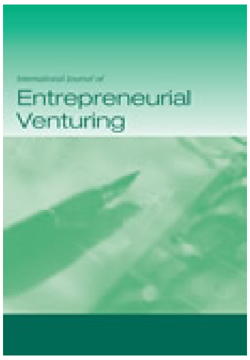

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Value-add and portfolio construction strategies in venture capital: a case study approach on investor perceptions

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Abstract: VCs invest in high-performing entrepreneurial firms with the aim of generating high returns. Value-add and portfolio construction are two strategic levers that investors can use to differentiate themselves in an increasingly competitive environment. This paper adopts a case study approach and interviews ten prominent European investors from Western Europe. Its findings are that: 1) value-add is a main preoccupation of VCs where human capital, interpersonal relationships, and monitoring matter; 2) portfolio construction varies and is influenced by considerations of diversification, syndication and exits. This paper contributes to the literature by providing a synthesised understanding of VC activities in a more mature and competitive European start-up ecosystem.

Keywords: venture capital; VC; value-add; portfolio construction; competition Europe.

JEL codes: G24, G31.

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1 Introduction

Venture capital (VC) in Europe has grown at a rapid pace. In nearly a decade, total deal value has grown 40% YoY, peaking at $105bn in 2021 (Patel, 2022). This has led to the creation of many successful startups that have gone on to raise additional funding rounds, few of which have become unicorns. In 2021, Europe was home to 85 new unicorns in sectors from fintech to healthcare, outpacing unicorn growth in the USA, which is the biggest venture market (Petzinger, 2022a).

The spurt of growth in Europe has made competition for deals harder. There are 120 US funds with an office in Europe, with 80% of European unicorns having at least one American investor (Petzinger, 2022b). European VCs face additional competition from newly established funds, corporate funds and private equity. In 2021, 43 new VC funds, 13 private equity firms and 5 new corporate venture funds (CVCs) entered the startup market (ibid.). Together with alternative financing schemes, such as venture debt and equity crowdfunding, entrepreneurs now have a plethora of choices when choosing their next funding strategy.

Against this backdrop of growth and increasing competition for deals, this paper explores how VCs perceive their contribution towards value-creation. It is widely acknowledged that VCs provide portfolio firms with various resources other than financing (Sapienza et al., 1996). Investors have networks, previous experience and strategic insights that can confer valuable support to a startup. Nevertheless, the ways in which value-add benefits occur in Europe have not been studied in detail (Croce et al., 2013). Research has been limited on understanding the heterogeneity of VC activities and how these might change when the need for differentiation is greater.

In addition, clarity can be given on the factors influencing portfolio construction decisions. The existing literature is fragmented and this has resulted in some topics being overlooked. For example, there has been little emphasis on how market conditions impact capital allocation (Chaplinsky and Gupta-Mukherjee, 2016) or how syndication boosts entrepreneurial firm performance (Jääskeläinen, 2012). By looking more closely at the *diversification*, *syndicate* and *exit* strategies of each fund, it is possible to develop a synthesised understanding of the dynamics that shape investor choices. Portfolio construction is complex; an extensive review can help identify levers for improving VC performance.

The paper uses in-depth interviews to explore value-add and portfolio construction strategies. The interview sample used in this paper consists of ten prominent European funds, ranging from seed to Series C investors. Qualitative studies have not been used often in VC despite their ability to translate real world observations into theoretical insights (Yin, 2012). It is worth noting that the case study approach suffers from a few challenges as due to the small sample size, it is difficult to test the results and obtain robustness. The conclusions of this study are not generalisable and any recommendations should be taken with caution.

The paper contributes to the existing literature in at-least two ways. Firstly, the existing research has not paid sufficient attention to VC activities (Meglio et al., 2017; Da Rin et al., 2011). The findings help bridge this gap by identifying key levers that influence VC strategy at a startup and portfolio level. By providing a closer examination on the perspective of Europe's top investors, it is possible to see how factors are interconnected, for example trust can lessen the need for monitoring, thus developing a more complex narrative of VC activities.

Secondly, this study is important for adding to the qualitative literature in entrepreneurial finance. There is much emphasis on quantitative tools which has led to the prioritisation of questions in the literature for which data is readily available (Harrison and Mason, 2019). A wider range of research methodologies can help address questions where immeasurability is a challenge. For example, Gompers et al. (2020) run a quantitative study analysing 681 VC survey responses. Their research is limited to the type of answers that the survey respondents must choose from and cannot uncover what 'connecting to investors' or 'strategic advice' means to each fund. A case study approach helps tackle obscurity by allowing the researcher to investigate VC practices by speaking directly with investors.

Thirdly, the interview results show several interesting findings which partly contradict and partly confirm the existing literature. One result that contradicts the existing literature is that investors do not seem to be as aware of VC coopetition as Syndakis et al. (2019) suggest. None of the investors in the sample rely on other funds for resources. Another result is that they are not actively looking to replace the CEO or other key staff members to professionalise a firm (Conti et al., 2019). Investors were most concerned about their internal value-adding capabilities and did not want to bother the entrepreneur with unnecessary mingling.

On the other hand, VCs value founder responsiveness (Svetek, 2022; Warnick et al., 2018). All interviewees indicated that they care about establishing close personal relationships and they are eager to respond to interpersonal cues. Strong partiality was prevalent for founders that displayed coachability and, where the possibility of conflict loomed, investors gravitated towards informal mechanisms, such as a drink or meal, to resolve tense situations. There was much emphasis on community building between portfolio companies. This supports the suggestion that VCs are important facilitators of knowledge transfers between entrepreneurs (Dessi and Yin, 2015). Many investors mentioned organising talks or events to achieve these aims, often inviting the most successful startups to share their insights. The organisation of online groups and off-site travel days is a new form of VC activities that is intended to promote shared values.

Other findings that contradict the literature are apparent in portfolio construction. Lead investors expressed clear preferences towards co-investing with VCs that match their reputation or that they know from previous investments. As such, while lead investors in principle have greater syndication outcomes as Plagmann and Lutz (2019) argue, they are unlikely to exercise their options. Investors reported that they were content with their existing networks and showed little interest to engage with funds that were unfamiliar to them. Few exceptions were made for geographically motivated syndication, where VCs partner with others to reap local knowledge.

Finally, the results affirm that VCs look to establish portfolio synergies with diversification (Lehner, 2022; Makarevich, 2018). Almost half of the investors expressed priority for investing in complement industries or geographic areas where their portfolios can benefit from clustering. It is evident therefore that VCs not only operate with the aim of minimising risk but look to amplify their return profile by creating additional benefits for themselves. VCs also showed that they are sensitive to exit time horizons (Chaplinsky and Gupta-Mukherjee, 2016). They mentioned that their investment priorities can shift throughout the fund life cycle depending on market fluctuations. Few commented on the fact that time horizons affect portfolio industry focus, as in difficult times, they will look to consolidate their investments across less volatile markets.

The paper is structured into four sections. Section 2 provides an overview of the existing literature on value creation and portfolio construction. Section 3 details the case study approach and presents the interview sample. Section 4 introduces the results. Section 5 concludes.

2 Conceptual framework

VC firms provide capital to high-growth technology companies with the aim of generating high returns. They have several tools at their disposal, from networks to strategic experience, which allow them to support a higher performance of the entrepreneurial firm. This is an advantage that persists despite the prevalence of alternative financing providers in the ecosystem, such as equity crowdfunding and angel syndicates (Bonnini and Capizzi, 2018). VCs seem to be uniquely positioned to provide value which evidences itself in the fact that VC-backed businesses typically outperform non-VC backed ones in the long-term (Thng, 2018). The sooner the VC comes in the stronger the effect takes place (Jeong et al., 2020).

In previous literature, the value-add effect of VCs was put into doubt. The ‘scout’ vs. ‘coach’ debate saw VCs caught in the discussion on whether their returns were due to a highly selective screening process (‘scout’) or post-investment support (‘coach’). Croce et al. (2013) controlled for these two factors and established that in Europe value-add positively impacts startup performance. Meglio et al. (2017) surveyed past papers and found that VCs contribute to the growth of startups from both scouting and coaching.

The ways in which value-add activities contribute is poorly understood, nevertheless, with little evidence showing how VCs approach this issue. Meglio et al. (2017, p.518) note that “scant attention has been paid to the heterogeneity of venture capitalists and their capacity to contribute”. This is intriguing considering the effect value-add has on boosting entrepreneurial firm performance.

Drawing from De Clerq and Manigart’s (2007) conceptual framework, it is possible to think of value-add activities as three separate categories. The following are suggested in Figure 1

a human capital

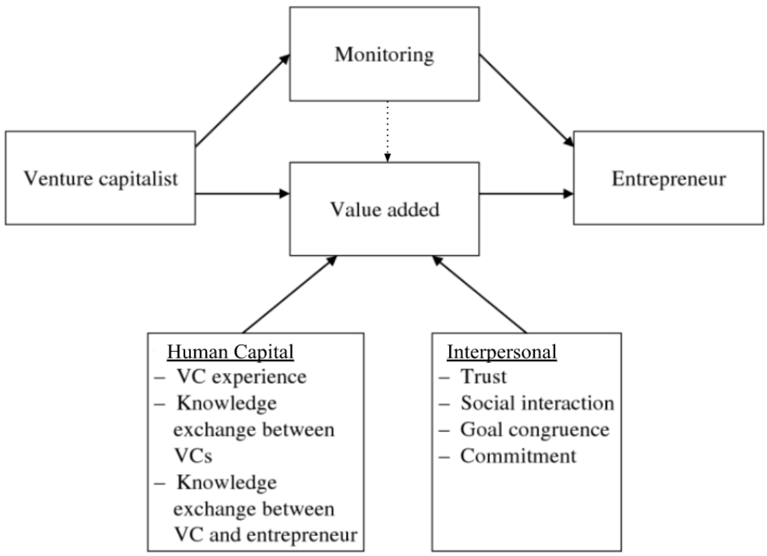
b interpersonal

c monitoring.

