

UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

**CHOOSING THE RIGHT INVESTORS: KEY CRITERIA FOR
CLIMATE TECH STARTUPS**

Ljubljana, April 2026

PIA HORVAT

AUTHORSHIP STATEMENT

The undersigned Pia Horvat, a student at the University of Ljubljana, School of Economics and Business, (hereafter: UL SEB), author of this written final work of studies with the title Choosing the right investors: Key criteria for climate tech startups, prepared under supervision of Aleš Pustovrh, PhD,

DECLARE

1. this written final work of studies to be based on the results of my own research;
2. the printed form of this written final work of studies to be identical to its electronic form;
3. the text of this written final work of studies to be language-edited and technically in adherence with the UL SEB's Technical Guidelines for Written Works, which means that I cited and / or quoted works and opinions of other authors in this written final work of studies in accordance with the UL SEB's Technical Guidelines for Written Works;
4. to be aware of the fact that plagiarism (in written or graphical form) is a criminal offence and can be prosecuted in accordance with the Criminal Code of the Republic of Slovenia;
5. to be aware of the consequences a proven plagiarism charge based on this written final work could have for my status at the UL SEB in accordance with the relevant UL SEB Rules;
6. to have obtained all the necessary permits to use the data and works of other authors which are (in written or graphical form) referred to in this written final work of studies and to have clearly marked them;
7. to have acted in accordance with ethical principles during the preparation of this written final work of studies and to have, where necessary, obtained permission of the Ethics Committee;
8. my consent to use the electronic form of this written final work of studies for the detection of content similarity with other written works, using similarity detection software that is connected with the UL SEB Study Information System;
9. to transfer to the University of Ljubljana free of charge, non-exclusively, geographically and time-wise unlimited the right of saving this written final work of studies in the electronic form, the right of its reproduction, as well as the right of making this written final work of studies available to the public on the World Wide Web via the Repository of the University of Ljubljana;
10. my consent to publication of my personal data that are included in this written final work of studies and in this declaration, when this written final work of studies is published.

Ljubljana, April 3rd, 2026

Author's signature:



ABSTRACT

This master's thesis investigates how early-stage climate tech startups select investors and which factors they consider most important in their decision-making process. Following a review of relevant literature, ten semi-structured interviews were conducted with representatives of such startups. The analysis examines key selection criteria, dealbreakers (circumstances under which a startup would decide against a potential investor), and the role of sustainability in investment decisions. The results indicate that alignment in values, goals, and communication, often described as personal compatibility, represents the most important factor, followed by ticket size and investor reputation. Ethically controversial activities and value misalignment represent the main dealbreakers. Although sustainability is considered an important criterion, it rarely constitutes an absolute exclusion point, as startups often make compromises between their values and the necessity of securing capital for survival. The study emphasizes the importance of alignment between startups and investors, both in terms of values and long-term objectives, and presents sustainability as a factor that is gaining importance but is frequently subordinated to the need to obtain funding.

KEY WORDS

Climate tech startups, sustainable investing, investor selection, decision factors, sustainability

SUSTAINABLE DEVELOPMENT GOALS



POVZETEK

Namen magistrskega dela je raziskati, kako zagonska podjetja v zgodnji fazi razvoja na področju podnebnih tehnologij izbirajo med investitorji ter katere dejavnike pri tem prepoznavajo kot ključne. Po pregledu literature je bilo izvedenih deset intervjujev z osebami iz omenjenih zagonskih podjetij, pri čemer se je analiza osredotočila na ključne dejavnike, "dealbreakerje" (okoliščine, zaradi katerih se zagonsko podjetje za določenega investitorja ne bi odločilo) in vlogo trajnosti. Rezultati kažejo, da ta podjetja največji pomen pripisujejo medsebojni usklajenosti vrednot, ciljev in komunikacije, čemur sledita višina naložbe ter ugled investitorja, medtem ko etično sporne dejavnosti delujejo kot glavni dealbreakerji.

Čeprav trajnost velja za pomemben kriterij, redko predstavlja absolutno izločitveno točko, saj podjetja pogosto sklepajo kompromise med vrednotami in nujnostjo pridobitve kapitala za preživetje. Raziskava izpostavlja pomen skladnosti med podjetjem in investitorjem, tako glede vrednot kot dolgoročnih ciljev, ter obravnava trajnost kot dejavnik, ki pridobiva na teži, a se pogosto podredi nuji po pridobitvi kapitala.

KLJUČNE BESEDE

Zagonska podjetja, podnebne tehnologije, trajnostno investiranje, izbira investitorjev, dejavniki odločanja, trajnost

CILJI TRAJNOSTNEGA RAZVOJA



TABLE OF CONTENTS

1	INTRODUCTION.....	1
2	THE INVESTMENT MARKET	4
2.1	Current state	7
2.2	Startups.....	8
2.3	Sources of capital	8
2.3.1	Venture capital	10
2.3.2	Business Angels	12
2.3.3	Philanthropic money.....	14
2.3.4	Government grants and subsidies.....	16
2.3.5	Other sources of funding	16
2.4	Different characteristics and factors of investors	17
2.4.1	Investor type	17
2.4.2	Investment stage	17
2.4.3	Investment focus.....	18
2.4.4	Portfolio.....	19
2.4.5	Fund age and size	20
2.4.6	Direct and indirect contact	21
2.4.7	Sustainability and Impact	21
2.4.7.1	<i>Understanding the Dimensions of Sustainability</i>	22
2.4.7.2	<i>Impact investment</i>	23
2.4.7.3	<i>Impact reporting</i>	25
2.4.7.4	<i>Greenwashing in reporting</i>	26
3	EXISTING FRAMEWORKS OF INVESTORS' CHARACTERISTICS ASSESSMENT	27
3.1	Analysis of existing frameworks	27
3.1.1	Framework A: How early-stage entrepreneurs evaluate VCs	27
3.1.2	Framework B: When entrepreneurs choose VCs: experience, choice criteria and introspection accuracy	28
3.1.3	Framework C: What Do Entrepreneurs Pay for Venture Capital Affiliation?	29

3.1.4	Framework D: Exploring Entrepreneurs' Perceptions of Venture Capitalists' Added Value.....	29
3.1.5	Framework E: Take the money or run? Investors' ethical reputation and entrepreneurs' willingness to partner.....	30
3.1.6	Framework F: Key factors that influence a startup's choice of venture capitalist	31
3.2	Synthesis of the findings.....	32
4	RESEARCH	33
4.1	Purpose, objectives and research questions	33
4.2	Research methodology	34
4.3	Research implementation.....	34
4.4	Research results	36
4.4.1	Key decision factors: Initial feedback from interviewees.....	37
4.4.2	Dealbreakers: Reasons for Declining Investment Opportunities	38
4.4.3	Type, Stage, Focus, and Portfolio	39
4.4.4	Ticket size, Value-Added Services, Compatibility, and Reputation.....	41
4.4.5	Sustainability.....	42
4.4.6	Distribution of Importance Across Key Decision Factors	44
4.5	Research limitations	44
4.6	Discussion	45
5	CONCLUSION	51
	LIST OF KEY LITERATURE	52
	REFERENCE LIST	53
	APPENDICES	61

LIST OF FIGURES

Figure 1:	The typical structure of a venture capital firm.....	6
Figure 2:	Global Venture Financing.....	8
Figure 3:	Financing sources of a high-growth startup in different stages	9
Figure 4:	Impact Value Chain	24

LIST OF TABLES

Table 1: Literature review	32
Table 2: Participant information.....	35
Table 3: Overview of research questions and their main findings	46

LIST OF APPENDICES

Appendix 1: Interview guide	1
Appendix 2: Interview transcript – Participant 1.....	5
Appendix 3: Interview transcript – Participant 2.....	11
Appendix 4: Interview transcript – Participant 3.....	18
Appendix 5: Interview transcript – Participant 4.....	24
Appendix 6: Interview transcript – Participant 5.....	31
Appendix 7: Interview transcript – Participant 6.....	39
Appendix 8: Interview transcript – Participant 7.....	46
Appendix 9: Interview transcript – Participant 8.....	51
Appendix 10: Interview transcript – Participant 9.....	56
Appendix 11: Interview transcript – Participant 10.....	63

LIST OF ABBREVIATIONS

AI – Artificial Intelligence
AUM – Assets Under Management
B2B – Business-to-Business
B2C – Business-to-Consumer
BA – Business Angel
CCO – Chief Commercial Officer
CEO – Chief Executive Officer
CTO – Chief Technology Officer
CVC – Corporate Venture Capital
ESG – Environmental, Social and Governance

EU – European Union
FFF – Family, Friends, and Fools
GIIN – Global Impact Investing Network
GP – General Partner
HLM – Hierarchical Linear Modeling
II – Impact Investing
IoT – Internet of Things
IPCC – Intergovernmental Panel on Climate Change
IPO – Initial Public Offering
KPI – Key Performance Indicators
LP – Limited Partner
PE – Private Equity
R&D – Research and Development
SaaS – Software-as-a-Service
SDGs – Sustainable Development Goals
SI – Sustainable Investment
SRI – Socially Responsible Investing
UN – United Nations
USD – United States Dollar
VBI – Value Based Investing
VC – Venture Capital
WMO – World Meteorological Association

1 INTRODUCTION

Since the middle of the twentieth century, human activities have been the predominant measurable influence on climate change, which consequently evolved into a global threat and one of humanity's most daunting challenges (Karl & Trenberth, 2003). The latest Intergovernmental Panel on Climate Change (IPCC) report revealed alarming but predictable findings on the magnitude and frequency of climate change impacts on ecosystems, human society, and other aspects of our planet being more significant than in any previous assessments on this subject (IPCC, 2022). These severe weather and climate disasters, including extreme heat, glacier melt, sea level rise, wildfires, floods, storms, and droughts, combined with urbanization and population ageing are making societies and ecosystems more vulnerable (WMO, 2022a). For instance, our planet's average temperature has risen for about 1.1 degrees Celsius since the nineteenth century, with the years 2015 to 2021 being the warmest ever observed (WMO, 2022b). When comparing the rate of temperature rise across continents over the past three decades, Europe has warmed the fastest - more than twice the global average (WMO, 2022a). Furthermore, in 2022, one-fourth of the world's population resided in areas affected by violent conflicts, with the number of conflicts reaching its highest point since 1946. While the acute phase of the COVID-19 pandemic has ended, its lasting consequences continue to worsen the effects of conflicts, extreme weather phenomena, and economic shocks, deepening the food, energy, humanitarian, and refugee crises (United Nations, 2022). These factors disproportionately harm vulnerable, resource-poor, resource-dependent, and marginalized communities, putting all mankind's chances of a liveable future at risk (IPCC, 2022). As a result of the abundance of information available, the public's awareness of climate change and its consequences has grown over time. However, strengthening fundamental education, climate literacy, and general knowledge of the local implications of climate change will have a positive influence on future participation and support for climate action (Lee et al., 2015).

A possible comprehensive approach for addressing these crises are The Sustainable Development Goals (SDGs). By improving social welfare systems and public services and investing in clean energy, underlying reasons for rising inequality, environmental deterioration and climate change can be tackled (United Nations, 2022a). The 2030 Agenda for Sustainable Development has been in place for a few years, and we are now beginning to observe how public, private, and governmental sectors are incorporating this common vision into their initiatives and tactics for nationwide development (United Nations, 2022b). As specialists in this field are adamant that the SDGs must be employed through methods supported by evidence and science, authorities struggle to accomplish these goals simultaneously, rationally, and uniformly. Many significant gaps persist in the form of the evaluation of interconnections, trade-offs, and complementarities between objectives, as well as in the implementation of systems thinking and integrated analytical methods. There is a potential threat that many nations would follow the same isolated and parallel sustainable

development policies that have not had much impact prior and weaken the SDGs' potential for transformation (Allen et al., 2018). Nevertheless, the shift to climate positive investments is vital to attain robust, inclusive economic growth whilst refocusing on emission reduction and resilience enhancement to the consequences of climate change. Therefore, national growth and development policies must prioritize the climate imperative (OECD, 2017).

