriwo D. S.; Hommel U.	Mitigation of Moral Hazard and Adverse Selection in Venture Capital Financing: The Influence of the Country's Institutional Setting	2019	Journal of Small Business Management
4	Bessagnet A.	Interplay of Human and Structural Capital Signals for New Technology Ventures in Early-Stage Venture Capital Funding	2026	Management (France)
5	Block J.; Fisch C.; Vismara S.; Andres R.	Private equity investment criteria: An experimental conjoint analysis of venture capital, business angels, and family offices	2019	Journal of Corporate Finance
6	Colombo M. G.; Guerini M.; Hoisl K.; Zeiner N. M.	The dark side of signals: Patents protecting radical inventions and venture capital investments	2023	Research Policy
7	da Silva W. A. M.; Jucá M. N.; Vieito J. P. D. T.	Startup valuation by venture capital investors	2024	Revista Brasileira de Gestao de Negocios
8	Dahooie J. H.; Mohammadi N.; Sharma M.; Daim T.	Venture capital dilemma: which start-up to invest in?	2026	Review of Managerial Science
9	Dhochak M.; Doliya P.	Valuation of a startup: Moving towards strategic approaches	2020	Journal of Multi-Criteria Decision Analysis
10	Gao L.	Staged financing: a trade-off theory of holdup and option value	2017	Journal of Economics/ Zeitschrift fur Nationalokonomie

11	Gompers P. A.; Gornall W.; Kaplan S. N.; Strebulaev I. A.	How do venture capitalists make decisions?	2020	Journal of Financial Economics
12	Guenther C.; Özcan S.; Sassmannshausen D.	Referrals among VCs and the length of due diligence: The effect of relational embeddedness	2022	Journal of Business Venturing
13	Han P.; Hao S.; Luo B.	How and when can the start-up repair venture capital firms' trust with an informational strategy after task conflict: a moderated mediation model	2025	Asian Business and Management
14	Honorine A.-N.; Emmanuelle D.	Stage financing and syndication in the IPO underpricing of venture-backed firms: Venture capital and IPO underpricing	2019	International Journal of Entrepreneurship and Innovation
15	Islam M.; Fremeth A.; Marcus A.	Signaling by early stage startups: US government research grants and venture capital funding	2018	Journal of Business Venturing
16	Khoroshylova A.; Linn N.; Bock C.	Inside the Black Box: Understanding Organizational Decision Making Processes in VC Funds	2026	Strategic Change
17	Panda S.	Adequacy of agency theory in explaining the venture capitalist-entrepreneur relationship: A firm life-cycle perspective	2018	International Journal of Entrepreneurship and Small Business
18	Panda S. N.; Gopalswamy A. K.	An analysis of timing decision in venture capital staged financing: evidence from India	2020	Management Research Review
19	Sethuram S.; Taussig M.; Gaur A.	A multiple agency view of venture capital investment duration: The roles of institutions, foreignness, and alliances	2021	Global Strategy Journal
20	Sievers S.; Mokwa C. F.; Keienburg G.	The Relevance of Financial versus Non-Financial Information for the Valuation of Venture Capital-Backed Firms	2013	European Accounting Review
21	Thies F.; Huber A.; Bock C.; Benlian A.	Trusting the crowd: Effects of crowdfunding on venture capital syndicates	2023	Journal of Small Business Management
22	Trabelsi D.; Siyahhan B.	Startup cash flows and venture capital investments: A real options approach	2021	Managerial and Decision

				Economics
23	Wang Y.	Bringing the Stages Back in: Social Network Ties and Start-up firms' Access to Venture Capital in China	2016	Strategic Entrepreneurship Journal
24	Warnick B. J.; Murnieks C. Y.; McMullen J. S.; Brooks W. T.	Passion for entrepreneurship or passion for the product? A conjoint analysis of angel and VC decision-making	2018	Journal of Business Venturing
25	Zhang J.; Shi W.; Connelly B. L.	Screening theory and its boundaries: investigation of screen credibility, necessity, and salience in the context of corporate venture capital	2024	Academy of Management Journal
26	Zhang R.; Tian Z.; McCarthy K. J.; Wang X.; Zhang K.	Application of machine learning techniques to predict entrepreneurial firm valuation	2023	Journal of Forecasting
27	Zheng L. J.; Bai T.; Cross A. R.	Signaling Information Management in Entrepreneurial Firms' Financing Acquisition: An Integrated Signaling and Screening Perspective	2021	Journal of Global Information Management
28	Zhou Y.; Park S.; Zhang J. Z.; Ferreira J. J.	How do innovative internet tech startups attract venture capital financing?	2025	Journal of Management and Organization