Human capital refers to the previous know-how and networks accumulated over the course of an investor’s career. Gompers and Mukharlyamov (2022) find that investors with prior successful startup experience outperform other VCs by 6.5%. After investor experience, human capital shapes value-add in two other ways: the knowledge exchange from VC to VC and the knowledge exchange from VC to entrepreneur. Syndakis et al. (2019) show how VC coopetition is crucial for the transfer of resource-based content between investors; while Dessi and Yin (2015) stipulate that investors facilitate valuable exchanges between entrepreneurs.

Interpersonal value-add consists of trust, goal-alignment, commitment, and social interaction. Trust, which separates into the emotional and cognitive type, is the foundation which enables the transfer of value-add from the VC to the entrepreneur (Gehlen et al., 2018). Trust and frequency of social interaction between investor and entrepreneur contributes towards superior firm performance (Ed-Dafali and Bouzahir, 2022; Ed-Dafali et al, 2022). Moreover, VCs place emphasis on coachability, i.e., the willingness of the entrepreneur to actively seek advice (Svetek, 2022) and are more likely to support entrepreneurs who exhibit such behaviour.

Figure 1 Value-add conceptual framework



Note: This figure shows a modified version of the conceptual framework of value-add (De Clerq and Manigart, 2007).

Monitoring is indirectly related to value-add because it helps investors fulfil their fiduciary obligations rather than contribute to the creation of high returns. Monitoring involves several formal control mechanisms such as taking board seats. The board is valuable to recruit impartial directors and increase the likelihood of an acquisition (Amornsiripanitch et al., 2019). It can help with CEO replacements, which are positively associated with greater innovation and higher survival rates (Conti and Graham, 2019). Contracts, such as convertible securities and control rights, are also a formal control mechanism.

Besides value-add portfolio construction in the second lever of investor success.[1] VCs have a limited the number of companies they can select and resources they can provide. They must strategise on how they invest and with whom, to maximise resource allocation and future outcomes. For example, there are trade-offs between portfolio size and value-add (Kanniainen and Keuschnigg, 2002; Fulghieri and Sevilir, 2009); the more stretched out VC abilities are, the fewer entrepreneurs are willing to cede ownership, making VCs restricted to an optimal number of investments to reduce dilution effects and optimise returns.

Portfolio construction involves several questions about diversification. The literature has focused on how investors manage diversification across thematic areas and geographies to manage risk. Buchner et al. (2017) develop the hypothesis that diversification across industry enables VCs to seek riskier investments, which in turn can lead to higher returns. They support the view that generalist funds outperform specialist ones. Devignier et al. (2016) find that cross-border funds are better at terminating low-performing investments than domestic funds due to lower emotional and social pressures, therefore avoiding losses over time.

Nevertheless, there are more granular reasons that influence diversification, such as *portfolio complementarity* and *investment horizons*. Few studies have looked at how the combination of networks and geography motivate within-industry diversification (Lehner, 2022). Or, how the fund lifecycle and investor timeline preferences affect the selection of investments based on maturity (Barrot, 2016).

In addition to examining how VCs strategise over diversification, this paper will review another important part of portfolio construction: syndicates. Syndication has been well-researched, with many academics focusing on how syndicates are formed and how certain characteristics are correlated with entrepreneurial firm performance.

Jääskeläinen (2012, p.2) laments that not enough research has been done to comprehend VC strategic motives for syndication and describes the existing research as ‘fragmented’ and ‘dispersed’. Nguyen and Vu (2021) affirm that there is a poor understanding of the benefits of international syndication, while Hopp (2010, p.430) describes the network expansion strategies behind the choice to enter a syndicate as a ‘black box’. Evidently, the motives behind syndication and their likely outcomes need to be better understood.

Finally, this paper considers exit strategy as a driver behind portfolio construction. The literature on exits has been mostly skewed towards measuring the outcomes of VC characteristics on IPO success; for example, Krishnan et al. (2011) document how the reputation of VCs is positively associated with post-IPO success, while Milosevic (2018) attempts to understand how the experience of investors affect IPO outcomes. The section on ‘exits’ of this paper adopts a different approach by looking at investor preferences and how market exit conditions shape capital allocation outcomes.

3 Methodology and interview sample

To understand how VCs construct value it is worthwhile to pursue a case study approach. A case study approach has multiple benefits in allowing the researcher to identify cases in real world settings and derive insights which can then help inform theoretical discussion. According to Yin (2012) this type of research is especially relevant when:

1 the object examined is complex, i.e., the range of value creation activities in VC are difficult to quantify or measure

2 there is a desire to develop an in-depth understanding, i.e., the existing literature has failed to better understand the nuances of value creation or portfolio construction.

The case study approach is no stranger to VC, as it has been used to further understand investor behaviour in Estonia and Finland. Kõomägi and Sander (2006) interviewed 5 of the biggest funds between 2004–2005 on their decision-making and deal structuring processes. They found that Estonian VCs tend to take minority stakes in companies, do not often resort to syndication and use an internal rate of return to benchmark the successes of their investments. Jyväsjärvi (2022) delved deeper into how Finland-based VCs perceive their value-add towards startups. His research revealed that investors’ biggest impact lies in minimising formalities between the entrepreneur and syndicating future investment rounds.

The main advantage of the case study approach lies in the fact that it can help illuminate 'the difficult-to-observe processes by which VCs can add value' in the wider literature [Da Rin et al., (2011), p.597]. The processes behind an investor-entrepreneur relationship are challenging to monitor, as networks and other tools, such as expertise, are hard to capture. Indeed, De Clerq and Manigart (2007, p.194) have often referred to post-investment support as a 'black box'. The resources exchange and interactions between investor and entrepreneur have been understudied.

The case study approach allows researchers to gain a micro-level understanding of processes and activities in VC. It is useful in gathering practical insights from investors, despite the lack of rigour in the selection and interpretation of the data, which leaves the method open to few natural vulnerabilities. The case study method can help uncover the complexities in VC by avoiding standardised questions and providing greater clarity over investor motivations.

Table 1 Interview sample

Name	*Main location*	*Orientation*	*Size of deals*	*Interviewee position*
Fund A	UK	B2B SaaS	Seed to Series C	Partner
Fund B	Spain	Generalist	Seed to Series C	Associate
Fund C	Switzerland	Generalist	Seed to Series C	Associate
Fund D	UK	Fintech and B2B SaaS	Series A+ (bridge)	Analyst
Fund E	Germany	Generalist	Seed to Series C	Summer associate
Fund F	Czech Republic	Generalist	Pre-seed and seed	Partner
Fund G	France	Generalist	Seed to Series B	Partner
Fund H	Luxembourg	Generalist	Seed to Series C	Associate
Fund I	Netherlands	Ed Tech, Climate Tech, Future of Work and New Social Tech	Pre-seed and seed	Investment manager
Fund J	Spain	Generalist	Series A	Investment manager

Note: This table shows the profile of the investors in the sample.

The interview sample focuses on VCs in Western Europe. Western Europe has the most mature ecosystem on the European continent and therefore it is expected that value-add activities will carry the most weight in this geographical area (Sapienza et al., 1996). A more mature ecosystem is more likely to be competitive leading to the need for a stronger differentiation strategy among investors. Only one fund from the Czech Republic has been included in the sample which invests in Western and Eastern Europe.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions

	1. What non-financial resources do you provide to portfolio firms?	*2. Do you have a value creation strategy?*	*3. Who is responsible on the investment team for shaping your value-add?*	*4. Are there any formal or informal channels which you prefer over others to bring value to your portfolio companies?*	*5. How much of an active role do you play in shaping governance?*	*6. What is your target ownership share and how is it determined?*	*7. What financial instruments do you prefer in a deal?*	*8. How do you balance resources between portfolio companies?*	*9. What influences the way you construct your portfolio?*	*10. Is there an optimal number of portfolio companies?*
Fund A	We provide operational support to assist in hiring and strategy, to reach min ARR. We rely on our own dedicated people, our network of experts and peers across the portfolio. Our ability to have a positive impact upon a founder is immediate from an experiential perspective.	The key question everything evolves around is 'how do we support the portfolio company to deliver on their expectations for reasons they took our money?' Predominately they take our money because we're SaaS experts where ex-operators and entrepreneurs and we add value. Our proposition is really to deliver on that	Investors and our operations team	The way to build trust is to actually help right now doing something meaningful and valuable... Can you help me with this? Can you do that? Because we built a trusted relationship.	The board is not the place to add value as such, right?... I think you can have huge amount of influence outside of the board.	Lead in Series A and Series B, ownership 5%–10%, not influenced by portfolio.	Priced rounds	So anybody we've invested in from the last 12 to 18 months is a number one priority as far as I'm concerned. And then alongside that you've got the high performing high potential companies and interestingly there you're very selective.	Certainly, our requirements to make a return and this changes the way that we think about how we support portfolio companies.	n.a.
Fund B	I truly believe that there are only three things ways; we can make a difference helping entrepreneurs. The first one is money, second is commerciality and human resources, third is strategy.	We do not have a full strategy on how to work with people. Our strategy partly depends on two things: firstly, the partner that is carrying the company. There are partners with multiple board seats that choose to be very actively involved and others that do not get so involved. Secondly, we monitor what is happening with our portfolio companies. For example, one of our investments devised a very strong outbound sales machine and we organised a webinar for other entrepreneurs to learn from them.	No, it is spontaneous and depends on the partner carrying the company.	We adapt ourselves depending on the needs of the entrepreneur, we're not pushy.	There is no clear rule on how to behave on boards. We're just listeners and in the case where we have something to add we will but we're not going to interrupt the entrepreneur.	We always try for 10% no matter our previous investments, try to help no matter the percentage of equity we have in the company.	Priced rounds	When we do something, we do it for all the portfolio	We are sector agnostic, but we are like super focused on Spain.	We aim for around 30 investments. Once we have the first 25, we can say, okay we have a lot of consumer, let's take time to deliberate if we can invest more in deep tech.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	1. What non-financial resources do you provide to portfolio firms?	*2. Do you have a value creation strategy?*	*3. Who is responsible on the investment team for shaping your value-add?*	*4. Are there any formal or informal channels which you prefer over others to bring value to your portfolio companies?*	*5. How much of an active role do you play in shaping governance?*	*6. What is your target ownership share and how is it determined?*	*7. What financial instruments do you prefer in a deal?*	*8. How do you balance resources between portfolio companies?*	*9. What influences the way you construct your portfolio?*	*10. Is there an optimal number of portfolio companies?*
Fund C	The way we approach value-add is more about understanding the situation portfolio companies are in and then giving them support based on what they tell us. Our primary value-add is our angel network, we also have our portfolio day which was just recently and that's also where we bring all founders and investors together. We also have a dedicated resource page.	More spontaneous approach. It is more about understanding the situation portfolio companies are in and then giving them tips. We have meetings every Friday where if an investor needs help with a connection, they can say so.	Every investor brings something different	Our fund prides itself in having great relationships with the founders and only really investing in founders where we think we could have a relationship for the next 10 or 20 years.	No active role. The partner only invests in the types of people he really gets along with... there are a lot of informal meetings.	Do not have a target	Priced rounds	Each one has like a certain amount of portfolio companies.	Our market knowledge-this is connected to the value we think we can bring.	No
Fund D	Our network is our most valuable resource. The partners previously had a crowdfunding platform which was for high-net-worth individuals and angels. Because of this, we often have very good connections to advisors, people who have had held advisory positions for startups, but also founders who are really good at building.	Not formally, we are a small fund, but we actually decided recently that we want to do more on community-building among founders.	Partners	Informal but can also help with ESG structuring	No active role, but can support with ESG criteria	We care more about getting the right valuation rather than ownership	Priced rounds	When companies need us, we help	When we look at new companies, we always have two things in mind. Firstly, we want to be balanced… Secondly, we implement cross-selling.	No
Fund E	Our network for hiring purposes and subsequent fundraising, board position and partner expertise.	We hold weekly meetings and, in these investors, have the possibility to talk about value-add.	The investment team. You can say, okay, I really liked those guys and I want to work with them and build on the dynamics of the relationship (not just about returns).	I guess an important part of being an investor or taking the board seat is to be kind of a therapist	n.a.	Not picky but we always lead	Priced rounds	Depends on a case-by-case basis	n.a.	n.a.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	1. What non-financial resources do you provide to portfolio firms?	*2. Do you have a value creation strategy?*	*3. Who is responsible on the investment team for shaping your value-add?*	*4. Are there any formal or informal channels which you prefer over others to bring value to your portfolio companies?*	*5. How much of an active role do you play in shaping governance?*	*6. What is your target ownership share and how is it determined?*	*7. What financial instruments do you prefer in a deal?*	*8. How do you balance resources between portfolio companies?*	*9. What influences the way you construct your portfolio?*	*10. Is there an optimal number of portfolio companies?*
Fund F	Talent, network, and an understanding of their business intelligence stack	My approach is to be a buddy to the founder	Depends on each partner	The real value is somewhere between business advisor and Personal life advisor. Listening to the founder speak and offload is important. I look to create a trusted relationship	Not much, we take an observer position on the board	In most of the cases somewhere in the range of say seven and a half to 15% equity ownership when we come in.	Priced rounds or SAFEs	It's hard and I constantly try to learn and distinguish between companies that have a high potential.	We have a specific geographic mandate, so we look to prioritise investments in this area	n.a.
Fund G	Our model is based on our networks and community first. So that's opening the doors and making sure that we can make the right connection at the right time. This is important for hiring and for talent management	Not defined in a fixed way, we want to help open doors as much as we can with potential partners	n.a.	The point in the board and in corporate governance is to make sure that the founders are moving forward… board meetings are important for corporate governance issues	Very much, our role as investors, is to put frameworks in place, to make sure that this happens… board meetings are important for corporate governance issues	n.a.	Priced rounds or SAFEs	It's a balancing act; valueadded matters not only in good cases, but when a company is struggling too	We follow the theme of __ but as long as we have conviction in the founder, we will consider any area for an investment	That depends on the maturity of the fund, if you're really seed, you tend to have more than if you are late stage. There should be a good balance and this balance can change based on the vintage. If you are in a bullish market, you can afford to include more companies as they are facing less problems. But if you have a lot of issues because of market dynamics, you will have to try a different approach

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	1. What non-financial resources do you provide to portfolio firms?	*2. Do you have a value creation strategy?*	*3. Who is responsible on the investment team for shaping your value-add?*	*4. Are there any formal or informal channels which you prefer over others to bring value to your portfolio companies?*	*5. How much of an active role do you play in shaping governance?*	*6. What is your target ownership share and how is it determined?*	*7. What financial instruments do you prefer in a deal?*	*8. How do you balance resources between portfolio companies?*	*9. What influences the way you construct your portfolio?*	*10. Is there an optimal number of portfolio companies?*
Fund H	It's very, very difficult to be involved, as more than a strategy advisor towards all of your portfolio companies… it's just the amount of time you have in a day versus running a fund versus scouting for new opportunities versus doing portfolio work	Every partner has a different approach, but we can all help with the usual such as fundraising, introductions and hiring	Partners	A personal relationship matters as it can make you go above and beyond but it depends on the case	When we first invest we set aside a significant ESOP plan… we always try to set aside 10% in ownership of the company for early employees, later employees, and sea level hires	We usually lead come in early and require significant ownership of 15–20%.	Priced rounds or SAFEs	It's tricky because we split roughly 5 companies among 10 people so it's not possible to give our full attention…. it's just the amount of time you have in a day versus running a fund versus scouting for new opportunities versus doing portfolio work	The maturity of our fund lifecycle can affect our appetite for risk; we invested in an accounting automation software...we are likely to be able to sell this business at some point to someone. This is a way we try to create balance	We do 25 investments, give or take, per fund. The last five or three investments would ideally be much closer to a Series A than a pre-seed because they take less time to pop.. we try to balance things out…etc.
Fund I	We try not to be massively hands-on but be there when founders need us via our network of corporate and operating partners	Not really, I can ask the team for help, but we don't have a specific strategy	The investment team	We lean more into networks. The two partners that lead the fund are wellnetworked across Europe	Depends on what the founders prefer; we can use boards more actively if this is how the founder prefers to meet and doesn't want to have updates too often	Roughly 10-15%	Priced rounds are preferred	Depends on the investment team member; I personally split time in my week and dedicate some hours to portfolio companies where I focus on a challenge based on urgency	Depends on partner priorities, we also look at founding team qualities and how developed the startup is	We limit ourselves to 25 companies on the first fund
Fund J	We connect new founders with our portfolio, talent and network	If you need help and need to communicate with us, every week, even every single day, I'm going to communicate with you… [otherwise] that is also ok	The investment team	n.a.	Not much	n.a.	Priced rounds	n.a.	It depends on the tech ecosystem and our conviction; you need to go to your LPs and say " look I think in the market there is an opportunity to do this"	No