Since the onset of the global financial crisis in 2008, finance capitalism has revealed a series of weaknesses in the market, including a disregard for social and environmental risks and an avoidance of long-term sustainable development. Some of the main factors behind these weaknesses include investors' propensity to make impulsive and short-term decisions, legal constraints imposed by fiduciary laws, and inadequate accountability of financial actors for caused impact. Consequently, sustainable investment started becoming recognizable as a feasible solution to encourage a more socially empathetic and environmentally conscious global economy (Richardson, 2013; Vogeley et al., 2022). Nowadays, numerous responsible investors desire that their values are represented through their investment practices (Landier & Nair, 2009; Vogeley et al., 2022). This is seen by the expansion of funds and indices supporting sustainable investment over the recent decades (Talan & Sharma, 2019). Sustainable investing is flourishing on a global scale, best demonstrated by the rise in assets under management (AUM) from \$30.7 trillion in 2018 to \$35.3 trillion in 2020 (Global Sustainable Investment Alliance, 2020).

To attract sustainable investments, businesses need to exert significant effort. Even though many of them attempt to tackle social and environmental issues, either their resources or external conditions do not adequately support it (Epstein & Yuthas, 2017). One of the most widely used approaches for sustainable investment decisions has been the incorporation of ESG elements, despite the low uniformity across various global regions (Global Sustainable Investment Alliance, 2020). Many variables, including the fact that investors prioritize diverse ESG criterion differently and that governance is not seen as a core component of ESG initiatives, might contribute to this lack of consistency (Cadman, 2012). Evidence from two studies shows that in addition to the classic factors of risk, return, and liquidity, sustainability has a considerable influence on investors' eagerness to invest. Furthermore, while strengthening sustainability may not increase investment appeal, running business in an unsustainable manner is harmful, which could not be avoided even through higher returns (Lingnau et al., 2022). Businesses that strongly committed to sustainability in the past have outperformed others financially and have developed unique cultures (Richardson, 2013). According to a United Nations assessment, sustainable funds invest primarily across eight key SDG sectors, with health, renewable energy, and food and agriculture receiving the highest amounts of money. Most of these investments are focused on developed countries and markets, i.e., Europe (UNCTAD, 2021).

Tremendous issues provide tremendous entrepreneurial possibilities (Kuckertz et al., 2019). Significant advances in all SDG areas are necessary to address today's sustainability obstacles, and many of the innovative ideas are developed by start-up entrepreneurs (Tiba et

al., 2021). The potential for growth is encouraging, particularly for eco-entrepreneurs, who may establish meaningful value-creating business models and combat societal, environmental, and economic challenges (Kuckertz et al., 2019). Positive influence on the latter can be seen through employment creation, innovation, competition, and export opportunities (Cassar, 2004).

However, the search for suitable investors is among the toughest difficulties of fundraising of an emerging start-up. A variety of factors are bound to align in order for this to happen, including individual beliefs, personality match, business ambitions, market conditions or simply first impressions and intuition. More specifically, when looking for funding, a typical start-up must consider plenty of variables, including investor type, investment stage, investment focus, portfolio, various levels of investor's sustainable behaviour, and others. The premise of this thesis is that startups are in a position to choose which investors to approach. However, in practice, the decision-making power often lies with investors, who can select among startups rather than the other way around. Nevertheless, the assumption offers a valuable framework for examining the dynamics between startups and investors.

The purpose of this thesis is to deepen the understanding of how early-stage climate tech startups evaluate and select investors during the fundraising process. While prior research frequently observes how investors choose among startups to invest in, comparatively little focus has been devoted to how startups assess their potential investors. To narrow this gap, this study investigates the priorities, values, and trade-offs that shape startup decision-making, and examines which investor factors are most valued by early-stage climate tech startups.

The goal of this master's thesis is to theoretically and empirically determine the investor factors deemed significant by climate tech startups. One of the objectives is to explore the concept of dealbreakers, factors that could discourage startups from considering an investor, regardless of how strong their other attributes are. Another aim is to investigate whether startups recognise sustainability as a relevant factor in the assessment of investors. The thesis therefore begins with a comprehensive analysis of the existing literature and previous empirical studies in order to lay the theoretical groundwork for the subsequent research. Building upon this, the empirical component draws on qualitative interviews with startups, providing real-world insights that broaden the theoretical foundation. In addition to achieving a deeper understanding of how climate tech startups evaluate and choose investors, the goal is also to offer insights that could help startups make more informed decisions in future fundraising efforts.

Through the findings of the thesis, the following research questions will be answered:

1. Which are the most important factors that influence a startup's decision when choosing the most suitable investors?

2. What are climate tech startups' dealbreakers/non-negotiable factors when choosing investors?
3. Should sustainability also be considered as an important factor for startups when choosing investors?

The theoretical part of this master's thesis will begin with qualitative screening of the existing literature in the field of investing, focusing primarily on early-stage and impact investments. This will be followed by secondary research of peer-reviewed articles and dissertations aligned with the thesis objectives. The proposed research questions will be addressed through a combination of secondary research of theoretical knowledge along with qualitative data gathering. As such, semi-structured interviews will be the primary research method.

The empirical part of this master's thesis will present the research instrument and analyse the gathered interview data. These semi-structured interviews will be carried out with climate tech start-up entrepreneurs and founders working in the industry. I will use a thematic analysis to help determine the most important and reoccurring themes in raw interview transcripts, and interpret the results. In the information I will gather through interviews, I will seek for insights and expertise derived from participants' prior industry experiences. I will pose questions designed to provide a deeper understanding of the investing and fundraising landscape. I will identify the key factors essential for fostering synergy between a startup and an investor and subsequently formulate my concluding remarks.

2 THE INVESTMENT MARKET

An entrepreneur's pursuit of funding for an innovative product or solution remains a persistent challenge that has caused a fair share of sleepless nights. Raising a sufficient amount of capital is crucial to facilitate the development of visionary ideas and to bring breakthrough innovations to life. Entrepreneurs navigating the fundraising process are bound to experience a rollercoaster of monumental lows and soaring highs. While obtaining the required funds is still everyone's ultimate goal, this endeavour proves elusive more often than not.

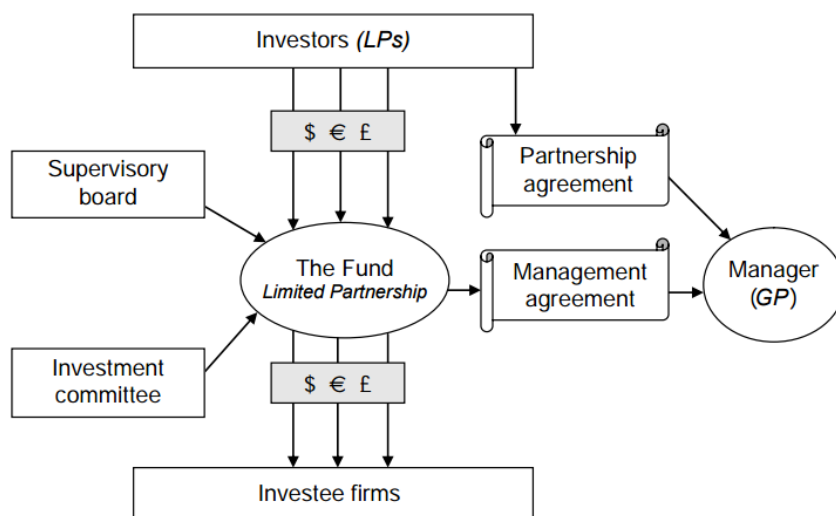
Companies can primarily raise funds through debt financing, equity financing, or a combination the two. Debt financing entails borrowing money and later repaying it over a predetermined period of time. As a result, it is usually more accessible to well-established businesses with consistent cash flows and solid credit ratings. Meanwhile, younger entities that lack positive cash flows, track records, or tangible collateral encounter difficulties securing debt financing (Isaksson, 2006; Ibrahim, 2010). This is where equity financing comes into play, providing early stage businesses with a more practical and attainable option to obtain funds. With equity financing, investors acquire a share of the company's

ownership, meaning there are no debt obligations. Such capital carries higher risks but also offers greater projected returns. Some researchers interchangeably use the terms risk capital and equity capital. When they specify it even further, risk capital becomes equity financing to businesses in their earliest stages (Isaksson, 2006).

Both debt and equity financing are fundamental parts of the private equity market, a vast and complex maze of high-risk investment opportunities that exist outside of public markets (Gilligan & Wright, 2020). While the term ‘private equity market’ implies that the primary focus is on equity investments, debt financing holds significant importance as a potential complementary aspect of a firm’s fundraising strategy. Businesses regularly employ various forms of debt financing, including venture debt, convertible notes, various types of loans, and other means of raising their capital. Returning to the thesis’s core financing interest, equity financing, it encompasses a wide array of capital sources. Angel investors, venture capital, corporate venture capital, private equity, initial public offerings (IPOs), equity crowdfunding, and other well-known sources are among them (Klačmer Čalopa et al., 2014; Abdulsaleh & Worthington, 2013; Schwienbacher et al., 2014).

The following fundamental structure is applicable extensively across diverse private equity fund types. Institutional investors, also known as limited partners (LPs) and wealthy individuals supply capital to these funds. General partners (GPs) or fund managers are responsible for spotting viable investment prospects and handling the committed capital (Phalippou & Gottschalg, 2009; Kaplan & Schoar, 2005). Risk capital is then invested in a portfolio of rigorously evaluated privately owned businesses (Gilligan & Wright, 2020). Profitable private equity businesses typically secure fresh funding at intervals of three to five years, with the specific terms varying according to the recognised capabilities or luck demonstrated in the fund’s performance (Metrick & Yasuda, 2010). The exact timing of cash flows is often uncertain, funds normally operate within a limited 10 to 12-year life cycle, and the stakes held in these funds are non-transferable (Phalippou & Gottschalg, 2009; Kaplan & Schoar, 2005). By the end of the cycle, the fund aims to distribute both capital and profits back to LPs, maximize returns, and efficiently conclude its operations (Kaplan & Schoar, 2005). As an example, Figure 1 depicts such structure within a venture capital firm.

Figure 1: The typical structure of a venture capital firm



Source: Klonowski (2015).

Private equity firms were established over the past forty years to generate substantial sums of capital for investment funds. They operate as financial intermediaries, and the ones focusing on investments in promising early-stage companies, display distinct investment behaviour. Primarily, their attention concentrates in growth-centric investments, seeking to quickly scale the businesses they finance. Apart from the financial infusion, they proactively deliver hands-on mentorship, guidance, and resources that go beyond what is usually offered by public markets (Appelbaum & Batt, 2014; Kaplan & Schoar, 2005). A study indicates that as much as 72% of investment firms rely on the help of advisory boards, senior advisers, or strategy consultants to offer nonfinancial business guidance or operational support to their portfolio companies (Gompers et al., 2016). By leveraging their existing industry relationships and connections, these actors enable critical strategic alliances, thereby aiding development and market penetration. Finally, in the pursuit of generating above-average returns, these PE firms employ a calculated yet riskier approach when investing in often unstable early-stage businesses (Appelbaum & Batt, 2014; Ljungqvist & Richardson, 2003). The aforementioned behavioural traits defining private equity funds all tie back to a shared attribute: their long-term investment timeframe. Such extended duration allows for a customized approach, shaping the landscape for disruption and fostering innovation (Metrick & Yasuda, 2010; Ljungqvist & Richardson, 2003).