Appendix B – Foundational works retrieved by backward citation

The ten works on which the theoretical account of Chapter 2 rests. All of them predate the search windows of the three queries reported in Table 1.1 and could not be retrieved by them; they were reached through the references of articles listed in Appendix A, as explained in Section 1.4.1. Works are listed in alphabetical order of first author.

#	Author	Title	Year	Source
1	Akerlof G. A.	The market for "lemons": Quality uncertainty and the market mechanism	1970	Quarterly Journal of Economics, 84(3), 488–500
2	Connelly B. L.; Certo S. T.; Ireland R. D.; Reutzel C. R.	Signaling theory: A review and assessment	2011	Journal of Management, 37(1), 39–67
3	Damodaran A.	Valuing young, start-up and growth companies: Estimation issues and valuation challenges.	2009	NYU Stern Working Paper
4	Gompers P. A.	Optimal investment, monitoring, and the staging of venture capital	1995	Journal of Finance, 50(5), 1461–1489
5	Hsu D. H.	What do entrepreneurs pay for venture capital affiliation?	2004	Journal of Finance, 59(4), 1805–1844
6	Jensen M. C.; Meckling W. H.	Theory of the firm: Managerial behavior, agency costs and ownership structure	1976	Journal of Financial Economics, 3(4), 305–360
7	Kaplan S. N.; Strömberg P.	Financial contracting theory meets the real world: An empirical analysis of venture capital contracts.	2003	Review of Economic Studies, 70(2), 281–315
8	Sahlman W. A.	The structure and governance of venture-capital organizations.	1990	Journal of Financial Economics, 27(2), 473–521
9	Spence M.	Job market signaling	1973	Quarterly Journal of Economics, 87(3), 355–374
10	Tyebjee T. T.; Bruno A. V.	A model of venture capitalist investment activity	1984	Management Science, 30(9), 1051–1066

Appendix C – Documents of the practitioner repository

The thirty-six documents retained after the screening described in Section 1.4.2 and analysed in Chapter 3 and 4. The selection process and the criteria applied at each step are reported in Table 1.5. Epistemic status follows the classification introduced in Section 1.4.2. Documents are listed in alphabetical order of author.

#	Author	Title	Year	Epistemic Status	Sections
1	All Things VC	The Big Book of Venture Capital - Q1 2025	2025	VC-facing	4.2
2	Alvise Bonivento - Indaco Venture Capital	Slide corso F&F: Investment Process	2025	VC-facing	3.1; 3.2; 3.3; 3.4; 4.4
3	Benjamin M. Hron	Negotiating Your First Term Sheet	2023	Founder-facing	4.4
4	BVCA	A Guide to Venture Capital Term Sheets	2007	Intermediary	3.3
5	Capdesk	Cap Tables: from Formation to Exit	2021	Intermediary	3.4
6	Carta	Startup Valuation on Steroids	2025	Intermediary	4.3
7	Carta	Foundational Equity 2025	2025	Intermediary	4.4
8	Carta	SAFE Fundraising 101	2024	Intermediary	4.5
9	Carta	VC Startup Ownership by Stage	2025	Intermediary	4.3
10	Carta	State of VC 2025	2025	Intermediary	4.2; 4.3
11	Carta	Thinking About Founder Dilution	2024	Intermediary	4.3
12	Carta	Founder Ownership Report 2025	2025	Intermediary	4.4
13	Davidson Oturu	A Founder's Guide to Convertible Notes and Preferred Equity	2025	Founder-facing	4.5
14	Early Growth	Venture Capital: Everything You Need To Know About Raising VC Funding	2020	Founder-facing	3.3; 3.4
15	Edda	The Venture Capital Due Diligence Questionnaire	2019	VC-facing	3.2
16	Foley Hoag	Understanding Venture Capital Term Sheets	2014	Intermediary	3.3; 4.5
17	Harlem Capital	Harlem Capital Syllabus	2022	VC-facing	3.2; 3.4; 4.3