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund A	Not so much. I will go out of my way to prioritise a relationship, where the founder is responsive. I think this is a natural kind of prioritisation.	Yes	We are SaaS experts, ex-operators and entrepreneurs and we add value and so our proposition is really to deliver on that.	We lead in Series A and Series B, aim for ownership between 5%–10%.	We have partners we trust. It also depends if the investment we would like to make is a referra.	When we first make an investment, we look for companies that have a clear path to profitability and ultimately a sale.	The relationship we have with every company is somewhere between ten years and seven years depending on where they come into the fund life cycle. I would hope that we have a relationship and an impact on those companies, all the way through till exit, especially for the most successful.	We engage with portfolio companies in a proactive way especially the first 12 months post investment just to set those expectations.	We only adapt our strategy if there is a material issue e.g. running bust. Otherwise, we would not want to sell out at an inopportune time. You always want to be maximised, that means you hold the asset for as long as possible.	n.a
Fund B	No	No	We do not have preferred sectors it is just market dynamics. For example, we did not have an expertise in fintech but now there's a way in fintech in Spain so we are dealing with these deals.	It depends on the size of the round, sometimes we offer other ideas to co-investors but ultimate the final choice depends on cap table dynamics.	We select funds that we trust, and we've worked with in the past on other companies and therefore know how they will behave. Ultimately, it is the choice of the entrepreneur.	We observe the situation in the market and follow what the best exit strategy is in the moment.	n.a.	n.a	Same answer to question 16	We do not try to influence a founder's behaviour when it comes to an exit, we just help them be aware of the circumstances in the market.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund C	n.a.	n.a.	It depends on the team. For example, we have one person that had a very heavy data background and an astrophysics degree, and he was super into crypto, so he is working to support the partner in making those Investments.	We lead on most occasions except in life sciences. We like to partner with well-known or good VCs that we have partnered with in the past.	We prefer a well-known VC that we have partnered with in the past…We would partner with Fund X because we know people who are in the team and we can exchange knowledge beforehand... It gives you some kind of reassurance to know that the fund has done successful investments in this field.	This is something we assess from the beginning and adapt depending on market conditions.	n.a.	n.a	Same answer to question 16	I think it is about giving the startups the resources and nudging them. Not actively telling them what they should do.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund D	n.a.	We always think about how companies that we have in the portfolio can cross sell. We want to introduce founders to each other because that's definitely something that benefits both individuals in the long-term.	The Partners but we're a generalist fund	We do not lead, we are flexible investors	We follow so we do not take an active role in forming a round	Given the specific niche spot that we invest in, most startups have a clear path to profitability and ultimately a sale. We do not concern ourselves too much with exits.	n.a.	Our purpose is mainly to help startups in their growth stage, getting them to achieve growth milestones... there needs to be a clear path to profitability and ultimately sale (exit).	n.a	Getting a good deal and keeping a founder happy is not always compatible but we try to find a compromise.
Fund E	No	We make introductions earlier on without investing to try and create value from the negotiation phase to prove that we're worth our word.	The partners of the fund	We take the lead in every deal. On some occasions we can co-lead preferably with an American investor. Reputation matters. We also look for someone who has the local knowledge to carry out the due diligence as appropriate.	We almost always lead the round, but it is ok for us to co-lead with an American investor, if they are one of the big names, and are looking for a European player with local knowledge to help with due diligence and other guarantees.	VCs have fiduciary responsibility and they have to act for the benefit of the fund. But this is pretty much aligned with the benefits of the founder because when the fund gets the highest return, the founder also gets the highest return.	It depends on a case-by-case basis	We do not have a specific system in place	Same answer to question 16	n.a.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund F	No, I'm focused on certain geographies. I therefore have naturally a stronger and closer look at a set of opportunities. This skews my views.	n.a.	Each individual may have a passion for certain sectors and that is a self-defining restriction. I like consumer, healthcare, and climate. I will not touch enterprise and B2B SaaS.	It is situational. Do the other VCS have clear value add for the company?	There are some investors that I prefer over others because I've been with them in rainy days..	Our influence overtime is replaced by lead investors of follow-on rounds to the extent that we do not lead or in any way, control the exit.	n.a.	It depends on a case-by-case basis.	n.a.	Whatever the outcome is, it does not really matter to us, we try to make sure the founder is happy.
Fund G	If you invest in a company, which is far away in terms of geography, in terms of culture, you need to have Gatekeepers that could help you assess and understand things. And that's where co-investors can be really helpful.	Not specifically, we look at our network and the network of our network and how those can act together.	We have no fixed thematic direction	We look for co-investors in geographies where we are less familiar. In our domestic market we can lead.	Syndication is only based on the fit with the founders. At the end of the day the people who decide are the founders. There should be an obvious and objective reason to insist that the founder should get in a particular round of financing and that these are the right investors to deliver the plan.	Yes, we look at the market because market cycles can me be very dynamic at some point in time and less dynamics at another point.	n.a.	We look for external validation. When you are doing a follow-on that does not mean that you will not help the company, which is struggling. The point is that, when you have to assess a real investment, you need to have external validation. For example, another investor joining the round.	Sometimes it can come home earlier, if the liquidity is good, then this could be a good deal for the founders and for us.	Sometimes founders are not aligned in the vision of what could be best for the company, and if it comes to this, you will not be able to manage the situation via Zoom or through a phone call. Sometimes it is good to have a coffee or beer… people will have an open chat in real life.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund H	Portfolio distance is important to us across geography because we believe there should be a balance. Not 90%, in Europe and 10% in Israel.	Occasionally, we organise off-sites with a few founders from a similar industry or business model and people from the investment team for a 2–3 day trip... to create a bond.	Every member on the investment team can propose a new theme to explore during our team offsite.	We usually lead and are not picky about who we syndicate with... I guess it is always nice if you invest in a B2B fintech infrastructure deal and you have a partner investor that has a very deep understanding of fintech …. [but] having five great fintech investors in a deal does not necessarily make it the best.	See question 14	It depends on a case-by-case basis	Funds have a 10-year life period with always one plus one extension. So up to 12 years. If you are a seed investor, you have a long-term perspective; it is like choosing your marriage partner.	We track 2–3 main KPIs but satisfying these alone does not guarantee an investment.	It depends on a case-by-case basis.	Company Z had an offer to be acquired for 400 million. It would have been a super lucrative exit for us, but the two partners who were sitting on the company board opposed the exit. They strongly advised against it, even though some of the other board members were for it, because they just saw so much more potential.
Fund I	Yes, knowledge on the region affects our willingness to invest.	No, we look at each investment on an individual basis.	We have some predetermined areas that we focus on that have been set out from the onset of our fund.	We are not picky about leading; it depends if we bring in the deal and what the founder's preferences are.	See question 14	We tackle this on a deal-by-deal basis looking at what will maximise our return given the circumstances.	We're a new fund and have not had any exits yet but we look for founders that have a long-term perspective and therefore expect to hold on to them for a bit!	No, we have a very relaxed approach. Of course, we look to engage and guide our companies but with no formal system in place.	We're a new fund and have not had any exits yet.	From what I've observed there's only so much you can do; you try to persuade a founder and be a sounding board.

Table 2 Informants' statements corresponding to the proposed value-added and portfolio construction questions (continued)

	11. Do you care about portfolio distance?	*12. Do you look to create synergies between portfolio companies?*	*13. What determines the thematic direction of the portfolio?*	*14. How do you approach syndication and under what circumstances will you be the lead?*	*15. How do you decide who to select in syndication?*	*16. What criteria do you use for an exit strategy?*	*17. How many years do you hold on to portfolio companies?*	*18. How do you monitor and evaluate milestones and could this lead to staged financing?*	*19. How do you adapt your exit strategy to market conditions?*	*20. How do you overcome diverging preferences over exit outcomes with the founder?*
Fund J	If there is a Spanish angle, this is good because we have a strong network in Spain with founders and unicorns.	If it happens, it can happen. I am not going to invest in X because this will help another company. This company as a standalone should be a rocket, if not, it really does not make sense for us.	We're a generalist fund so our thematic direction depends on the moment and the partners' interest.	We prefer to lead but can co-invest if we find it useful.	We try to create a good portfolio with good reputation and for this it is important to have a good network relationship that you can exploit to help the company. We look at what the company needs.	The bigger, the fund, the bigger the exit, you need to make so the bigger the potential that you're looking for in companies	We will usually hold on to them to reach maturity and will not sell before we finish deploying capita.l	On a case-by-case basis	Some industries are more likely to have bad unit economics because of the model, such as delivery hailing apps, where scaling up requires a huge capital investment. In these industries you need people and you need super b2c marketing. We will avoid these during a crisis.	Okay, so we just learned that the timing for this type of product is not right... something external happened. So, you have to be able to do a post-mortem analysis and understand what is going on in the market.

The sample includes investors of different seniority levels. The typical career structure of a fund starts from analyst to associate and associate to general partner. While the partner has the closest relationship with the entrepreneurial firm and the most influence over strategy, analysts can also be involved, especially when the investment team is small. All investors in this sample had insights into the value-add and portfolio construction strategies of each fund.

Moreover, the thematic and geographic concentrations of the VCs vary. Six out of ten funds are generalist funds, with few specialising on verticals such as B2B SaaS or EdTech. With regards to location, some funds had a narrower scope than others, choosing to focus exclusively on a few countries, while others had a broader coverage of the European market. The investment stage was similar, from seed to Series C, with only three funds having a tighter strategy. Table 1 demonstrates the main characteristics of each fund.

Semi-structured interviews were conducted over a video call. The calls lasted half an hour and covered the themes discussed in Section 2 such as networks and portfolio diversification. Where time did not allow for sufficient coverage, follow-up interviews occurred. The investors were assured that their responses would be kept confidential and that the fund name would not be disclosed. It is thus unlikely that there was an incentive to exaggerate their responses if not perhaps for a willingness to cast the VC industry in the best possible terms. Due to confidentiality, references to names and start-ups have been purposefully removed. A summary of investors' responses to each question can be viewed in Table 2.

Research has shown that VCs in different countries can be unalike. For example, in France, the profile of investors carries more weight if they come from an R&D or investment banking background (Milosevic, 2018). Regardless of some natural differences between ecosystems, it is plausible to contend that VCs in Western Europe operate very similar to one another. The interviewees in this sample come from well-established funds with strong international connections that follow standard practices in the industry. It is reasonable to assume that the geographical distance between VCs does not pose a challenge to the selection of this sample.

4 Results

4.1 Human capital

All the investors in the sample recognised the importance of value-add as a point of differentiation and a driver of fund success. The interviewees took much pride in their capabilities and supported their portfolio companies in multiple ways. It is worth noting that there was a degree of difference in where the emphasis was placed. For example, Fund A spoke highly of the operational support it provided to entrepreneurs via their in-house experts whereas Fund B, similar to Fund E, did not have such a team and was most concerned about the learning content it offered.

The informal character of investors' contributions was noteworthy. Despite recognising the strategic importance of their involvement, investors did not have a systematic approach in working with entrepreneurs and their value-add often varied on a case-by-case basis. Investors often mentioned the 'spontaneous' character of their contribution which was attributed to two things:

a the needs of the entrepreneur

b the resources of the investors and fund.

> "The way we approach value-add is more about understanding the situation portfolio companies are in and then giving them support based on what they tell us." (Fund C)

> "It's very, very difficult to be involved, as more than a strategy advisor towards all of your portfolio companies… it's just the amount of time you have in a day versus running a fund versus scouting for new opportunities versus doing portfolio work." (Fund H)

> "We don't have a full strategy on how to work with people. Our strategy partly depends on two things: firstly, the partner that is carrying the company. There are partners with multiple board seats that choose to be very actively involved and others that don't get so involved. Secondly, what is happening with our portfolio companies. For example, one of our investments devised a very strong outbound sales machine and we organised a webinar for other entrepreneurs to learn from them." (Fund B)

The teams across all the funds were well-balanced and consisted of profiles from different career paths such as finance, entrepreneurship, business and academia. There was greater emphasis placed on the backgrounds of the partners and their individual networks. At least half of the funds had partners with previous entrepreneurial experience and many partners had strong connections within the wider entrepreneurial ecosystem. The experience of partners was acknowledged as important in conferring advice and helping founders overcome problems. For example, Fund E mentioned that one partner, who had expertise in sales, was especially helpful in helping B2B SaaS entrepreneurs better their sales pipeline and sales model.

Fund A placed the most emphasis on its partners' backgrounds. The partners were previous successful entrepreneurs, who had managed to scale a startup from \$1 m to more than \$100 m in annual recurring revenue. The focus of Fund A's value add was on meeting the entrepreneurs' expectations surrounding the partner's previous success; helping them develop the right mindset around scaling challenges and identifying the necessary objectives to build a high performing company, capable of raising multiple rounds.