Throughout this chapter and its subsections, I aim to provide a thorough explanation of the most important players, terminology, and ecosystem dynamics. This foundational knowledge will serve to better comprehend the practical elements discussed later in the thesis.

2.1 Current state

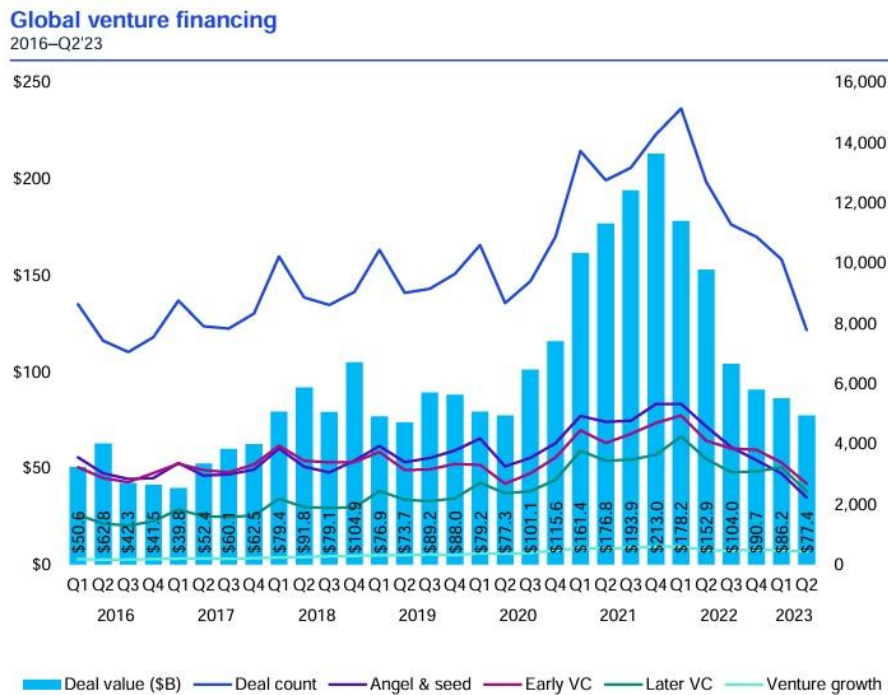
The amount of money raised within the private capital sector has been decreasing since Q4 2021, with an even bigger decline evident over the 12-month period from Q4 2022 onward (PitchBook 1a, 2023).

In the current landscape of venture capital as of mid-2023, securing funding from VC firms is notably challenging. The prevailing market uncertainties have instilled caution among VCs, resulting in slower decision-making and a more conservative approach to investing. The most prominent investment trends revolve around AI, with alternative energy, energy storage, and cleantech closely following suit. As noted earlier, VC investors are increasingly thorough and meticulous in allocating their funds. They prioritize profitable companies with robust business models capable of navigating the ever-changing business circumstances. This trend extends even to early-stage companies, where VCs delve deeply into financial metrics and assumptions to thoroughly evaluate potential investments (KPMG Private Enterprise, 2023).

Figure 2 illustrates the state of global venture financing since 2016. Both deal value and count exhibited a consistent upward trend until 2021, marking a record-breaking year for investments. However, since middle 2022, a significant decline in this trend can be observed.

In the venture capital market, the exit activity persists to be the weakest aspect of the system, displaying minimal improvement this year and projecting modest recovery in the foreseeable future. Additionally, as of Q3 2023, VC fundraising stands at just half the amount seen in 2022, whereas private equity (PE) is experiencing more positive results, marked by larger fund sizes and an upward trend in fundraising. A noteworthy finding is that seasoned managers are accumulating more capital compared to first-time VC funds, which have experienced a substantial drop in fundraising, surpassing even the overall decline in VC funding (PitchBook 1b, 2023).

Figure 2: Global Venture Financing



Source: Venture Pulse, Q2'23. Global Analysis of Venture Funding, KPMG Private Enterprise. Data provided by PitchBook, July 26, 2023

Source: KPMG Private Enterprise (2023).

2.2 Startups

Start-ups are young, generally creative, and innovative entities in their early stages of development and market exploration. They devise scalable business ideas and attempt to survive in highly unpredictable environments. They are frequently technologically focused, which allows for a high growth potential (Klačmer Čalopa et al., 2014; Janaji et al., 2021; Tech, 2018). In his book, Graham portrays start-ups as being informal, fast, and resource-constrained (Graham, 2004).

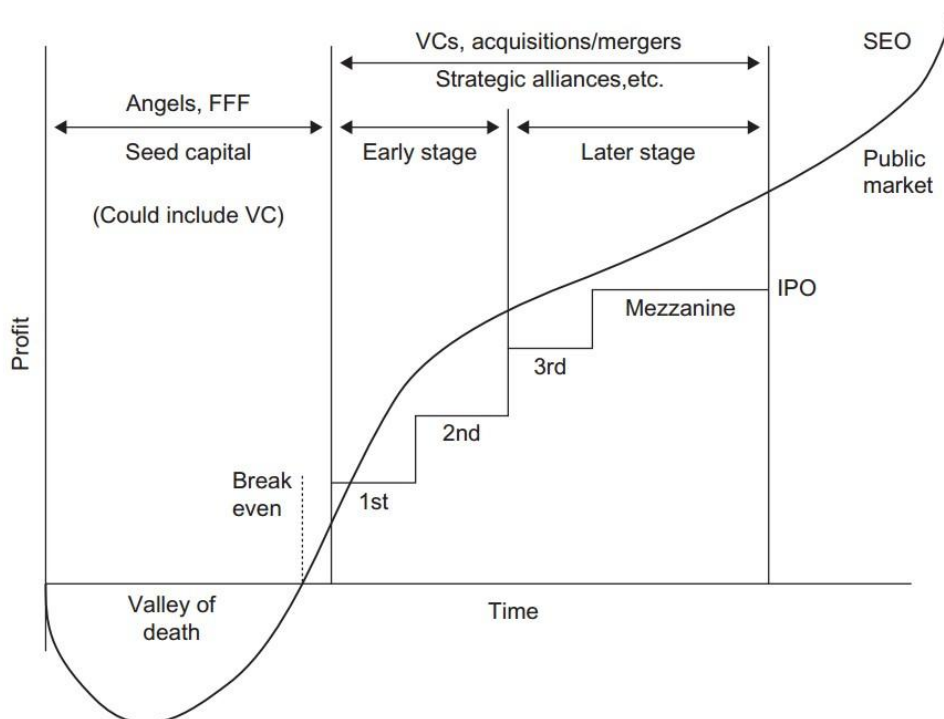
2.3 Sources of capital

Apart from human capital, one of the key resources needed to successfully establish and sustain a start-up is financial capital (Cassar, 2004). Start-ups need to attract sufficient funding for both short and long-term development goals (Janaji et al., 2021). There are multiple ways through which a start-up can receive the necessary funding. The characterisation of applicable sources of funding is diverse and includes founders investing their own assets, investments from family, friends, and fools (often referred to as FFF), capital from business angels (BAs), angel groups and business angel networks, loans from traditional banks, crowdfunding, investments from corporate venture capital (CVC) firms, involvement in incubator and accelerator programs, support from science and technology

parks and university-affiliated seed funds, and ultimately, funding from venture capital (VC) firms (Bonini & Capizzi, 2019; Tech, 2018; Cumming & Johan, 2013; De Clercq, 2006). The differences between these categories of investors are considerable, as are their investment strategies, fund sources, average scopes and sizes of investments, motivations for investing, criteria for investing, reporting obligations, and exit concerns (Tech, 2018; De Clercq, 2006).

As depicted in figure 3, the funding options for high-growth startups vary depending on the time, commonly referred to as the startup stage. It is crucial to emphasize that this representation is simplified, as the range of feasible capital sources for startups is significantly more extensive than portrayed. In the initial period after establishing a business, the likelihood of failure is extremely high, primarily due to the substantial financial inputs required and the absence of immediate revenues. During this critical phase, the invaluable support of two investor categories—namely, friends, family, and fools (FFF), and business angels—becomes evident. These entities often provide the initial capital that entrepreneurs need before securing more formal institutionalized financing. Nonetheless, startups in high-growth technology industries often attract investments from venture capital firms as well (Cumming & Johan, 2013). It is, in fact, a vital source of funding for them (Gompers et al., 2020).

Figure 3: Financing sources of a high-growth startup in different stages



Source: Cumming & Johan (2013).

Unfortunately, entrepreneurs often abandon their business pursuit due to unsuccessful financing (Thanapongporn et al., 2021).

2.3.1 Venture capital

Venture capital represents a distinct financing mechanism within the financial sector, primarily serving as a source of financial backing for small and usually new enterprises known for higher degrees of uncertainty. Despite its relatively modest share in the total financing landscape, venture capital plays a vital role in funding entrepreneurial ventures, particularly those operating in technologically advanced industries and other high-growth areas (Gompers & Lerner, 2001). As a result, it serves as a crucial catalyst for economic value. To illustrate, among publicly listed companies in the US in 2015, businesses that had obtained venture capital funding represented 20% of the market capitalization and undertook 44% of the R&D expenditures. Indeed, several contemporary giants, such as Amazon, Apple, Google, and Microsoft can attribute some of their success to the financial backing and strategic guidance provided by the venture capital funds (Gompers et al., 2020).

Venture capitalists expect to reap substantial gains by betting on high-risk projects. To reduce the inherent risks involved with investing in young companies, they don't merely wager on random initiatives but rather thoroughly prepare and employ various approaches. These strategies can range from vigorous monitoring and counselling, rigorous screening processes, exit incentives, effective investment syndication, and a staged approach to their investments (Gompers & Lerner, 2001). The latter assertion is supported by Lerner's recent research, which demonstrates that the core beliefs of venture investment comprise of the careful review (and regular dismissal) of business proposals ahead of funding, active participation in the company's operations, the injection of capital in stages, and the eventual legally binding earnings to anyone who contributed to the initial backing (Lerner & Nanda, 2020). Such strategies correspond to particular investment criteria that VCs deem essential: high growth prospects, outstanding management team, disruptive technology or business model, market potential, scalability, and exit potential (Bertoni et al., 2013; Klonowski, 2015; Feld & Mendelson, 2019).

Venture capital funds maintain their essential role in early-stage financing thanks to their distinct skills in screening, negotiating, and monitoring of investment opportunities (Bonini & Capizzi, 2019). Mentorship, expertise, and networks are crucial intangible assets integral to success. However, VC funding adds value to investee firms not only by supplying advisory assistance and reputational capital but also by extending its positive influence to several other areas. It significantly contributes to job creation and sales growth while also nurturing innovation and enhancing productivity within the supported businesses (Bertoni et al., 2013).

Venture capitalists frequently prefer to form long-term partnerships, thereby providing 'patient' capital. Such financial resources offer companies the flexibility to execute

strategies, stimulate innovation, and create employment opportunities over a longer period of time. In the absence of short-term stress, businesses can undertake high-value initiatives that have a greater potential to benefit society. In the meantime, venture capitalists proactively support these operations, facilitating healthy relationships (Ivashina & Lerner, 2019).

