

How to Identify and Address Dysfunctional Venture Capital Relationships in the Startup Ecosystem



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The venture capital (VC) world has long been characterized by its tight-knit and somewhat private community. Founders typically maintain a low profile regarding what transpires behind closed doors, largely due to their significant financial reliance on the investor community.

Understanding the dynamics within this community can be challenging without direct exposure or day-to-day interactions with investors or founders. Over the past two years, my increased involvement in the VC community has brought to light

both commendable individuals and concerning trends that have direct implications for founders.

In the realm of venture capital, there are VCs who genuinely support founders, but there are also those who exhibit behaviors that can hinder entrepreneurial success. Despite a shared desire among all stakeholders for optimal business performance, founders and VCs occasionally grapple with misaligned incentives. While investors may have the intellectual intention to support their founders, there exists a challenge in fostering an environment where founders feel comfortable being open about what is or isn't working in the founder-investor relationship.

Drawing from my expertise as a business psychologist, I have observed the financial repercussions of founders becoming sidetracked by managing investor relationships at the expense of their businesses. My aim is to shed light on these observed issues and encourage VCs to reflect on their actions. Projecting emotional or mental health issues onto invested founders not only risks financial returns but also exacerbates challenges for entrepreneurs already facing significant obstacles.

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Three prevalent dysfunctional VC archetypes emerge

1. The Bully:

The Bully archetype within the VC landscape often presents as an investor with an initially charismatic and supportive demeanor. However, this façade quickly transforms after the ink has dried on the contract. These VCs may lack substantial operating experience as CEOs, leading them to impose their

subjective views on what it takes to be a successful CEO. Criticism often targets the founder's decisions and sometimes questions their character, suggesting they are ill-suited for the role or negligent in their fiduciary duties.

The Bully employs vague strategic advice intentionally, creating ambiguity to make failure more likely. This lack of clarity allows the Bully to seize opportunities to point out the founder's supposed incompetence, negatively impacting the founder's self-esteem and decision-making. The unpredictable nature of interactions with such VCs further contributes to an unhealthy founder-investor dynamic.

Bully archetype snapshot:

Qualities: Lack of operational experience; emotional volatility; creates "gotcha" scenarios

Impact: Harmful for founder self-esteem; insecure attachment; relationship between founder and investor leads to lack of trust

2. The Daddy:

The Daddy archetype is characterized by a patronizing attitude and a hero complex. These investors leverage their initial belief in the founder as a tool for manipulation, reminding the founder of their unwavering support. This dynamic can lead to breaches of professional boundaries, with the investor overstepping by providing unsolicited advice. The fragile ego of the Daddy investor is highlighted, revealing a need for constant validation from founders to maintain their perceived relevance and importance. This emotional reliance distracts founders from their primary responsibilities, creating an imbalanced power dynamic detrimental to business success.

Daddy archetype snapshot:

Qualities: insecure; manipulative; breach of professional

boundaries

Impact: imbalanced power, as the founder may find it challenging to assert independence or make decisions without the constant approval of the Daddy investor.

3. The Neurotic:

The Neurotic archetype enters the VC community, often through familial or friend connections, with a potential lack of resilience for the roller-coaster ride of startup life. While these VCs may possess impressive intelligence and academic credentials, they struggle to endure the inevitable ups and downs of the startup ecosystem. Their inability to weather challenges prompts excessive involvement in their portfolio companies, seeking regular updates on performance. This behavior is driven by a lack of thick skin for the job, leading them to emotionally lean on founders during tough times.

While their intentions may be well-founded, the Neurotic archetype needs to cultivate greater resilience. Instead of emotionally dumping on their founders, seeking external support for managing anxiety over their portfolio's performance is crucial for maintaining a healthy investor-founder relationship.

Neurotic archetype snapshot:

Qualities: excessive involvement; need for constant reassurance; lacking resilience

Impact: poor emotional boundaries; looking for the founder to relieve their distress, which leads to founders becoming distracted from core business problems

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Charting a course forward

The venture capital industry operates under immense pressure, leading to stress, anxiety and a fear of failure. Nonetheless, founders can't bear the brunt of VC stress, and if you identify with one of these archetypes, it's essential to address the core issues.

If you find yourself exhibiting Bully or Daddy behaviors and feel the need to assert power over others, it's likely that someone wielded power over you in your past. That is a wound that has gone unaddressed and unhealed. Without judgment, find a way to explore that core wound with a trusted therapist to diminish emotional projections.

If you're displaying behaviors exhibited by the Neurotic archetype, you should be aware of your challenges, surround yourself with supportive individuals who can model emotional regulation, and utilize tools for anxiety management like mindfulness, therapy and nervous system regulation.

If you're a founder facing a contentious relationship with investors, especially if it verges on an abusive situation, my advice to you is to stop blaming yourself for not "figuring this out" sooner. In my experience, founders blame themselves first and then internalize the stress and shame. Also, look to establish boundaries, keep business discussions within scheduled meetings, and consider bringing others to meetings for support. People can show up better when there are more folks in the room.

Investors and founders alike should schedule periodic sessions to openly discuss the dynamics of their relationship. Just like any interpersonal connection, it's crucial to approach these conversations with care, ensuring they are structured to focus on the health and effectiveness of the overall partnership.

Navigating the founder-investor relationship is tough, but it's crucial to remember shared interests. Choose differently to avoid making the startup journey harder than necessary. In the startup world, where the odds are always against you, how you choose to turn those odds around matters.

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