The operating background of the partners in Fund A also shaped how they structured their team. In one example that was given, the investor described the decision to hire an in-house pricing expert. Drawing from their experiences, the partners knew that pricing was a topic that entrepreneurs struggled with but were given little support on how to manage. After a few months of testing, Fund A decided to integrate a person within the team that could offer such expertise; they have since identified this hire as being key to winning competitive deals and helping their investments grow.

VCs use their knowledge and experience to provide support to their portfolio in other ways: evaluating and selecting candidates for top management roles, pitch coaching and deck building, and learning content. The production of exclusive content for entrepreneurs is an activity of growing interest among investors. Investors are writing content and creating dedicated resource libraries that cover topics such as 'how to structure your cap table'. These resources are subsequently available for entrepreneurs to explore and access at their own pace.

Another important element that contributes towards value-add is the VC's network. Almost all investors referred to their networks as a primary strength, particularly, in helping secure follow up funding for portfolio companies and hiring senior talent. Partners are well connected to founders within the wider entrepreneurial ecosystem, reputable investors, advisors, industry experts and angel investors. VCs pay much attention in connecting entrepreneurs with the right people to help them meet their needs and reach the next milestones.

> "One partner has a newsletter and is a kind of influencer in the tech Spanish world, so he has access to a pool of people that is quite big, many of which are in startups… another has his own network called X, which is a network of people working in sales in young companies... we use these networks to look for profile candidates and offer these candidates to the founder." (Fund B)

> "The partners previously had a crowdfunding platform which was for high net-worth individuals and angels. Because of this, we often have very good connections to advisors, people who have had held advisory positions for startups, but also founders who are really good at building." (Fund D)

> "Our model is based on our networks and community first. So that's opening the doors and making sure that we can make the right connection at the right time. This is important for hiring and for talent management." (Fund G)

It is evident that investors can tap into a range of networks to help their startups succeed, some of which are more formal than others, such as angel networks. Investors spend considerable time nurturing their connections via events and conferences or by asking for introductions from other funds. They will also rely on their team's help to find the right people. Many funds mentioned that they engaged in brainstorming sessions during weekly meetings with their colleagues to help identify connections that would help a portfolio company.

Finally, VCs play an active role in ensuring that entrepreneurs learn from one another. Investors leverage their experience from working with startups and having market exposure, to give entrepreneurs quality strategic insights. They can tell how a market is shaping, what other investors value and understand different expansion opportunities. Moreover, investors encourage resource-sharing among their investments, specifically the top performing ones. For example, many funds mentioned organising workshops with their previous successful investments, on themes such as scaling abroad or crafting a go-to-market strategy, that are catered to their portfolio.

A main preoccupation of most funds is how to create a close-knit community among entrepreneurs. Few funds reported organising 'portfolio days', during which they invite founders to partake in a range of activities at a holiday destination. These events can include investors and other individuals or can be exclusive to entrepreneurs. The objective is to encourage mingling and knowledge sharing. Funds also rely on community building tools, such as messaging apps, to facilitate group communication and can even have specific staff on their team whose responsibility it is to foster a sense of community within the portfolio.

> "Occasionally we organise off-sites with a few founders from a similar industry or business model and people from the investment team for a 2-3 day trip. We organise workshops where we invite two founders from seed stage, two from growth stage and one or two from a later stage, such as company Y which did an IPO last year. The aim is for the startups to exchange and learn from each other and for the founders to create a bond" (Fund H)

Investors have a special interest in ensuring that they build close ties with their investments, particularly the most successful ones. The better they are at building these relationships, the wider their own network becomes once a startup achieves critical growth. Funds look to encourage connections among their investments because they recognise that networks can bring exponential value. Making introductions among entrepreneurs can even prove to be a compelling tactic, when a deal is competitive, as it allows the investor to signal their value-add capabilities early on. Investors learn from the successes of their investments and gain from being well-connected in the ecosystem.

4.2 Interpersonal dimension

Providing support to a portfolio company becomes easier when there is a good relationship. Investors know that most value can be given outside of formal spaces and are willing to develop personal proximity to entrepreneurs to help them overcome challenges that they are facing. They make themselves reachable; investors have the entrepreneur's details on their phone and can be contacted regularly for advice. Open and honest conversations are encouraged as VCs perceive their involvement to be a long-term commitment in which trust is key. Fund G, for instance, described their investment horizon as equal to the horizon someone has when entering into marriage.

VCs seem to build trust in two ways. Firstly, by providing value-add and responding to the entrepreneur's request for help. Investors are eager to assist their portfolio companies and proactively make connections for them when approached. They also make time to think over strategic issues, for example, Fund I allocates a slot during the week to work on what he deems to be the most pressing affairs of his portfolio companies.

Secondly, investors are careful to respect the entrepreneur's competence and only interfere when asked. They recognise that some portfolio companies are more likely to need support than others and will not be overbearing by chasing after entrepreneurs who do not want advice. The frequency of investor involvement therefore is largely dependent on the needs of the entrepreneur. Considering the high-quality selection criteria for an investment, investors must have confidence in the entrepreneurs that they choose. They give entrepreneurs the space to run their business and this subsequently seems to result in a level of trust.

> "If you need help and need to communicate with us, every week, even every single day, I'm going to communicate with you. And I will try to understand what I can do for you. But if you're the kind of founder, who is quiet, who only needs to touch base once a month, and who doesn't want the investor to be super-involved in the business, that's also ok." (Fund E)

> "So the way to build trust is to actually help right now doing something meaningful and valuable…. I speak to Company X once a month and we invested in them six years ago. He will ask me questions and he'll send me notes. Can you help me with this? Can you do that? Because we built a trusted relationship." (Fund A)

Investors often get to know entrepreneurs personally, however, the depth of their bond will largely depend on the qualities of the entrepreneur. Investors expressed preference for engaging with individuals that display openness and receptiveness to advice, much like the literature suggests. Having similar interests, whether that be Spanish food or tennis, also makes it easier to find common ground and build a trusting relationship. Considering the long-term horizon of an investment, which can span more than five years; it seems intuitive that investors are drawn to entrepreneurs that show cooperative skills and agreeableness.

> "I will go out of my way to prioritise a relationship, where the founder is responsive. I think this is a natural kind of prioritisation." (Fund A)

> "The partner only invests in the types of people he really gets along with. He says personality is really a big part of it and you can really see that because there are a lot of informal meetings and talks involved in venture capital." (Fund C)

Another part of interpersonal value-add is goal-alignment. Fund A asks entrepreneurs to fill out post-investment surveys as part of their onboarding process to the fund. The survey contains questions about why the entrepreneurs chose the fund and what's important to them. Over the next 12 to 18 months, investors will use these answers to engage in ongoing conversations with the entrepreneurs and guide their growth. The survey enables Fund A to gain a better understanding of the long-term vision and therefore achieve closer congruence with their investments.

None of the VCs mentioned any serious rifts with the entrepreneurs in their portfolio. This could be explained by the motivations of both parties; VCs are incentivised to achieve the highest possible returns, but so are entrepreneurs. Most investors believe that the focus on maximising value creation reduces the likelihood of conflict within the fund and increases the willingness of finding common solutions. Moreover, VCs are dedicated towards building a positive experience for their investments, regardless of the performance outcome. For example, Fund G was careful to note that their reputation is affected by how they treat entrepreneurs when a company is struggling. VCs will rely on their interpersonal relationship to overcome misunderstandings and build consensus.

> "Sometimes founders are not aligned in the vision of what could be best for the company, and if it comes to this, you will not be able to manage the situation via Zoom or through a phone call. Sometimes it's good to have a coffee or beer. It's important to understand the things they are struggling with and people will have an open chat in real life." (Fund G)

> "VCs have fiduciary responsibility and they have to act for the benefit of the fund. But this is pretty much aligned with the benefits of the founder because when the fund gets the highest return, the founder also gets the highest return." (Fund E)

Finally, VCs that have good relationships with entrepreneurs are more likely to demonstrate commitment, which is the final dimension of interpersonal value-add. If investors feel close, they will increase the frequency of interactions and go the extra mile. Many that had a personal affinity to their investments expressed their desire to be more involved in strategic advice and business development. On the other hand, having a weak relationship can lead to passive inputs or greater hesitancy in communicating insights. According to Fund E, when investors really believe in a team, the motivation to help extends beyond the realisation of fund returns and includes the desire to 'build on the dynamics of the relationship'.

Showing commitment can be a part of the value proposition of a fund. Fund F has commitment engrained in their approach towards entrepreneurs that they work with. They aspire to build deep relationships in which there is a great degree of comfort and trust with the entrepreneur. They believe that a committed approach unlocks the best type of working relationship to help the entrepreneur overcome challenges and deliver a strong performance.

4.3 Monitoring

Most investors were not particularly keen on using monitoring mechanisms as tools for value-add. Investors did not feel the need to actively shape governance, use boards, or rely on complex contracting terms, such as convertible securities and control rights, to incentivise the entrepreneur. The prevailing sentiment was that entrepreneurs are good at running their business and therefore an interpersonal approach was more effective to maintain oversight. Common equity was the preferred financing mechanism. Moreover, 9 out of 10 funds were favourable towards taking board seats and 5 out of 10 took seats regularly due their position as lead investors.

VCs perceive boards as a tool to conduct strategic supervision and receive updates on the company's performance. The frequency of board meetings is determined in advance and can occur more often depending on the needs of the entrepreneur. Some funds described sitting on boards as occupying the position of a 'listener' or 'therapist'. VCs are willing to engage in conversation with other investors and contribute their thoughts, where necessary, but will not go out of their way to challenge the entrepreneur and push for accountability if there is no urgency. Investors can also help entrepreneurs prepare for the board, for example, Fund C mentioned how a partner gave assistance to Company X to run structured and timely meetings.