Despite all these advantages, it's crucial to understand that venture capital has its limitations. An important barrier for VCs is risk aversion. They may be reluctant to fund businesses, particularly those related to high-risk disruptive technologies. This can highly affect the process of fostering major advancement in technology. The majority of VCs tend to be very selective in deciding what innovations to support. They choose to focus on a specific area of new innovations or industries that largely falls within their technological expertise but also meets their investment criteria, beliefs, and values (Lerner & Nanda, 2020; Gupta & Sapienza, 1992). Gupta and Sapienza found that due to their distinctive expertise, investors focusing on early-stage startups, often characterized by higher risk, lean toward narrower industries and geographical dimensions. Their attempts to imitate successful investment strategies may cause investment homogeneity, giving rise to a number of negative effects, including limited diversity in firms that get financed, and therefore a decrease of new disruptive ideas and technologies in the economy. Additional drawbacks include constrained financing opportunities for underrepresented groups and centralized power within selected industries, which hinders creativity and competition. In some regions, the absence of geographical variety among supported businesses may even cause the economic growth and development to slow down (Gupta & Sapienza, 1992).

Apart from the limited diversity of funded startups, another recurring issue is the pervasive lack of diversity both among entrepreneurs seeking funding and venture capitalists providing it. The discrepancy becomes obvious when examining individuals that represent females, Hispanics, and African Americans. Throughout the studied period spanning 26 years until 2016, women accounted for less than 10% of the studied labour pool, while Hispanics and African Americans comprised a mere 2% and 1%, respectively. The authors provide two possible explanations. First, these groups lack representation because there are not enough skilled and competent candidates. Second, the underrepresentation originates from existent prejudices and stereotypes that deter or prevent women and ethnic minorities from pursuing these career paths. Such an evident lack of inclusivity inevitably results in a narrow perspective and a limited range of ideas, thereby amplifying the existing social and economic inequalities (Gompers & Wang, 2017). Notably, previous research has found that diverse teams consistently achieve better results than those lacking diversity (Gompers & Wang, 2017; Rock & Grant, 2016). Therefore, it is not only morally necessary, but also strategically significant to close this diversity gap in the venture capital ecosystem in order to promote innovation and tackle the complex issues of the modern society (Gompers & Wang, 2017). While fundraising without the appropriate social and professional networks is extremely tough for anyone, this issue disproportionately affects entrepreneurs who are not white men.

Regardless, there is a slow but steady improvement as more VC firms embrace diversification, directing their investments towards underrepresented business owners (Gompers et al., 2020).

Finally, only a fraction of these investors has significant influence over which new business ideas will receive the financial backing required for their success and the potential to change the market. Such constraints might have long-term negative implications for the pace and trajectory of innovation in the larger economic system (Lerner & Nanda, 2020).

2.3.2 Business Angels

Angel investing, as we understand it today, did not exist in the late 19th and early 20th centuries. During this time and even before, however, notable figures such as Alexander Graham Bell and Henry Ford had to rely on alternative sources of financial support from wealthy individuals who believed in their groundbreaking ideas. The term "angel investor" was first introduced in a 1983 study by Wetzel, who drew inspiration from the early 20th-century Broadway show backers known as "angels" (Cumming & Zhang, 2019).

Later, in response to changes in the business and technology environments, the modern concept of angel investing began to take shape. While angel investors generally contribute smaller amounts of capital to their chosen early-stage businesses compared to venture capitalists, they are still recognised as an equal, if not more valuable source of funding for startups, and in general, entrepreneurial economy (Morrissette, 2007; OECD, 2016; Cumming & Zhang, 2019). On the other hand, certain studies have contradicted this idea, establishing that organisations obtaining angel investments in their initial rounds experienced a reduced likelihood of achieving successful exits in later stages (Cumming & Zhang, 2019).

Angel investors offer direct financial support to prospective seed or start-up entrepreneurial ventures, receiving company stocks in exchange for their financial backing (OECD, 2011). As previously established, a key differentiator between business angels and venture capital firms is the source of their funding. Angels invest their own capital, obtained either through their own efforts, their families, or their businesses, whereas venture capitalists allocate capital from external sources such as institutions and high-net-worth individuals. This contrast also implies that business angels willingly assume financial risks in pursuit of potential financial gains (Hill & Power, 2002; Drover et al., 2017). Based on the source of money, it can be inferred that business angels typically invest smaller sums compared to venture capital firms, who pool their monetary resources from a diverse group of investors to make larger investments. Regarding the investment timeline, business angels on average follow a comparable rhythm to VCs, committing for at least 5 to 10 years, and possibly continuing beyond that duration (Cegielska, 2020). A further characteristic that sets business angels apart from venture capitalists is their affinity for investing in local economies and supporting a broader array of industries. Consequently, angel investors can be drawn to

support the startups outside of high-growth or technology-intensive sectors. On the contrary, venture capital offices often concentrate in larger locations and well-established sectors (OECD, 2011). Much like venture capitalists, business angels consider a number of investment criteria before agreeing to close a deal with a particular early-stage company. These factors include industry structure and product or service features, the personality of the entrepreneur and the credibility of the management team, and the entrepreneur's equity stake, along with the use of monitoring tools to avoid failure (Skalicka et al., 2023). Nevertheless, their investment strategy tends to be informal, integrating intuitive decision-making processes with heuristic-based reasoning. This suggests that after screening data and facts, angels rely heavily on their intuition, influencing it with their prior experiences and knowledge. It ought to be emphasized that while business angels are commonly grouped together in literature, their behaviours and motives can vary significantly (Drover et al., 2017). Moreover, angel investors and venture capital firms have different strategic objectives. The former direct their capital into the initial phases of a company's development with a dual focus on both financial and non-financial goals. In contrast, the latter predominantly prioritize monetary goals and governance, as their primary obligation is to deliver returns to their limited partners and secure fresh rounds of investment. In general, venture capital firms might provide a lower level of direct involvement in the daily operations and activities of the business (Capizzi et al., 2022; Cegielska, 2020).

Conversely, a significant number of business angels have prior direct experience as entrepreneurs. They have since accumulated substantial wealth and are eager to invest their personal funds in their favourite business concepts. Typically, they lean towards investing in ideas aligned with their areas of expertise (Morrissette, 2007). That is one of many reasons they excel at providing high-quality mentorship. Indeed, they deliver more than merely monetary support; in addition to the social capital in the form of extensive personal networks, angel investors provide insightful operational and strategic knowledge. Their personal, hands-on mentoring style sets them apart from VCs. They bring diverse market experiences, leverage personal networks, offer flexible support, and contribute valuable expertise. They almost always assume an active role in the company, either as members of the board of directors or as advisors. In fact, previous studies on the work of business angels continually show that entrepreneurs strongly cherish the expertise of BAs, often more so than the cash infusions. Furthermore, investments by BAs may indicate to other investors that these companies have already been subjected to a preliminary due diligence assessment by competent investors in the field (OECD, 2011; Drover et al., 2017). Furthermore, business angel networks are recognised as a vital component of the small and medium-sized enterprise finance ecosystem, playing a significant role in fostering the prosperity of startups (OECD, 2016). Businesses supported by angel investments are believed to have a substantial positive influence on both economic growth and employment (OECD, 2011).

With the establishment of angel networks and syndicates, the angel investment sector has majorly expanded and evolved to be more structured and formal. These organised networks

are essential for closing the equity funding gap between business angels and venture capitalists. By connecting multiple individual angel investors, they facilitate the increase of available funding, resulting in higher deal sizes for businesses pursuing early-stage funding. They create and strengthen the relationships between entrepreneurs and investors, tackling market information imbalance. Essentially, angel groups help create a stronger and more structured environment for angel investing (OECD, 2011; Drover et al., 2017).

There are various limitations to angel investment activities. To begin with, these activities are extremely dependent on private investment taxation, and investor's earnings or losses. In the case of higher tax levels, the investment market is much less accessible to individual investors while large funds find it easily affordable. A plausible solution is tax incentives. Remarkably, research shows that such incentives are responsible for around 24% of business angel investments. Slightly less significant are other restrictions like national legal frameworks, the tedious bureaucracy, and lack of exit strategies. Furthermore, some investors may lack technical knowledge, especially in complex startups like those in the deep tech sector. The challenge of understanding the technology and its future potential might deter investor interest and impede the funding for these businesses. The author also discusses concerns related to the safeguarding of intellectual property and patents, as well as issues related to gender-based discrimination (Cegielska, 2020).

There is currently a notable shortage of reliable information and knowledge on angel investing, largely due to the fact that business angels conventionally desire to safeguard the details of their investments. On top of that, there are other obstacles to overcome when it comes to gathering the data accurately (OECD, 2011; Drover et al., 2017; Cegielska, 2020). Regardless, it is essential to enhance the existing data and evidence related to business angel investing (OECD, 2016).

2.3.3 Philanthropic money

In contrast to other fundraising strategies available to startups, seeking philanthropic funding stands apart. Barman, in her article, characterizes philanthropy as “private giving for public purposes” (Barman, 2017). However, when philanthropic capital is directed towards a private firm, such as a startup dedicated to creating an innovative solution, this approach can be termed as one of many forms of impact investing. Bringing together elements of philanthropy and investment, the core objectives are to cultivate shared societal benefits, positive environmental outcomes, and monetary returns (Stolz & Lai, 2020).

Acts of philanthropy represent the practice of giving that actively tackle particular societal, environmental, or cultural issues with the overarching goal of catalysing progress by addressing the root causes of these problems. They encompass various forms of contribution, including financial support, time, and knowledge. Beyond its tangible aspects, philanthropy also draws from the emotional devotion of donors to the cause they support. These

commitments can manifest in the shape of grants, gifts, or contractual agreements, and are commonly executed by wealthy individuals, and companies (Dodgson & Gann, 2020).

Exploring the possibility of receiving philanthropic funds as a new business holds the opportunity to discover a fresh source of investors. However, extending past financial considerations, modern philanthropists view philanthropy as a vehicle to achieve purposeful changes in our society. Similar to how they engage with other entrepreneurial endeavours, they tackle the act of giving by focusing on thorough due diligence, scalability, effective leveraging of investments, responsibility towards stakeholders, clear objectives, delivery excellence, and meticulous outcome measurements. Recognizing the potential for positive change in the world, they know that nurturing impact may generate even greater wealth (Stolz & Lai, 2020).

Furthermore, philanthropic organizations offer the time, space and flexibility to back groundbreaking and influential ideas without the overwhelming necessity for instant financial success of the supported company (Jones & Embry, 2021; Stolz & Lai, 2020).

A mutual benefit for both startups and philanthropists is the positive public perception resulting from their collaboration. This favourable image matters for both parties, especially for philanthropists who rely on the contributions to strengthen their reputation. Ultimately, these elements greatly influence the decision-making processes of philanthropists (Stolz & Lai, 2020). Correspondingly, impact investing has the ability to educate and inspire fellow entrepreneurs to endorse and contribute to related social causes, as well as increase the level of knowledge via financed research (Jones & Embry, 2021).

Due to the complex nature of the intersection of philanthropy and private investment, anticipating challenges is crucial. Firstly, a significant threat is the financialization of philanthropy, which occurs when philanthropic initiatives start to progressively conform with financial objectives, potentially transforming the conventional definition of philanthropy. Secondly, startups, too, need to find a compromise between maintaining financial stability and commitment to their mission. This calls for careful strategic planning, making certain that philanthropic support complements, rather than undermines, their key goals. Thirdly, as conventional grant-making transitions towards profit-oriented investment, a heightened focus on impact measurement and accountability towards stakeholders is essential. Evaluating the actual impact and efficiency of investments holds significant importance. Apart from that, indications suggest that philanthropic organisations have a somewhat slow pace of adopting new private financing practices. These issues are just a glimpse of the obstacles and probable downsides linked with the developing collaboration of private sector with philanthropy (Stolz & Lai, 2020, Jones & Embry, 2021).

2.3.4 Government grants and subsidies

Emerging startups are typically receptive to government grants and subsidies, as these funding sources are valued for being non-dilutive and cost-free compared to other financing alternatives. This type of capital can accelerate a startup's progress during the most vulnerable phase of its development. Supporting these high-risk but possibly disruptive ideas is part of the government's strategy to spur innovation and advance economic growth. Additionally, receiving public funding conveys trustworthiness and diminishes perceived risk, both of which are key for drawing in private backing (Lerner, 2013).