18	HSBC Innovation Banking - Glen Waters	Venture Capital Term Sheet Guide 2025	2025	Intermediary	3.3; 4.4; 4.5
19	Hustle Fund VC - Tam Pham	Raise Millions	2024	Founder-facing	3.1
20	Italian Founders Fund	Term Sheet – [Pre-]Seed Financing	2026	Founder-facing	3.2; 3.3; 3.5; 4.3; 4.4
21	Jainaba Njie	Investment Committee Insights	2026	VC-facing	3.5
22	Josh Aharonoff	Every Stage of Fundraising Explained	2025	Founder-facing	Ch. 4 introduction
23	Kauffman Foundation	Valuing Pre-Revenues Companies	2007	VC-facing	4.3
24	Majd Alaily	The (Real) VC Questionnaire	2025	VC-facing	3.2
25	Mohammed Elayan	Equity Fundraising Basics for Founders	2016	Intermediary	3.3; 4.5
26	NFX - James Currier	How VCs Decide to Take a First Meeting - 12 Reasons	2019	VC-facing	3.1
27	Paul Graham (Y Combinator)	How to Raise Money	2013	Founder-facing	3.1; 4.2; 4.3
28	Playfair Capital	Term Sheet Template	2024	VC-facing	3.3; 3.4
29	Prof. V. Ravichandran	Venture Capital Method of Valuation	2025	VC-facing	4.3
30	Prof. V. Ravichandran	Startup Valuation & Anti-dilution Provisions	2025	VC-facing	4.3
31	R. Harroch, L. Kane (Forbes)	15 Questions Venture Capitalists Will Ask Before Investing in Your Startup	2019	VC-facing	3.2
32	Sam Altman (Y Combinator)	Startup Playbook	2015	Founder-facing	3.1; 4.2
33	Slavomir Hruska	Fundraising from the Other Side of the Table	2025	VC-facing	3.5; 4.2
34	Spice Route Finance	Stages of Funding: An Explainer	2024	VC-facing	Ch. 4 introduction
35	Y Combinator	YC Series A Checklist	2018	VC-facing	3.2
36	Y Combinator (G. Ralston)	YC Guide to Seed Fundraising	2016	Founder-facing	4.2; 4.3; 4.5

Appendix D – The (Real) VC Questionnaire

The scoring sheet discussed in Section 3.2 and reproduced in part as Figure 3.3, presented here in full. Source: Alaily (2025), reproduced with attribution.



The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Market	0pts	1pt	3pts
Is there a clear market demand and opportunity for disruption?	“nice to have”	Low urgency / high switching cost	Validated strong demand
Is the market growing , saturated, or in decline?	Declining	Flat	>10% YoY growth
Is your Total Addressable Market (TAM) large enough (>\$1B)?	No sizing / evidence	1Bn+	1Bn+ with strong validation

Traction	0pts	1pt	3pts
Are you showing strong user # and growth (DAUs, WAUs, MAUs)?	Zero growth, very early	>10% MoM	>10% WoW
Is there stickiness in your product (high retention, low churn)?	High churn	30% retention in 8 weeks	50% retention in 8 weeks
Are your financials solid (MRR/ARR, runway, burn rate)?	No revenue	<\$10k MRR Short runway	\$10k - \$100k MRR
Is your business model efficient (CAC:LTV ratio)?	Blind Acquisition	<1:3	>= 1:3



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Majd Alaily
in @majdalaily



The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Product / Tech Fit

	0pts	1pt	3pts
How painful is the problem you're solving (scale of 1-10)?	No signs of pain	Painful not urgent	"Hair on Fire"
Can you demonstrate PMF through user adoption and feedback?	No sign of PMF	Anecdotal Evidence	High NPS, PMF Score > 40%
Are customers willing and able to pay your price point?	No payment data	Validated payment	Strong conversion %

Team

	0pts	1pt	3pts
Do you have more than one founder , with complementary skills?	Solo-founder	2+ founders, complementary	Previous startup / exit
Do you have the right background (edu., employment) to execute?	No relevant experience	Some background	Deep domain expertise
Is there a proven startup track record (previous ventures, exits)?	First time founder	Previous founder	Exited founder, 0 to 1 track record
Are founders resilient & can they navigate challenges?	Subjective	Subjective	Subjective