> "There's no clear rule on how to behave in boards. We're just listeners and in the case where we have something to add we will but we're not going to interrupt the entrepreneur." (Fund B)

> "The board is not the place to add value as such, right? The board is there to provide the check and balance between the stakeholders and the senior leadership team. Personally, I don't put a lot of stock in having a board seat. I think you can have huge amount of influence outside of the board." (Fund A)

On a separate note, one fund reported how the partners viewed the board as an opportunity to engage in meaningful conversation with the angels and other investors. Sharing ideas over company affairs was seen as a beneficial source of collective input.

Fund G had the most positive understanding of monitoring and was the only fund that mentioned corporate governance as being a key dimension of their value-add. The investor disclosed that they regularly take part in structuring governance as they perceive this to be necessary for an investment to pass to the next growth phase. One example the investor gave was their insistence that board minutes are taken during meetings. Putting various frameworks and processes in place, allows Fund G to professionalise their investments, gives entrepreneurs the ability to make decisions more effectively and signals to future investors that the company is well-functioning.

The investor's stance towards the board was that it represents a source of value; while he acknowledges that many important discussions happen outside of formal meetings, he claims that boards fulfil an essential role. They allow VCs and entrepreneurs to make decisions over items that were signed during the shareholders' agreement and can answer questions such as: when does qualified majority apply? In what circumstances can the entrepreneur withdraw a loan? Can the entrepreneur recruit someone with a salary above X threshold? Boards provide a mechanism for seeking clarity within the senior structures of a company and can guide the entrepreneur over more complex matters that arise when a company grows.

> "The point in the board and in corporate governance is to make sure that the founders are moving forward. The former are essential to prepare for the future because when you have auditing and due diligence to complete with investors that want to invest big in your company, you need to prove that, from the inception, you have had certain issues in mind. You need to show that you are willing to create a company that is valuable and serious, not just a project between friends. Our role, as investors, is to put frameworks in place, to make sure that this happens… board meetings are important for corporate governance issues." (Fund G)

Finally, Fund G was also the only fund that mentioned using their monitoring powers to actively bring independent directors on to the board of their companies. According to the investor, the fund highly values the contributions an exterior party can bring. They will therefore advocate for diversification of the board and help identify independent directors to sit at the company table.

Some investors take their own approach when it comes to monitoring less prominent issues such as the implementation of environmental, social and governance (ESG) criteria or employee stock ownership plans (ESOP). Fund D rewards the entrepreneurs in the portfolio with up to 10% in carry when they successfully implement ESG strategies. At the beginning of an investment, the fund sends out an ESG survey to gauge where the company stands. Subsequently, if the entrepreneurs decide to focus on their carbon footprint, the fund will work closely with them, and make connections via their network, to help them meet their goals. If the ESG criteria are met, the fund will financially reward them.

Similarly, Fund A requires its investments to consider diversity standards when hiring. They have a clause in their Term Sheet which explicitly addresses diverse hiring practices and sets a standard for their investments to follow. The fund will advise its portfolio companies on how to remove biases in hiring practices, thanks to their in-house talent expert, and will keep the startups accountable via a common framework that measures how diversity and inclusion metrics evolve post-investment.

Fund H had the strongest approach towards ESOP plans. The investor mentioned that the fund mandates that entrepreneurs set aside a small, but significant amount of equity, for their senior employees. Having a good ESOP plan encourages positive network effects, which can benefit the fund, for example, if employees leave and set up their own ventures. Secondly, and most importantly, it is decisive for the portfolio company to be able to afford key hires in later growth stages. Senior talent will have expectations with regard to company stock. If the entrepreneurs do not make provisions early, they will not be able to guarantee enough equity.

> "When we first invest we set aside a significant ESOP plan. That's something that is super important to us, ideally, from a seed stage, up to 10% set aside. If you want to expand abroad, hiring a Chief Sales Officer in the United States is super expensive both in terms of salary and ESOP. If you only have 1.5% of ESOP left, it's going to be very difficult. So we always try to set aside 10% in ownership of the company for early employees, later employees and sea level hires." (Fund H)

4.4 Portfolio diversification

The number of companies in a fund portfolio varied depending on fund size and stage orientation. Funds focusing on pre-seed or seed stage deals had the flexibility to invest in a greater number of companies, pursuing up to 40 investments over the fund lifespan. Investors covering Series A and Series B, mentioned making 20 to 25 deals per lifespan. No investor spoke of being set on a fixed number of investments as they preferred the possibility to adjust their approach to the market.

VCs indicated that they pursue geographic and thematic diversification to varying lengths. Geographic diversification was common to all but less important for Fund B and Fund G. Moreover, some investors expressed stronger geographic preferences than others, despite all funds having investments in Western European countries. Fund G mentioned that they feel less comfortable making investments in Northern Europe and Fund I expressed less comfort with investing in France. The fund's partner-profiles and investment patterns affected the degree of geographic exposure.

A bias towards a certain region may be reflective of the fund's propensity to create synergies, much like the latest research on geographic clusters suggest. For example, Fund F was careful to note that his focus on certain countries made him more likely to identify strong opportunities. Accordingly, his deeper understanding of country-specific dynamics makes him capable of identifying better drivers of value. This reasoning was reflected by Fund B and Fund G; they are more limited in their geographic scope because they can exert greater benefits by doing so.

With regards to thematic diversification, the focus of each fund was open-ended. Investors were cautious to balance their portfolios but did not have a formal strategy that set a thematic direction. Even in specialist funds, such as Fund E, investors could pursue any deal in their list of sectors. The choice of diversification sometimes rested on the partner's individual interests. If a senior member of the team developed an interest in healthcare or climate tech then they had the liberty to find, evaluate and prepare deals in this space. Subsequently, analysts and associates managed the deal-flow depending on these preferences.

> "Each individual may have a passion for certain sectors and that is a self-defining restriction. I like consumer, healthcare and climate. I will not touch enterprise and B2B SaaS. If a founder approaches me, I will pass on the opportunity to X in the team. If the founder really insists that she speaks to me, well, her chances that I'll get excited are close to zero." (Fund F).

> "We aim for around 30 investments. Once we have the first 25 we can say, okay we have a lot of consumer, let's take time to deliberate if we can invest more in deep tech." (Fund B)

Fund H had a slightly more formal approach when it came to choosing thematic exposure. Each investor is given the opportunity to pitch a new investment area, depending on the sector or business model, during the team's yearly gathering. Then they must prepare a one-hour presentation which is followed by a deep discussion in the next few days. At the end the team picks 12 investment areas to focus on and this decides the thematic direction of the fund.

Another important point to consider is how synergies are made. Synergies matter to investors and strategising over them happens before an actual investment is made, often as early as the discussion phase. Investors will use referrals to their existing portfolio to demonstrate value in a competitive deal. If they are successful in introducing a partnership or making a connection for the prospective joiner, investors will seem more attractive. Connecting an entrepreneur to a portfolio company can result in higher revenues if there is complementarity along the value chain.

Most investors mentioned that they shy away from areas they are unfamiliar with. This makes sense given that the portfolio networks would be limited. Investors confirmed that they rely on their existing or previous investments to conduct due diligence on a market or product and thus, funds depend on their learning's from entrepreneurs to guide new investments forward.

Moreover, a lot of the content and resources that investors make available for new portfolio joiners are based on their old investments. Almost half of the funds reported actively organising workshops or events that featured a previous portfolio company. This community building approach illustrates a portfolio construction strategy directed towards realising synergies and greater benefits among investments, not just risk aversion.

> "When we look at new companies we always have two things in mind. Firstly, we want to be balanced… Secondly, we implement cross-selling. We always think about how companies that we have in the portfolio can cross sell. We want to introduce founders to each other because that's definitely something that benefits both individuals in the long term." (Fund D)

> "We make introductions earlier on without investing to try and create value from the negotiation phase to prove that we're worth our word." (Fund E)

Also, investors were well diversified across the maturity of entrepreneurial firms. Only two funds in the sample were exclusively focused towards seed or pre-seed investments, one fund invested on bridge rounds between series A and B and the rest had a wider range participating from seed to Series C. The VCs that invested more widely usually expressed preference at more mature companies. Nevertheless, the fund lifecycle was a factor that shaped investors', perceptions of timing and risk.

> "We do 25 investments, give or take, per fund. The last five or three investments would ideally be much more close to a Series A than a pre-seed because they take less time to pop. Also in the beginning you want to do two or three crazy cowboy deals… because you have the time and you have enough money in the future. we try to balance things out not only with crazy moonshot ideas but also more stable and mature ideas." (Fund H)

Finally, an unexpected reveal was that the fund lifecycle can influence the percentage of equity the investors were able to invest. VCs have target ownership shares for each investment, but it appears that this is not always easy to implement due to the relative cost of a deal compared to other portfolio companies. For example, Fund B mentioned that there are occasions where they find themselves underinvested. In this case, they need to examine whether it is worth doubling down on a single investment before integrating a new joiner. Perceptions of timing and ownership targets will influence the choice between portfolio consolidation and portfolio expansion.

4.5 Syndication

Investors' responses revealed multiple strategic reasons behind syndication: the existence of knowledge gaps, founder preferences, the lead position of a fund and the reputation of other investors. The weight of each reason varies; for example, Fund E seemed to place more emphasis on reputation of its syndicate partners whereas Fund B was keen to prioritise co-investors that best fit the entrepreneur's needs. All investors believed that their syndicate choices contributed towards the benefit of the portfolio.

Syndication appears useful to create geographic and thematic advantages. Fund G mentioned that they look out for partners that can help their investments with entering foreign markets. If they know that a company is planning a commercial roll-out in Germany soon, they will look for a German co-investor. Moreover, some funds will not offer to lead the round if they perceive other investors to be more capable of bringing value-add that is suited to a particular geography. Fund G will not lead investments in the Nordics alone because it believes it would have less to offer than a Swedish fund:

> "If you invest in a company, which is far away in terms of geography, in terms of culture, you need to have Gatekeepers that could help you assess and understand things. And that's where co-investors can be really helpful." (Fund G)

Investors often look for syndicate partners to complement their strengths in a thematic industry. Fund F invests in productivity tools in healthcare and is less familiar with solutions that focus on improving health outcomes which would often require an advanced understanding of biotechnology.