Nevertheless, this source of funding is not without flaws. It frequently entails intricate application procedures, substantial bureaucracy, and considerable delays before funds are disbursed. After receiving funding, startups can face excessive micromanagement and unrealistic requirements, which can take their attention away from primary activities, limit flexibility, and inhibit innovation and entrepreneurship. Ultimately, government grants and subsidies continue to be a useful but complex funding option for startups, presenting both enormous potential and multifaceted obstacles. These initiatives must be thoughtfully crafted to minimize bureaucracy and foster a supportive atmosphere for startups (Lerner, 2013).

2.3.5 Other sources of funding

Depending on their development stage, industry, and other circumstances, early-stage startups may have access to a wide range of alternative funding sources beyond the more commonly used options. Early on, entrepreneurs frequently seek funding from close friends and family members. While this can increase a startup's chances of survival without the burden of complicated procedures or formal financing costs, it can also strain personal relationships due to financial stress and uncertainty and typically does not involve strategic value or expertise.

Incubator and accelerator programs offer invaluable guidance and expertise to startups. However, since funding is not their primary focus, they usually cannot fund a startup on their own. Another drawback is the limited autonomy that startups might experience while participating in such programs. Similarly, science and technology parks offer knowledge and support but rarely offer significant funding. Another possible method of raising funds is crowdfunding, which can secure capital quickly, boost visibility, and confirm product-market fit. B2C startups tend to benefit more from it than B2B startups.

Other funding sources, such as corporate venture capital, traditional debt financing, loans, private equity, and venture debt, are generally less within reach for early-stage startups, which often lack the operational stability and milestones necessary to obtain these types of capital (Bauer et al., 2024).

2.4 Different characteristics and factors of investors

The pool of investors is vast, and not all of them represent potential backers for a particular startup. It is critical to avoid wasting valuable time and resources pursuing any given lead. Only a handful will turn out to be genuine prospects, and it is the fundraising firms' responsibility to recognize and establish who those prospects are (Cremades, 2016).

Here are some of the key elements that enable start-ups to look for and distinguish genuine prospective investors for their upcoming rounds of funding.

2.4.1 Investor type

The previous sections detail the prominent traits and well-known behaviours of a variety of potential investors that can play a role in infusing capital into the initial stages of a startup's development. Among the various potential investors detailed, this thesis will primarily focus on venture capitalists (VCs) and business angels (BAs), considering them the most crucial sources of funding during the early seed stage of a company's development.

2.4.2 Investment stage

Making sure that the investors are involved in financing the right stage or round of various businesses is one of the essential measures (Cremades, 2016). Businesses can raise capital throughout their lifespan, starting with pre-seed and seed rounds and progressing to series A, B, C, etc. Depending on the stage of fundraising the company is in, the investors will assess it differently; the earlier the stage, the more cautious they will be due to the uncertainty of success. As the fundraising stages change, different levels of risk and the potential return change with them. In youngest stages exist the highest risks and consequently the largest potential returns, while the risks and return profile decrease in each subsequent stage (Hague, 2016). A start-up in its beginning phases of operation requires investors who are eager in supporting young entities and willing to take the risk. Early-stage investors are a vital provider of capital for new and expanding businesses, fostering innovation and economic expansion (Bernstein et al., 2017).

Startups raising their seed round are driven by a mission to innovate solutions for existing problems and revolutionize the market in unique ways. They seek funding to support research, advance their product or service, introduce it to the market, get market validation, establish a customer base, kickstart operations, cover workforce expenses, and more. Particularly in the case of technology startups, the financial needs are often substantial to drive their vision forward. Seed investments are one of the first financial infusions a company can obtain, usually ranging from \$1 to \$1.5 million, with technology startups raising up to \$3 million. This range depends upon the industry the company operates in, as well as the complexity and innovativeness of the solution under development. To reach the

final sum, multiple investors pool resources, contributing between \$200.000 to \$700.000 individually. Even angel investors are not exempt, usually offering smaller sums around \$50.000. These investments aim for returns within three to five years, though the actual timeframe depends on the specific sector and the innovative solutions offered by the company (Gutterman, 2022).

2.4.3 Investment focus

When distributing their capital, investors can decide to specialize and give priority to specific areas or industries or to remain generalists and invest broadly across various sectors. These factors vary depending on many different reasons, such as expertise and experience, personal preferences, market insights and opportunities, potential for growth, risk and return dynamics, etc.

Frequently, investors narrow their focus to specific industries leveraging their deep expertise and extensive experience. This specialization grants them a distinct advantage both pre and post investment, enabling to conduct an easier evaluation beforehand and offer effective guidance to the companies they chose to invest in (KPMG Private Enterprise, 2023).

Furthermore, decisions to operate within a given sector are often guided by market trends and opportunities, especially if there is room for growth or disruption. Take, for instance, the amplified interest among venture capitalists in AI investments in recent years, demonstrating their confidence in AI as a consistently reliable and profitable investment area, even amidst the uncertainties of today's market conditions (KPMG Private Enterprise, 2023). An alternative understanding of this phenomenon occurs when a specific field sees a heavy influx of investors due to the availability of investment options, prompting some investors to relocate to less active sectors instead. They need to consider the advantages of decreased competition in less active markets against the potential gains that come with entering that sector, to determine whether making the move is beneficial (Hochberg et al., 2015).

Additionally, many experts strongly support executing detailed risk analyses and determining return expectations before making investment decisions. Measurement and management of prospective outcomes allows investors to make educated choices on where to invest and which initiatives will generate the highest economic rewards. Investing in high-volatility areas entails greater levels of risk, resulting in a wider variety of probable scenarios. While this increases investors' chances for bigger rewards, it also elevates their risks for greater losses. A great example of such high-risk investment areas are the high-tech sectors. On the contrary, investors that focus on capital preservation over chasing bigger rewards tend to favour more consistent and dependable investment sectors, such as real estate (Virlics, 2013; Feldman, 1983).

The investor's industry preferences play a significant role in evaluating their suitability as a potential funding source for a startup, serving as a decisive factor for either inclusion or elimination from consideration. This thesis places significant importance on certain specialized investment sectors, especially climate tech, which also encompasses green tech, agritech, deep tech, and others, which they serve as key indicators of alignment with the startup's objectives. However, it's essential to note that the scope isn't limited to these sectors; various other investment focuses, such as AI, software, SaaS, sensing and IoT, sustainable food and materials, emission-intensive sectors, and foodtech, will also be given importance. The deliberate use of buzzwords such as climate tech, green tech and agritech will target investors immersed in sustainability investing and impact investing.

Climate tech, green tech, agritech, AI, and deep tech are all diverse yet interrelated concepts in the technological environment. Climate tech stands for advances and innovations in technology directed at adequately mitigating and adjusting to the issues brought on by climate change. This subject matter covers an extensive list of technologies, incorporating solutions in decarbonisation and emissions reduction. Examples include renewable energy, carbon capture and utilization, green hydrogen generation, alternative foods, precision agriculture, and several others (Barrett, 2009; PricewaterhouseCoopers, 2023). The green tech industry is known for leveraging innovative technology to provide goods and services that generate value while requiring less resources and emitting less pollution than industry norms (Marra et al., 2017). Agritech refers to cutting-edge agricultural technology that considerably improves sustainability of the activities in the industry. It achieves this by strengthening productivity growth, optimizing resource usage efficiency, and minimizing the effects on the environment (Dutia, 2014). The field of artificial intelligence represents a wide range of breakthrough technologies, with a current emphasis on machines aiming to closely emulate human intelligence and learning processes (Manning, 2020). Examples of these capabilities include natural language processing, machine learning, and computer vision, which allow for better communication, pattern detection, and comprehension of visual information (Russell & Norvig, 2010). Last but not least, the term deep tech may be used as an umbrella term for the aforementioned concepts, referring to the revolutionary technologies developed as a result of scientific or engineering discoveries. Strategically employed to prioritize solving major societal challenges such as climate change, energy, and healthcare, these technological advancements are designed to outperform existing solutions. Nonetheless, obtaining such improvements typically requires extended development timelines and gigantic investments (Romasanta et al., 2021).

2.4.4 Portfolio

Studying an investor's portfolio, which consists of the companies that they have previously invested in, can reveal useful insights into their investment preferences. This information can help fundraising businesses in identifying the most suitable investors to approach, increasing the likelihood of finding a good fit for a mutually favourable partnership.

Undoubtedly, there are both potential advantages and drawbacks to this action. Given that an investor had already backed a direct or indirect competitor of the business seeking financing, they might be hesitant to invest in a comparable product or service. On the positive side, the parallels between the existing portfolio companies and the fundraising company may inspire investors to invest and encourage collaboration across these similar ventures, thereby potentially increasing innovation, sharing resources, and expanding market reach.

Researching the profiles of competitors or prospective investors and examining their existing portfolios involves a conventional, yet somewhat tedious, method of manual web searches. This approach can be enhanced with the assistance of online investor lists or by leveraging alternative tools, like Crunchbase, enabling a direct search for competitors and access to information about their previous investors (Cremades, 2016).

2.4.5 Fund age and size

Recognizing the characteristics of a fund from a startup point of view is vital for grasping an investor's approach to investment and formulating an effective fundraising plan.

Starting with the basics, a VC fund typically spans over a timeframe of 10 to 12 years. Throughout this investment horizon, General Partners (GPs) are responsible for choosing promising businesses to invest in, and at the end of the investment period, returning both the initial funds and any profits to Limited Partners (LPs) (Barrot, 2017; Phalippou & Gottschalg, 2009; Kaplan & Schoar, 2005).

Investment activities evolve across the different stages of a fund's life cycle. In the early stages, VC funds actively seek promising businesses to heavily invest in. Often referred to as the search stage, this phase is typically formally limited to 5 or 6 years. Beyond this period, GPs are usually not permitted to initiate new investments. The mid-stage, also known as the implementation stage, takes place after the projects have been selected, funding distributed, and commitments made. At this point, the primary responsibilities of GPs are to closely monitor as well as provide support to the portfolio companies. To achieve the strongest possible exits, GPs concentrate on maximizing the value of each business. The third and latest stage of a fund's lifecycle, therefore, encompasses elements of portfolio management and an acceleration of exit strategies (Kandel et al., 2011). Thus, the level maturity of funds plays a critical factor influencing both the ability and inclination to engage in new investments, as well as affecting the changes in investment strategies.

Another noteworthy characteristic to consider is the size of the fund. With more resources at their disposal, larger VC funds are able to take on a wider range of investment opportunities. In fact, there is a clear positive correlation suggesting that as the fund size grows, the number of investments is expected to rise in a linear fashion. Overall, a fund's size majorly influences the investment activity of a venture capital firm and the broader landscape of the investment sector (Gompers & Lerner, 2004). The startup's decision on

whether to target larger or smaller fund investors is intricately tied to the fundraising strategy it adopts. As previously mentioned, the consideration of the fund's age and, with it, maturity plays a pivotal role in shaping the decision-making process.

2.4.6 Direct and indirect contact

While a lack of established relationships in the finance sector does not ensure failure for startups seeking capital just yet, it is highly recommended to foster a wide network of contacts before initiating the fundraising process. According to a study involving nearly 700 VC firms and numerous conducted interviews with key VC leaders, a major source of funding opportunities indeed develops from the direct or extended networks of these venture capitalists. What's more, VCs recognize and build relations with potential investment candidates, typically referred to as deals, in different ways: over 30% originate through past coworkers and professional acquaintances, 20% are recommendations by fellow investors, 8% are introduced by the VCs' existing portfolio firms, whereas only 10% develop from cold email pitches from the fundraising startups. The remaining 30% result from VCs' proactive research and outreach initiatives. As a result, entrepreneurs have long recognized the value of expansive networks in increasing the likelihood of fundraising success (Gompers et al., 2020). This data influences the decision to favour investors with whom the fundraising startup has an established direct or indirect connection over those without such relationship.