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Majd Alaily
in @majdalaily



The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Risk Profile

	0pts	1pt	3pts
Any potential regulatory or legal hurdles ?	Heavy regulation	Regulatory risks being addressed	Clear compliance path / strategy
Is this a solution for today and the next 10 years ?	Trend chasing	Mid-term need	Evergreen problem

GTM

	0pts	1pt	3pts
Do you have a proven and cost-effective acquisition strategy?	Nope	Experiments ongoing	Clear channels with solid CAC
Clear plan for how funding will unlock growth in the short term?	"We'll grow fast"	General plan	Clear fund mapping + key milestones
Are the milestones in your GTM plan achievable & well-defined?	No plan	Timelines / targets questionable	Achievable with confidence



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[in](#) @majdalaily



The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Scalability

	0pts	1pt	3pts
Can you scale (clear path to \$100M ARR, \$1B valuation in 10 yrs)?	Business Caps Out	\$100M+ Opp.	\$1Bn+ Opp.
Is there a defined path to profitability ?	High burn, no monetization	Some revenue, no profit	Clear breakeven model based on real economics
Is there a path to efficient scaling through technology ?	Manual heavy processed	Some automation but requires extensive hires	Clear tech driven scale

Trenches

	0pts	1pt	3pts
Can you create a monopoly capture significant market share ?	Commodity market	Competitive market but differentiation possible	"Blue Ocean"
Do you have unique IP or proprietary technology? (Hello AI)	No IP	Some differential but replicable	Patents, proprietary models, etc.
Is there a competitive advantage (product, process, price, niche)?	Commodity	Competing on sales	Strong differentiator / moat



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in @majdalaily



The (Real) VC Questionnaire

What VCs actually look for. How much will you score?

Timing

	0pts	1pt	3pts
Is this the right time for this opportunity to succeed?	Too early / too late	Good timing, adoption unclear	Timing is now
Is it riding a short-term fad or a long-term trend?	Chasing hype	Tied to an early disruption	Anchored in multi-year trend
Should we invest now , or wait a bit?	No traction, incomplete team, untested idea.	Needs 6–12 months more validation.	hot deal, traction curve rising, space is moving.

Investor Fit

	0pts	1pt	3pts
Does this opportunity fit within our investment thesis?	Wrong stage, sector, or geography	Could stretch the thesis	Direct fit
Gut feeling? (never to be underestimated here)	Something feels off	Interesting team and idea, but lacking “spark”.	Strong founder energy. This team will find a way.

Are you ready for VC investment?

/90



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Dichiarazione del ricorso a strumenti di Intelligenza Artificiale (IA)

Il sottoscritto *Davide De Donato*, matricola numero 908395, iscritto presso Ca' Foscari al corso di Laurea magistrale in *Global Accounting and Finance*, autore dell'elaborato finale *The Venture Capital Investment Process: Theory, Practice, and Decision-Making*, relatore *Carlo Bagnoli*, consapevole delle sanzioni previste dall'art. 76 del Testo unico, D.P.R. 28/12/2000 n. 445, e della decadenza dei benefici prevista dall'art. 75 del medesimo Testo unico in caso di dichiarazioni false o mendaci, sotto la propria personale responsabilità ai sensi degli artt. 46 e 47 del D.P.R. 28/12/2000 n. 445,

DICHIARA

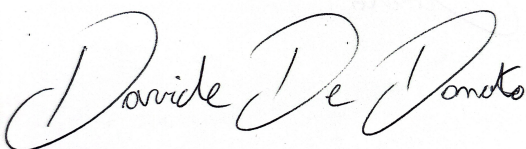
di aver fatto ricorso a tecnologie di intelligenza artificiale generativa per supportare vari aspetti della ricerca e della scrittura del suo elaborato finale, in particolare:

- Claude Opus 5, versione rilasciata nel 2026;
- Per la revisione e ottimizzazione del testo per migliorare chiarezza e coerenza.

DICHIARA INOLTRE

che tutto il materiale generato dall'IA è stato attentamente verificato, rivisto e rielaborato dall'autore, che si assume la piena responsabilità per la qualità, l'accuratezza e l'integrità scientifica del lavoro.

28/09/2026

A handwritten signature in black ink, reading "Davide De Donato". The signature is written in a cursive, flowing style. The first name "Davide" is written in a larger, more prominent script, followed by "De Donato" in a slightly smaller, more compact script. The ink is dark and the background is white.