As such, if Fund F is presented with a deal that combines both, he will look for a partner that can come in with a more industrial angle to support the entrepreneur. Similarly, Fund C, despite being a lead investor in almost all their investments, will not lead life science investments. Most partners have little understanding of the sector therefore they will prefer an investor with greater expertise to take responsibility for the deal. It is worth noting that specialised co-investors can bring much value, however, the success of an entrepreneurial firm is not guaranteed.

> "I guess it's always nice if you invest in a B2B fintech infrastructure deal and you have a partner investor that has a very deep understanding of fintech. We invested in Company X at seed and at Series A we brought in the venture arm of a Dutch bank because they had a lot of knowledge… but it's not something that is a must…having five great fintech investors in a deal doesn't necessarily make it the best." (Fund H)

Some investors were more likely to place emphasis on founder priorities in their choice of syndicate partners. Fund B will provide recommendations to the entrepreneur and engage in a discussion with them. There is greater latitude for the entrepreneur to express their preferences over the partners that the fund will push forward. A similar approach was reflected in Fund I and Fund G. The investors are most concerned by the fit each fund can have with the entrepreneur. They look to identify co-investors that are more aligned with the entrepreneurs' goals.

> "There should be an obvious and objective reason to insist that the founder should get in a particular round of financing and that these are the right investors to deliver the plan." (Fund G)

Lead investors confirmed that they had greater choice and flexibility to influence the formation of a syndicate. Nevertheless, investors approached syndication differently depending on the maturity of the entrepreneurial firm. For example, Fund E mentioned that they are more likely to co-lead in growth stages where deal tickets are larger and the dry powder is more constrained; contrary, to seed deals where they take full leadership. Similarly, Fund B does not lead in deals above three million due to limited fund capacity.

This in turn affects their syndicate choices for later stage deals. It is only with smaller deals that Fund B can take a stronger stance on their recommendations towards the entrepreneur.

Having a lead position might also increase the willingness of the fund to provide connections to complete the round. For example, Fund A and Fund D have strong angel networks and will connect the entrepreneur with angels when they lead.

Another element influencing syndication choice is familiarity and reputation. VCs like partnering with funds they know and that match their perceived status. They will be more likely to recommend partners from previous deals and enter rounds with reputable co-investors. VCs will look to join highly esteemed funds and will avoid less-known investors. VCs use reputation as a signal towards the quality of the entrepreneur and recognise that greater support can be provided by funds with older networks and more successful portfolios.

> "We almost always lead the round, but it is ok for us to co-lead with an American investor, if they are one of the big names, and are looking for a European player with local knowledge to help with due diligence and other guarantees." (Fund E)

> "We prefer a well-known VC that we have partnered with in the past. One time a founder wanted to get a co-investment from a family office, but we weren't a big fan of this, just because we didn't think they would be able to provide the knowledge… We would partner with Fund X because we know people who are in the team and we can exchange knowledge beforehand... It gives you some kind of reassurance to know that the fund has done successful investments in this field." (Fund C)

Few funds indicated that they are willing to forgo reputation if the investor has built a strong working relationship with them over time. For example, Fund F prioritises two types of syndicate partners:

a funds that have a complementary value-add

b funds that they trust in market downturns.

The latter group refers to investors that Fund F have developed a close and trusting relationship with and will choose to collaborate with in a challenging market climate. Similarly, Fund H reported that they work with a few German investors that are less known because they know that they provide great value.

4.6 Exit strategies

VCs consider exit outcomes for their portfolio companies from the beginning of their investment. They will identify potential acquirers and evaluate the strength of the market by looking at the exit payoffs of competitors. Most investors admitted that they do not have a fixed strategy; exits are determined closer to the sell-off time and are shaped by the prevailing market conditions. Identifying likely scenarios, however, can help with developing perspective. Fund D devises a path to profitability for each investment and uses this to evaluate outcomes 18 to 24 months ahead. Similarly, Fund A works closely with their new investments in the first 12 months, after which they are able to gauge success and prepare for different outcomes.

> "Our requirements to make a return, changes the way that we think about how we support portfolio companies…. We know within the first 12 months how something is going to turn out and you can't help but change." (Fund A)

Investors that participated in seed investments were careful to note that they tend to play the longer game. Quick exits are not desired due to the lower return profile and as such, the funds will make sure to select founders that demonstrate a long-term vision from the start. Fund I and Fund F, which are younger funds, reflected this ambition, contrary to the literature that says young funds prefer exits. Interestingly, when seed investments raise follow-on rounds, the investor's influence on exit outcomes will decrease as they are replaced by late stage investors. If seed stage investors are successful, therefore, they will hardly have any say in the fundraising process. Seed investors are more likely to shape exit outcomes for their portfolio companies that have difficulties raising follow-on capital.

Funds with a more generalist strategy made sure to balance their investments depending on fund timings. For example, a fund that is close to the end of its life cycle will have a preference for later stage investments as these can realise returns quicker. Mature companies have a shorter time path to an IPO and can demonstrate enough traction to attract acquirers. On the other hand, at the beginning of capital deployment, the fund will invest in earlier ideas that need time to grow. The perception of risk is reduced as investors know they have time to deliver returns.

The market conditions will affect how funds construct their portfolios and manage loss aversion. Depending on the overall liquidity, VCs might be inclined to take less risks. Some funds mentioned that they are likely to consolidate their investments and include fewer startups in their portfolio when a market is in a downturn. Industry focus is also affected. In tough times, Fund H uses their understanding of the market to allocate their capital towards more mature industries where the payoff likelihood is greater and more secure.

> "We invested in an accounting automation software. With 3 million in ARR it is unlikely that this is going to go bankrupt, you know they've been doing pretty well as it's a pretty good sales machine. We are likely to be able to sell this business at some point to someone. This is a way we try to create balance." (Fund H)

> "There should be a good balance and this balance can change based on the vintage. If you are in a bullish market, you can afford to include more companies as they are facing less problems. But if you have a lot of issues because of the market dynamics, you will have to try a different approach." (Fund G)

Investors disclosed that the thematic attention of the fund was also likely to shift as a response to volatile markets. Fund B reported that they filter startups more strictly and put emphasis on securing investments that are aligned with their thesis. Rather than follow the market, they will look more closely at the fundamentals and build their portfolio on the success of past investments in specific sectors. Similarly, Fund J adopts a defensive position and reduces their exposure to industries that are capital intensive or have difficult unit economics. They target industries that are less cyclical and provide for key needs.

> "Some industries are more likely to have bad unit economics because of the model, such as delivery hailing apps, where scaling up requires a huge capital investment. In these industries you need people and you need super b2c

> marketing. In today's market you will not look at these type of deals.. when socio-economic problems emerge the target will change and you start to become more serious, investing in life science, biotech, agriculture, food and energy." (Fund J)

It was interesting to observe that there was variety in how investors approach entrepreneurs to discuss exit outcomes. Some funds were reluctant to contradict the entrepreneur and were willing to accept any decision even if it meant a lower return for the fund. These investors were most concerned with keeping entrepreneurs happy and saw their role as being restricted to a communication agent, translating their market observations into insights for the entrepreneurial firm.

Other funds were more active and routinely voiced their preferences over the best course of action. For example, Fund G mentioned that if their portfolio companies get presented with an offer, they will engage in a pragmatic discussion with the founder and evaluate all options. Fund H was also keen to share a case in which the investors pushed the founder to reject a lucrative offer despite also knowing that other investors were inclined to accept it.

> "Company Z had an offer to be acquired for 400 million. It would have been a super lucrative exit for us, but the two partners who were sitting on the company board opposed the exit. They strongly advised against it, even though some of the other board members were for it, because they just saw so much more potential." (Fund H)

Besides founder and investor priorities, there are other factors that can influence exits such as reputation risk, third party pressures and previous experience. If a well-performing portfolio company can secure follow-on investment from the same investor, it sends signals to other investors about the quality of the fund. Investors have an incentive therefore to minimise early exits before the end of the fund lifecycle due to reputational risk, regardless of how lucrative an offer seems.

Moreover, investors can sometimes be pressured by other board members to change their position. This can be especially true for early-stage ideas where the market for a particular product or service is not yet mature.

> "Sometimes it can come home earlier because you have third parties coming in saying "okay you were a bit advanced in this market and I want to consolidate right now". If the liquidity is good then this could be a good deal for the founders and for us." (Fund G)

Finally, investors indicated that they learn over time and use their previous experiences to guide their approach. For example, Fund J mentioned that they had made a few investments which did not meet their expectations and failed to reach their growth objectives. Subsequently, the team was able to reflect more carefully on the opportunities that came through and better evaluate the market. Sometimes entrepreneurial firms can seem promising but external events can change their trajectory. VCs use failed investments to better understand market dynamics and gauge exit possibilities for the future.

> "Okay, so we just learned that the timing for this type of product is not right... We have invested in a company, the macroeconomic context changed and it fails. If you see another one that is similar, you might still want to invest because it is a good company. But something external happened. So, you have

to be able to do a post-mortem analysis and understand what is going on in the market." (Fund J)

Exits are difficult to manage but are important in realising returns and supporting a strong fund performance. As the interviews show, investors are exposed to a variety of influences, and these ultimately, shape the choices that they make and how the portfolio is formed.

5 Limitations and further research

This paper has focused on identifying the key elements of value-add and portfolio construction from the perspective of VCs. There are limitations, however, in not including the perspective of the entrepreneur. Berg-Utby et al. (2007) show that investors fail to meet the expectations of entrepreneurs in their post-investment support. They collected 240 surveys from Norwegian startups and asked them to grade their pre-and post-investment experiences on a seven-point scale. The results reveal that investors underperform in all five categories of the survey: product, strategy, accounting, finance and marketing. The authors hypothesise that the unsatisfactory results are due to VCs overstaying their capabilities and allocating insufficient attention to each firm.