2.4.7 Sustainability and Impact

The final factor among the studied factors of this thesis will be the assessment of sustainability and impact practices of prospective investors. Investors who are committed to this factor are looking for opportunities to produce financial returns while also creating beneficial impacts on the environment and society (Credit Suisse, 2022). The subject of sustainability is often considered highly relevant for sustainable startups committed to addressing social and environmental issues. Through the exploration of this factor, I aim to reveal whether climate tech entrepreneurs deliberately prioritize impact investors over conventional ones due to their alignment in values and goals (Vogeley et al., 2022).

The subset of investors dedicated solely to impact or sustainable investment certainly does not derive value solely from financial returns. Rather, their actions reflect what really matters to them, demonstrating that their investments are oriented towards being helpful, ethical, empathetic, and inevitably contributing to a desirable progress (Combs, 2014; Vogeley et al., 2022; Barber et al., 2021). With their deep comprehension of fundamental challenges, impact investors can become valuable allies for social and environmental entrepreneurs. They display a willingness to invest in ventures with greater risks, actively supporting the missions of sustainable startups (Vogeley et al., 2022). While some sustainable startups may

prefer to collaborate with investors who refrain from supporting industries and sectors that contribute to environmental degradation, this preference varies from one startup to another.

The reasons sustainable startups may prioritize sustainability and impact when selecting investors extend beyond what was previously discussed, spanning factors such as shared values, collaborative advantages, long-term support, positive environmental impacts, and many more.

Building on this idea, the first factor involving sharing similar values might cultivate solid relationships between investors and investees and encourage productive collaboration towards their joint targets and meaningful initiatives (Vogeley et al., 2022). Such collaborations, especially with VCs, offer valuable benefits to the investee companies. These advantages include a startup's enhanced reputation, strategic guidance, operational assistance, support in securing additional financial capital, help in recruiting for managerial roles, expanded networks of prospective suppliers and customers, and expertise in specialized environmental issues, among others (Bertoni et al., 2013).

Many conventional investors are prone to making impulsive, short-term choices, posing a potential threat to sustainability (Richardson, 2013). On the contrary, sustainable investors frequently adopt a long-term perspective, supporting companies over a prolonged period of time. Their commitment is reinforced by the longer investment horizons and the low cash flow volatility that are typical for sustainable funds (Landier & Nair, 2009; Talan & Sharma, 2019). For startups seeking to create lasting positive impacts on their targeted challenges, long-term cooperation with such investors could provide a significant advantage.

Ultimately, sustainable investing bears significant promise for positively influencing society and the environment through ethical investment strategies. It can function as a versatile instrument for managing various challenges, such as tackling investor and entrepreneur irresponsibility. Moreover, this approach not only adds to long-term sustainability but also enhances overall financial performance (Richardson, 2013; Bocken, 2015).

2.4.7.1 Understanding the Dimensions of Sustainability

Sustainability is a multidimensional concept that consists of environmental sustainability, social inclusion, and effective governance (also known as ESG criteria) alongside economic development (Giovannoni & Fabietti, 2013). It differs from the term sustainable development, which stands for “development that meets the needs of the present without compromising the ability of future generations to meet their needs” (WCED, 1987). Building on this, sustainable investment (SI) is a distinctive investing approach that takes ESG factors into consideration while selecting and managing an investor portfolio (Global Sustainable Investment Alliance, 2020). Despite accounting for the influence of investments on society and environment, it might not actively attempt to induce immediate, quantifiable effects on

these areas. In contrast, this differs with impact investing, as will be elaborated later (Agrawal & Hockerts, 2021).

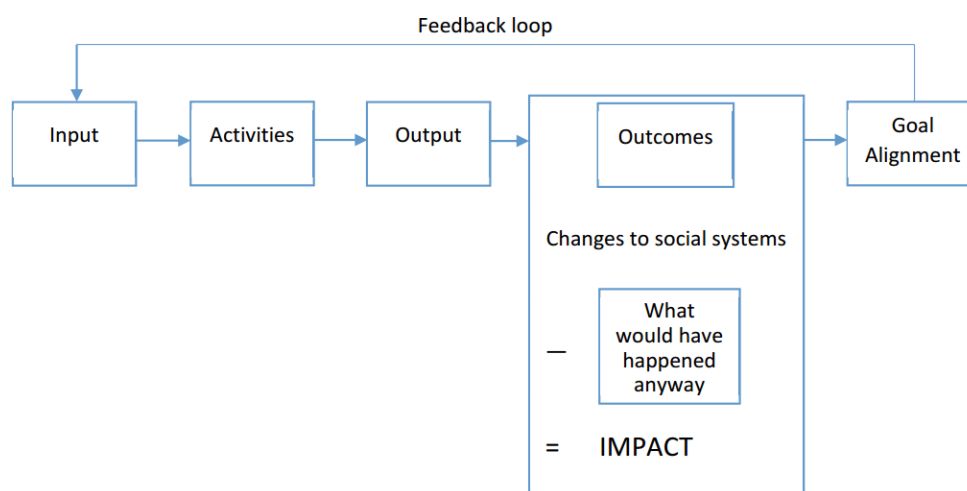
The existing literature on sustainable investing offers a wide spectrum of definitions and terminology, which may lead to confusion and therefore needs additional clarity. With various classifications, the emphasis migrates between environmental, societal, ethical, and sustainable focus, and results in numerous measurement techniques, tactics, and complex relations among these disciplines (Chatzitheodorou et al., 2019). Dimensions of sustainable investing (SI) are interpreted using a variety of terms, including impact investing (II), socially responsible investing (SRI), environmental, social and governance (ESG) investing, value-based investing (VBI), green investing, ethical investing, responsible investing, etc. Despite obvious differences, these dimensions of investing have a common denominator when it comes to investment approaches that spark beneficial social change (Snider, 2015). For the purposes of this thesis, the terminology regarding these common terms will be used interchangeably. It should be acknowledged by the reader that they frequently hold non-identical interpretations and applications in different global regions (Global Sustainable Investment Alliance, 2020).

2.4.7.2 Impact investment

As previously noted, impact investment and sustainable investing exhibit certain resemblances, especially in their focus on investments that address greater ethical and societal concerns. However, while sustainable investing meticulously adheres to ESG principles, impact investing takes a step further by proactively discovering ventures with an unambiguous mission to produce beneficial social and environmental value (Agrawal & Hockerts, 2021). The aim of impact investments is to yield a positive, quantifiable social and environmental impact accompanied by a financial profit (The GIIN, 2022; Barber et al., 2021; Agrawal & Hockerts, 2021; Jones & Embry, 2021). The end goal is to build a more just and sustainable future (Vogeley et al., 2022).

Figure 4 below displays the impact value chain, a procedure for creating impact. This visualisation is useful for defining various components, measuring their effectiveness, and attaining alignment with goals. It can enable stakeholders to optimise their actions to pursue impact successfully (Lam & Tan, 2021).

Figure 4: Impact Value Chain



Source: Lam & Tan (2021).

The public perception of the link between impact and financial returns is still polarized; some consider the two factors interdependent, causing one to drop and the other to rise, while others assume they are independent and capable of simultaneously increasing (Saltuk et al., 2011). In the early days of impact investing, investors were sceptical of the ability of impact investments to deliver competitive returns, mainly because negative screening practices increased the risk and decreased performance (Snider, 2015). However, the perception of the relationship between impact and financial returns is evolving. A 2020 report by the Global Impact Investing Network (GIIN) assessed 294 impact investors, who at the time comprised USD 715 billion of global impact investing market. A majority of participants (88%) stated that their impact investments met (68%) or surpassed (20%) their financial expectations, whereas nearly all respondents (99%) reported having met (78%) or surpassed (21%) their impact expectations. Two-thirds of participants indicated that their investments aimed for risk-adjusted, market-rate returns (based on factors such as organizational structure, size, type, investment strategies, and impact goals). As few as 8% of impact investors targeting market-rate returns disclosed falling short of their financial performance targets. These figures reflect a transition away from the old notion of an inevitable trade-off amongst impact and financial performance (Hand et al., 2020). According to current estimates, the extent of the global impact investing market is USD 1.154 trillion AUM (Hand et al., 2022).

Eccles and Klimenko additionally argue that the notion to compromise at least some financial return for positive environmental and social effects is no longer relevant (Eccles & Klimenko, 2019). According to a study, businesses that implemented sustainability strategies vastly surpassed their competitors in stock market and accounting performance over the time span of eighteen years (Eccles et al., 2014). Separate research demonstrates how strong performance across major ESG concerns and superb financial success are positively correlated (Khan et al., 2016). Bocken observed that investors can further support

sustainable start-ups by providing triple bottom line business, financial, and network guidance (Bocken, 2015).

The relationships between impact investors and investees develop based on the mutual alignment of personal beliefs, allowing them to generate social or environmental value. Acknowledging each other's expectations, values, and needs is essential for setting mutually beneficial objectives and fostering successful partnership. When choosing investment partners, both sides consider non-financial factors and ethical considerations to ensure compatibility (Vogeley et al., 2022).

2.4.7.3 Impact reporting

Impact performance reporting should be an integral part of investors' operations, especially those involved in impact investing. Clear and thorough reporting demonstrates transparency and accountability to all stakeholders, particularly prospective investees. It provides insights into the investor's commitment to creating significant social or environmental impact through their investment decisions. This fosters open communication, which in turn builds trust, aligns goals between the investor and investee, and contributes shared value beyond the scope of funding (Lam & Tan, 2021; Hornsby & Blumberg, 2013).

While not all responsible investors have yet adopted impact reporting practices, a rising number of them have started to implement this behaviour. One factor that can considerably influence the assessment and reporting of impact is the size of venture capital firms. Larger firms generally have greater public presence and are therefore more inclined to disclose their impact, which increases their transparency and accountability. On the contrary, smaller, and younger early-stage investment firms may have less incentive to report their impact. This is due to a variety of reasons, including the complexity and cost of assessment, the initial time required to establish the impact value chain, and the fact that true impact often needs long-term evaluation. Conversely, some firms might decide not to report their impact due to competitive positioning concerns or unsatisfactory performance. In worst-case scenarios, a failure to disclose impact may imply impact washing or greenwashing (Lam & Tan, 2021).

In their article, Lam and Tan propose developing a new unifying framework to ensure progress in impact assessment. The framework should endorse the UN SDGs as the main objectives and implement a yearly survey for all investors who voluntarily report their impact. Furthermore, it should define impact across four aspects: intentionality, origin and design, assessment and management, and collaboration and learning initiatives. A suggested solution to address misconduct is to task an autonomous validation organisation with overseeing the results of this framework. Such a framework could advance the way impact is assessed in investment sector, help increase transparency and minimize impact washing (Lam & Tan, 2021).

In general, the terminology related to concepts like sustainability and impact is difficult to universally apply and standardize across the globe. The present climate of sustainability standards and standard setting is overcrowded, scattered, complex, and above all, challenging to track (BDO, 2021). Since every report has a variety of applications and might focus on a unique problem, industry, or place, there is a risk of overlapping or failing to address important sustainability matters (TRWG, 2021). Consistency, comparability, and therefore the possibility for greenwashing are additional challenges that can arise (IOSCO, 2021).