Similar results have been confirmed in research by Vaidyanathan et al. (2019, p.455) as they write that "there is a consistent and uniform downward revision of expectations" of value-add by entrepreneurs. They test for 13 criteria of value-add and establish that the disappointment persists over time irrespective of the entrepreneurial firm performance. Survey respondents rejected the idea that VCs contribute meaningfully to value creation and were most pessimistic about the VC's ability to assist with business development. Our understanding of value-add in VC cannot be complete without investigating the perceptions of the receiver of capital investment.

Interestingly, the perspective of the entrepreneur is also relevant when thinking about portfolio construction. By focusing on the dynamic networks of VCs, Wang (2020) argues that entrepreneurs have a role in how portfolios evolve. When entrepreneurs face constraints, because their investors have restricted networks or are less established, they will look for new VCs to participate in the ownership structure. On the other hand, if they are satisfied with the knowledge and information provided, they are likely to remain with the same VC in the next fundraising round. The investor's ability to reinforce a position in the portfolio is partly determined by the entrepreneur's motivations.

Another aspect of portfolio construction, where the influence of the entrepreneur is evident, is the formation of VC syndicates. Entrepreneurs with a previous track record are likely to have greater choice over syndicate partners. According to research, serial entrepreneurs create less information barriers for VCs and can succeed in attracting investors that are more diverse and have a stronger reputation (Zhang, 2019). This benefits the entrepreneurial firm as it can gain access to complementary resources and retain greater control over its internal affairs. Few studies have paid enough attention to the influence entrepreneurs can yield; in a highly competitive fundraising environment, this question becomes all the more relevant for future research.

Other limitations facing this study are the inability to account for value-add services that promote open innovation (Yi et al., 2023). It has been shown that VCs can have a positive impact on the entrepreneurial firm, the deeper their industry experience. It might be that specialist funds have unique R&D-supporting capabilities that this study's sample, consisting of seven generalist funds, has failed to capture. Previous research has shown an association of VC activity with patent counts (Dutta and Folta, 2016; Popov and Roosenboom, 2012) which is worth continuing to investigate in later studies.

Finally, a third limitation of this paper is its restricted understanding of the role of fund partners. Analysts and investment associates are responsible for assisting the entrepreneurial firm. However, the final decision-makers are the partners, who also have a mandate to execute on the fund's fiduciary duties. The weight of the general partner's perspective is reflected in the fact that the literature on human capital focuses on their background to explain the value-add capabilities of VC (Gompers and Mukharlyamov, 2022). Partners also matter for portfolio construction as their previous experiences can help explain thematic focus (Patzelt et al., 2009). A wider representation of partners in future research can help uncover how VC internal organisation and governance issues influence investment strategy.

6 Conclusions

The landscape for VCs in Europe has evolved at a dramatic pace in the last few years. Financing rounds have become larger, the number of unicorns has increased and new entrants from CVCs to US-based funds have emerged. In this more mature ecosystem, investors will have to think twice about how they will set themselves apart from the competition. The pressure to realise high returns requires better handling of the strategic levers that investors have at their disposal: value-add and portfolio construction. In this context, it is worth exploring how VCs perceive these issues and what drivers influence their decisions.

The results of semi-structured interviews with ten European investors reveal that value-add and portfolio construction plays an important role. They level of attention differs from one fund to another: some VCs care more about the creation of location clusters while others about creating a sense of community. Each VC has its own method of providing support and developing its portfolio irrespective of some common aspirations, such as having an open and trustful relationship with the entrepreneur.

Practical considerations can be implied. Firstly, given the clear importance that value-add activities and portfolio strategies have, it would be beneficial for fund managers to develop a more structured approach. It was unexpected to discover that value-add or portfolio construction was not a regular item on the agenda of fund meetings. Secondly, funds might want to keep an open mind towards developing new strategies. Most VCs seem to disregard the board for its value-adding capabilities and only one fund from the sample was a strong advocate for it. As the literature has shown that monitoring confers value (Amornsiripanitch et al., 2019), it can be argued that VCs should consider this more. The same can be said for partnering with lesser-known funds with specific market or geographical knowledge that can complement the fundraising round (Du, 2016). Fund managers can try and test different approaches by discussing opportunities and risks with their teams.

A final practical implication is for entrepreneurs. If an entrepreneur is preparing to raise capital, she should approach the VC, with the value-add and portfolio construction strategy, that better matches her needs. Founder-fund fit should be paid attention to as the entrepreneur will benefit the most from selecting the VC that better aligns with her goals.

Understanding value-add and portfolio management is important as future challenges loom over the VC market. Harrison and Mason (2019, p.25) have claimed that VC is standing ‘on the threshold of another major transformation’. New financial innovations, such as equity crowdfunding and initial coin offerings (ICOs), have increased accessibility to capital in ways that surpass conventional practices. These innovations have been praised for democratising investments but at the same time they come with added risks such as reduced investor protection and the removal of the requirement of sophistication. Consequently, they provide the opposite of the value-adding ‘smart capital’ that typically characterise VCs.

Another future development is the internationalisation of entrepreneurial finance. The rise of emerging markets raises doubts about ‘the transferability of the Western, essentially American, model of VC’ (idem, p.16). The observation that a more contextual approach might be suited to different countries raises questions over the influences on the European VC landscape. Given certain idiosyncrasies particular to Europe, such as slower business growth, it is an open question whether VCs will adapt their strategic thinking to better suit local contexts.

Early-stage financing no longer remains an exclusive competence of VCs in Europe. Rising competition has accelerated the pace of capital markets and introduced complexity. By emphasising the value-add and portfolio construction capabilities of VCs, this study highlights their unique position. As Bonnini and Capizzi (2018, p.165) write, new pressures ‘do not seem to be able – at least so far – to make the VC system wholly obsolete’. VCs are important actors in the funding landscape and will continue to create value due to their distinct activities.

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Notes

1 It is worth noting that portfolio construction is a complex topic. For the focus of this paper, it is too complex to give a full analysis of all the factors that come into play. There are other topics that matter: the background of senior investors (Patzelt et al., 2009), the fund's status (Yu and Kim, 2021) and shared beliefs about growth prospects (Tavares-Gärtner et al., 2018). These extend beyond the scope of this paper and warrant more attention in future research.

Appendix

List 1: Interview checklist

This list includes the questions in the semi-structured interviews.

1. What non-financial resources do you provide to portfolio firms?
2. Do you have a value creation strategy?
3. Who is responsible on the investment team for shaping your value-add?
4. Are there any formal or informal channels which you prefer over others to bring value to your portfolio companies?
5. How much of an active role do you play in shaping governance?
6. What is your target ownership share and how is it determined?
7. What financial instruments do you prefer in a deal?
8. How do you balance resources between portfolio companies?
9. What influences the way you construct your portfolio?
10. Is there an optimal number of portfolio companies?
11. Do you care about portfolio distance?
12. Do you look to create synergies between portfolio companies?
13. What determines the thematic direction of the portfolio?
14. How do you approach syndication and under what circumstances will you be the lead?
15. How do you decide who to select in syndication?
16. What criteria do you use for an exit strategy?
17. How many years do you hold on to portfolio companies?
18. How do you monitor and evaluate milestones and could this lead to staged financing?
19. How do you adapt your exit strategy to market conditions?
20. How do you overcome diverging preferences over exit outcomes with the founder?

List 2: Interview checklist references

This list includes the references that helped form the questions in the semi-structured interviews.

1 Paper 1: Sapienza, H.J. et al. (1996) 'Venture capital governance and value added in four countries', *Journal of Business Venturing*, Vol. 11, No. 6, pp.439–469.

Paper 2: De Clerq, D. and Manigart, S. (2007) 'The venture capital post-investment: opening the black box of involvement', in Landström, H. (Ed.): *Handbook of Research on Venture Capital*.

2 Paper 1: Sapienza, H.J. et al. (1996) 'Venture capital governance and value added in four countries', *Journal of Business Venturing*, Vol. 11, No. 6, pp.439–469.

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11 Paper 1: Lehner, J. (2022) 'Looking for complementarities. Within-industry diversification and geographic diversification of venture capital firms', *Venture Capital: An International Journal of Entrepreneurial Finance*, pp.1–26.

12 Paper 1: Lehner, J. (2022) 'Looking for complementarities. Within-industry diversification and geographic diversification of venture capital firms', *Venture Capital: An International Journal of Entrepreneurial Finance*, pp.1–26.

13 Paper 1: Buchner, A. et al. (2017) 'Diversification, risk, and returns in venture capital', *Journal of Business Venturing*, Vol. 32, No. 5, pp.519–535.

14 Paper 1: Jääskeläinen, M. (2012) 'Venture capital syndication: synthesis and future directions', *International journal of Management Reviews*, Vol. 14, No. 2, pp.444–463.

15 Paper 1: Jääskeläinen, M. (2012) 'Venture capital syndication: synthesis and future directions', *International journal of Management Reviews*, Vol. 14, No. 2, pp.444–463.

Paper 2: Nguyen, G. and Vu, L. (2021) 'Does venture capital syndication affect mergers and acquisitions?', *Journal of Corporate Finance*, Vol. 67, pp.1–21.

16 Paper 1: Chaplinsky, S. and Gupta-Mukherjee, S. (2016) 'Investment risk allocation and the venture capital exit market: evidence from early stage investing', *Journal of Banking & Finance*, Vol. 73, pp.38–54.

17 Paper 1: Chaplinsky, S. and Gupta-Mukherjee, S. (2016) 'Investment risk allocation and the venture capital exit market: evidence from early stage investing', *Journal of Banking & Finance*, Vol. 73, pp.38–54.

18 Paper 1: De Clerq, D. and Manigart, S. (2007) 'The venture capital post-investment: opening the black box of involvement', in Landström, H. (Ed.): *Handbook of Research on Venture Capital*.

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Figure A1 Word-clouds, (a) value-add: most frequently occurring words or critical statements, (b) portfolio construction: most frequently occurring words or critical statements (see online version for colours)

(a) (b)