2.4.7.4 Greenwashing in reporting

With a high number of frameworks and increasing ESGs, rising concerns regarding greenwashing have been expressed. The simplest way to outline the problem of greenwashing is as the result of two behaviours: inadequate environmental performance and favourable disclosure on said performance. Moreover, the primary drivers of greenwashing are the loose and unclear regulations and the absence of agreement on evaluating the impact of financial instruments (Delmas & Burbano, 2011).

The majority of the time, market participants do not assess and present the information in a sufficiently standardized way to allow for comparison between different frameworks. The reporting organizations seldom provide an explanation of the extent of reporting on diverse environmental issues. Thus, better defined regulations and criteria for reporting standards might lead to more accurate and easily comparable assessment results (Lautermann et al., 2022).

Investors are urged to consider sustainability-related threats and possibilities when making decisions and managing risks, and therefore address the problem of greenwashing to increase transparency, comparability, and consistency in disclosure of their sustainability (IOSCO, 2021). There is a fine line between displaying true impact and greenwashing, which emphasizes the significance of accurate and transparent reporting practices in the investment sector.

Challenges that make sustainability reporting frameworks vulnerable to greenwashing are data gaps at business level, difficulties originating from the proliferation of data and ESG ratings providers, inconsistent terminology, inconsistent labelling and categorization, disparate perception of materiality, skills and knowledge gaps, and changing regulatory policies. To minimize greenwashing, disclosure policies, supervision and enforcement instruments, standard terminology, and financial and investor education proposals must be further clarified (IOSCO, 2021).

The exploration of sustainability and impact in the investment landscape provides an important theoretical foundation for the empirical part of this thesis, where these insights will be compared with the actual perceptions and preferences of climate tech startup

participants. Building on academic literature and closely related studies, the following chapters will review work that aligns strongly with this thesis topic and use those findings to develop an interview guide for the qualitative research.

3 EXISTING FRAMEWORKS OF INVESTORS' CHARACTERISTICS ASSESSMENT

The majority of prior research on startup funding concentrates on the decision-making criteria considered by investors when assessing and choosing new investee companies. This is largely because startups, being newcomers in the industry and lacking resources and connections, have to attract and impress investors to attain funding, putting them at a disadvantage. Nevertheless, over the recent years, a growing number of startups have been receiving multiple financing offers from venture capitalists. This puts them in a superior position, enabling them to choose among competitive candidates based on criteria selected by the startups themselves (Kim et al., 2021).

Unfortunately, existing literature lags behind with the extensive exploration of the factors influencing entrepreneurs in their choice of investors. Despite this research gap, this chapter aims to curate and analyse a selection of relevant articles in this domain. The evaluation will explore the existing literature and highlight which investor selection criteria have been emphasized, which have received less attention, and how different studies prioritize various factors. The findings from these articles will help lay the groundwork for constructing the interview guide that will support the qualitative research phase.

3.1 Analysis of existing frameworks

This section examines previous articles that explored the evaluation of venture capitalists from an entrepreneur's perspective. In order to develop an interview guide in the upcoming chapters, the goal is to identify which factors should carry more weight and which are less important.

3.1.1 Framework A: How early-stage entrepreneurs evaluate VCs

Smith explored the process of entrepreneurs selecting their investors, with an emphasis on those entrepreneurs who had received investment proposals. Data was collected using surveys. The participants were companies that recently received one or more proposals from VCs and subsequently carried out a venture capitalist selection process. These companies exclusively operated in the 'startup/seed' or 'early' stages, and the investments allocated to them were labelled either 'initial/seed' or 'first stage'. After contacting a total of 415 businesses, 143 answers were collected, yielding a 34.5% response rate (Smith, 2001).

The survey delved into a variety of topics, including respondent characteristics, the nature of their VC selection process, and their overall satisfaction with the selected venture capitalist. Particularly relevant was the investigation of the criteria considered when choosing a venture capital firm. In this section, participants were tasked with assigning a ranking from 0 to 10 to determine the significance of 29 criteria, commonly considered by entrepreneurs. These were then categorized into Valuation, Value-Added Services, Reputational Factors, and Venture Capitalist Attributes. In addition, participants were instructed to prioritize these categories according to their perceived relative importance (Smith, 2001).

According to the survey results, the majority of entrepreneurs pursue balance across all studied attribute categories. Although participants gave valuation a lot of weight, it didn't rank as the most essential attribute—instead coming in fourth. Unexpectedly, investor reputation, generally disregarded in prior studies, was the most relevant category. Three out of top five attributes belonged to this category, comprising of “investing in successful companies”, “compatibility of VC personality with company culture”, and “committing to staged investments”. Even the category of VC attributes turned out to be extremely crucial for entrepreneurs, appearing four times among the top eleven criteria (Smith, 2001).

Measuring satisfaction over multiple criteria gives valuable insights regarding the decision-making approach of those most satisfied entrepreneurs, allowing readers to learn from their decisions (Smith, 2001).

3.1.2 Framework B: When entrepreneurs choose VCs: experience, choice criteria and introspection accuracy

Valliere and Peterson's research investigated the elements that entrepreneurs assess when deciding on venture capitalists. Data was collected using interactive online surveys. All participants involved in this study were recently weighing options between competitive venture capital providers, with the finalization of financing deals not being a prerequisite for participation. The researchers reached out to 270 entrepreneurs and received 59 valid answers, resulting in a response rate of 22% (Valliere & Peterson, 2007).

The use of conjoint analysis enabled researchers to determine, measure, and understand the different elements that participants prioritize when making decisions about venture capital. Seven selection criteria were addressed in the survey: Valuation, Terms and Conditions, Value-added Services, Reputation, Skill and Independence, Personal Compatibility, and Ease of Deal Making. Starting out, respondents were tasked to rate the significance of all criteria individually on a scale from 1 to 7. To imitate real-world decision-making situations, a seven-point scale was utilized to assess participants' inclination to accept each combination of criteria as a potential funding deal and prioritize between them. The software and approach were designed to guarantee that every combination was fair and realistic, while also ensuring the assessments were valuable (Valliere & Peterson, 2007).

The analysis of results found that the importance of studied factors varied according to the experience of founders. Valuation was identified as the highest priority for all entrepreneur subgroups. While first-time entrepreneurs placed terms and conditions second, experienced entrepreneurs prioritised personal compatibility. Overall, participants attributed less value to skill and independence of investors, value-added services, and ease of dealmaking. Investor's reputation was significant especially for seed stage entrepreneurs (Valliere & Peterson, 2007).

3.1.3 Framework C: What Do Entrepreneurs Pay for Venture Capital Affiliation?

Hsu's work examined the connection between start-up financing decisions and the reputation of venture capital firms. A survey instrument was employed for data collection. The survey targeted technologically advanced early-stage businesses that obtained more than one funding proposal throughout their initial fundraising round. Roughly half of the 300 surveyed companies responded, resulting in a 50% response rate. Out of the 149 companies that collected a total of 246 proposals, many were not included in the research due to being offered solely one financing proposal. The focus of the analysis shifted to the 51 startups that received several funding offers (Hsu, 2004).

The surveys collected the characteristics of venture capital firms and the conditions they proposed in their offers. To determine reputation of a VC, researchers looked at different variables, such as deal experience and reputation rating in an industry, network resources, and funds raised, among others. Other studied variables included the type of investor, amount of offered financing, and equity conditions. The variables were then assessed over several funding proposals to see how they correlated with the probability of a proposal being accepted (Hsu, 2004).

The findings of this study demonstrated that startups were ready to settle for lower valuation in return for partnering with more renowned venture capitalists. A noteworthy observation revealed that a venture capitalist's likelihood of being chosen as an investor increased three times if the level of their reputation was high (Hsu, 2004).

3.1.4 Framework D: Exploring Entrepreneurs' Perceptions of Venture Capitalists' Added Value

Vaidyanathan et al. conducted a study to gain insight into how entrepreneurs see venture capitalists' non-financial contributions and to potentially allow for more effective and cooperative economies in the future. The data was gathered using online and telephone surveys, and the data set was chosen at random from among the documented VC transactions that occurred during the study's time frame. All targeted entrepreneurs were US-based, previously financed companies at any stage of fundraising. The survey was distributed to

1244 businesses, with 140 returning fully completed surveys, leading to a response rate of around 11.25% (Vaidyanathan et al., 2019).

A combination of quantitative and qualitative methods was applied in the survey. In addition to providing open-ended answers to several topics, participants were instructed to rank or grade relevant elements using a 5-point Likert scale. Starting out, respondents were required to rank six important aspects in their process of selecting a VC firm, such as a fair contract, offered valuation, VC's reputation, reputation of VC's partners, anticipated support, and VC previous performance. A further component investigated the extent of perceived venture capitalists' active participation in diverse business activities, such as follow-up funding, board meetings, exits, replacing of CEO or founder, supervising progress, developing corporate strategy, and running the business. Additionally, the study evaluated entrepreneurs' views on the role of VC across different business endeavours, including monetary intermediation, innovation and portfolio evolution, validation/identification of opportunities, and supervision, strategy, and professionalization. Lastly, the study explored entrepreneurs' views of the value contributed by VCs before and after investment, aiming to determine either satisfaction or disappointment with VC's performance (Vaidyanathan et al., 2019).

The results revealed that entrepreneurs recognised fairness of contract terms as the most essential aspect when selecting a VC firm. Furthermore, reputation and valuation were also considered extremely significant. Interestingly, anticipated VC support and previous performance of VCs were not crucial considerations (Vaidyanathan et al., 2019).

3.1.5 Framework E: Take the money or run? Investors' ethical reputation and entrepreneurs' willingness to partner

In this research, the scholars sought to uncover the relationship between an investor's ethical reputation and a startup's eagerness to collaborate. Data collection consisted of two parts, both implementing online experiments and surveys. In the initial phase, a conjoint analysis was conducted, reaching out to 240 active entrepreneurs in the United States Midwest. This generated a response rate of 27%, with 65 entrepreneurs completing the experiment successfully. The following phase, employing a scenario-based approach, targeted 341 entrepreneurs in the same geographic area, resulting in a response rate of 23%, with 79 entrepreneurs completing the survey (Drover et al., 2014).

The purpose of the conjoint analysis was to explore how entrepreneurs make decisions regarding VCs. They reviewed various VC funding options, weighing sets of three criteria: success of past investments, services that add value, and reputation regarding ethics. All three were classified as one of the two contraries: either proven or developing, many or limited, or high or low. Employing a seven-point Likert scale, these concepts helped determine a participant's affinity toward an investor and their chances of forming a partnership. The result was an indicator called "willingness to partner with a VC". The

conjoint data was assessed using the Hierarchical Linear Modeling (HLM) (Drover et al., 2014).

The scenario approach supported the conjoint analysis with supplementary assessments. Participants were asked to express their interest in collaborating with the stated VC based on one of six combinations of the VCs' ethical reputations (ethical, neutral, or unethical) and the severity of the repercussions (mild or severe). They were required to use a 7-point Likert scale (Drover et al., 2014).

The findings of this study were mostly expected, indicating that entrepreneurs were more likely to accept financing proposals from VCs known for their ethical behaviour rather than those with neutral or unethical status. What's more, these startups were likely to accept offers from VCs no matter the reputation when expecting critical events, such as financial trouble or even bankruptcy (Drover et al., 2014).

3.1.6 Framework F: Key factors that influence a startup's choice of venture capitalist

This last research has been developed after the authors studied most of the previously mentioned studies. The analysis of their benefits and shortcomings allowed for an improved approach in discovering the influential factors in venture capital selection by startups that received multiple funding offers. The data was collected through qualitative case studies, during which thorough theoretical review and interviews were conducted. The research subjects, chosen from a collection of more than 2000 recently funded startups in Korea, represented prospective startups with numerous competitive VC funding offers. Eleven of them were selected at random, including six early-stage startups (pre-series A, series A) and five mid-stage start-ups (series B and C) (Kim et al., 2021).

The authors therefore proposed three categories of selection factors, namely, the reputation of venture capitalists, the relationship between startups and venture capitalists, and value-enhancing activities. They purposefully excluded quantitative metrics such as valuation due to assumed strong competition between VCs, and shifted focus to relationships. Under VC reputation, subgroups such as investment portfolio, investor age, and fund size were analysed. For the relationship between startups and VCs, subcategories involved follow-on investments, and fit and communication. Lastly, the value-enhancing activities covered networking, and advising and monitoring (Kim et al., 2021).

Through descriptive evaluation, the participants concluded that a strong portfolio stands out as the only important element affecting VC reputation among the three studied. Furthermore, the relationship between a startup and a VC was deemed critical in terms of both follow-on investments, as well as the fit and communication between the two parties. However, the entrepreneurs expressed reservations about the significance of value-adding activities. They suggested that growth of the company should mainly be left to entrepreneurs themselves, with investors providing their full support and empathy (Kim et al., 2021).

3.2 Synthesis of the findings

As seen while dissecting each of the existing frameworks, the authors found some variables were more relevant to entrepreneurs than others. Table 1 below shows these variables.

Table 1: Literature review

Article and authors	Key metrics and indicators	
	Relevant	Irrelevant
Smith (2001)	Valuation Value-Added Services Reputational Factors Venture Capital Attributes	
Valliere & Peterson (2007)	Valuation Contract terms Reputation of VC firm Personal fit	Value-adding activities Skills and independence Ease of contracting
Hsu, D. H. (2004)	Reputation of the VC more relevant than Valuation	
Vaidyanathan, R., Vaidyanathan, V., & Wadhwa, V. (2019)	Fair contract Valuation Reputation of VC firm Partner reputation	Expectation of help VC's past performance
Drover, Wood, & Fassin (2014)	Success of past investments Value-added services Ethical reputation	
Kim, Bae, & Lee (2021)	Reputation of VCs (strong portfolio) Relationship between founders and investors (follow-on investments, fit, communication)	Value Added Services

Source: Adapted from Kim et al. 2021.

The inconsistent terminology used throughout these frameworks can be problematic, as it leads to confusion when trying to extract valuable information from the results and reach conclusions. To address this, comparable factors have been categorized under broader terminology. For example, in previous literature, the term ‘reputation’ frequently represents the concepts like credibility and track record of investors. It can therefore serve as an umbrella term for comparable variables like Smith’s “Reputational Factors”, Vaidyanathan’s “Reputation”, “Past Performance of the VC Firm”, “Partner Reputation”, and “Overall Reputation of the VC Firm”, Hsu’s “Reputation”, Drover’s “Ethical Reputation” and “Past Investment Success”, Kim’s “Reputation of Venture Capitalists”, and partly even Valliere’s “Skill and Independence”. Another variable, value-added services, stands for any form of investor support that goes beyond capital. This category also covers Vaidyanathan’s idea of “Assistance Expected”. The following category combines Valliere’s “Terms and Conditions” and Vaidyanathan’s “Fairness of Contract”. Both broadly represent the contractual terms of the funding arrangement between the investor and the startup. The last

group revolves around the relationship among startups and investors, or more specifically, their compatibility. The primary characteristics that fall under this category are Valliere's "Personal Compatibility" and Kim's "Relationship with VCs", along with some aspects of Smith's "Reputational Factors". The goal of this categorisation is to increase comparability and clarity, extract relevant knowledge and lay a solid foundation for later chapters.

4 RESEARCH

While previous research addressed the factors startups prioritize in investors when seeking funding, this work revolves specifically around the preferences of climate tech startups. The empirical findings will complement existing research on these selection criteria. This chapter begins with an overview of the research purpose, objectives, and research questions. Next, the methodology and the research implementation are discussed, followed by an analysis of the results and limitations. Finally, the chapter is concluded with key findings and recommendations for future research.

4.1 Purpose, objectives and research questions

The purpose of this research is to obtain comprehensive insights into how climate tech startups evaluate potential investors before and during fundraising. This analysis will examine the factors affecting investor selection and provide a deeper understanding of startups' decision-making processes and the reasoning behind their choices.

The main objective of this research is to empirically identify key factors, recurring themes, and dealbreakers in the investor selection process of climate tech startups. Particular attention will be given to the role of sustainability to determine whether it is considered an essential requirement or if other factors hold greater importance in the eyes of the interviewed entrepreneurs.

Based on a review of existing scientific literature, the following research questions will be addressed using the collected primary data:

Research Question 1: Which are the most important factors that influence a startup's decision when choosing the most suitable investors?

Research Question 2: What are climate tech startups' dealbreakers/non-negotiable factors when choosing investors?

Research Question 3: Should sustainability also be considered as an important factor for startups when choosing investors?

4.2 Research methodology

Researchers suggest adopting a qualitative method for relatively new and understudied areas, as this allows for a more thorough assessment of the responses and a better understanding of the underlying phenomena (Basias & Pollalis, 2018). This approach delves into individuals' experiences by carrying out an in-depth textual analysis, uncovering complexities that might otherwise be omitted in exclusively numerical analyses. On the other hand, quantitative research tends to concentrate on broader populations, applying mathematical and statistical techniques to present numerical data objectively instead of interpreting it, which offers clarity and measurable findings (Basias & Pollalis, 2018; Rahi, 2017).

Qualitative data is commonly gathered through semi-structured interviews, which provide researchers with a predefined question guide while allowing for modifications in the order and content of questions. This method helps maintain an orderly flow in the conversation while fostering a safe setting where participants can open up and share their individual perspectives. By thoroughly exploring relevant themes, researchers hope to gain an in-depth understanding of their specific field of interest (Magaldi & Berler, 2020).

The empirical part of this work mostly employs qualitative research, carried out through semi-structured interviews with open-ended questions that require comprehensive responses to 'why' questions. This approach was chosen because it enables the collection of detailed personal experiences and feelings on a relatively unresearched topic of selecting potential investors as a climate tech startup. Additionally, a quantitative element accompanies several open-ended questions in the form of a numerical scoring system (on a scale from 1 to 10) to identify patterns and assess the relative importance of different factors.

4.3 Research implementation

To find appropriate participants for my interviews, I used convenience sampling, a non-probability sampling method that is commonly connected with qualitative research. This approach allows the researcher to select participants who are easier to reach (Rahi, 2017; Taherdoost, 2016). I chose this method because I needed to find participants with fundraising experience from a specific industry and stage.

In the sample, I included entrepreneurs, founders, or other employees in leading positions of early-stage startups in the climate tech industry. A prerequisite for interview participation was fundraising knowledge or experience due to a previous or current direct involvement in their startup's fundraising process or an extensive understanding of their company's fundraising preferences. While all interviewees work in startups that belong to the climate tech industry – an umbrella term for companies focused on addressing the effects of climate change – their areas of operation vary significantly. I chose startups from different subsectors of climate tech industry both because it was difficult to get enough relevant answers from one specific area, as well as to gather data from startups in similar but different subsectors

with common values. Since I wanted to focus on climate tech companies in Europe, most of the participants are from Germany, one from Netherlands and one from Slovenia.

First, I interviewed entrepreneurs I personally knew through my previous professional experience in the agritech sector. I also used my network of friends and acquaintances to reach relevant participants, and when that network was exhausted, I attempted cold outreach to relevant young companies in the sector. I identified potential startups through recent newsletters and news on fundraising activity in Germany. I contacted over 28 individuals or startups, of which 10 agreed to participate in semi-structured, in-depth interviews conducted during the three-month period between October and December 2024. Although my initial goal was to interview a somewhat higher number of participants, it proved challenging to find additional relevant candidates due to the niche focus of the study and limited access to early-stage climate tech startups with direct fundraising experience. The final sample of ten interviews reflects a balance between diversity of perspectives and feasibility within the time constraints of the thesis and emphasizes an in-depth approach over a quantitative one. Requests for interviews were mostly sent out via email, LinkedIn, and in a few cases, WhatsApp. Detailed participant information can be found in table 2.

Table 2: Participant information

	Role	Sector	Specialization	Stage
Participant 1	CEO, founder	Agritech	Sensor technology (Software and hardware)	Seed
Participant 2	Chief of Staff	Biotech, foodtech	Alternative proteins	Pre-seed
Participant 3	CEO, founder	Deep tech (industrial hardware)	Direct air capture	Seed
Participant 4	Cofounder	Sustainable materials	Sustainable watches	Pre-seed
Participant 5	Head of finance department	Deep tech (built environment)	Sustainable materials	Pre-series A
Participant 6	CEO, Cofounder	Agritech	Sensor technology (Software and hardware)	Pre-seed
Participant 7	CCO, Cofounder	Traveltech	Software, corporate travel tool	Seed
Participant 8	Commercial and Venture Development Lead, involved in fundraising	Hardware, foodtech	Alternative proteins, hardware	Seed

(table continues)

Table 3: Participant information (continued)

	Role	Sector	Specialization	Stage
Participant 9	CTO, Cofounder	Sustainable fuels	Chemical Systems for Sustainable Aviation Fuel Production	Pre-seed
Participant 10	Climate-tech business development and financing expert	Solar energy, energy storage, built environment	solar energy, energy storage, built environment	Seed

Source: Own work.

The questions were formulated based on a review of the existing scientific literature, using a combination of methods. Some were adapted from previously established questions, while others were newly developed yet rooted in scientific evidence to further explore key findings. Although I followed a predefined interview guide (in the Appendix 2), the semi-structured interview method allowed for some flexibility in the discussions.

These online interviews, which typically lasted between 30 minutes and an hour, were conducted through Google Meet or Zoom, as these platforms were the most convenient options for participants. To enhance clarity, the questions were presented by a screen-shared PowerPoint presentation during the video calls. All interviews were recorded and transcribed using Fireflies, an AI notetaker tool, with participants' informed consent obtained prior to the interviews. Particular precautions were taken to ensure the anonymity and confidentiality of the participants. After the interviews, I corrected the style and grammar of transcripts but made sure to hold the impressions of interviewees true. The transcripts can be found in the appendices.

For data processing, I organized and managed the interview data and transcripts in Excel. I then analysed the data using thematic analysis, a method for detecting and grouping prevalent patterns in qualitative data. I then applied a deductive approach, suggesting that rather than starting from the data alone, the research was based on existing theories and earlier scholarly work (Saunders et al., 2023).

4.4 Research results

Throughout this chapter, I will analyse and describe the key findings from the research interviews, assessing which factors hold the most and least importance, and focusing on detecting patterns and outliers in the responses, with all sections relating to the first three research questions. The analysis will begin with a review of the instinctive factors that drive the startup's decision-making process. Following this, I will assess dealbreakers, or non-negotiable factors, identified by interviewees and observe how these differ among participants. In the next two sections, I will discuss preferences regarding investor type,

stage, focus, portfolio, ticket size, value-added services, personal compatibility, and reputation to understand what startups value most in their ideal investor. Lastly, I will dedicate a section to the role and importance of sustainability in such investment decisions.

4.4.1 Key decision factors: Initial feedback from interviewees

At the beginning of the interview, participants were asked to name the three most important factors they look for when choosing an investor during the fundraising process. This question was posed before talking about the individual factors outlined in chapter 1.4. Their responses provided an interesting insight into their previous knowledge in fundraising and a key reference point for later parts of the interview, where the key factors were discussed both independently and comparatively. Two factors stood out as particularly significant: personal compatibility, mentioned eight times, and industry fit and expertise of the investor, mentioned seven times.

Participant 10 provided further clarification into personal compatibility, explaining that “[...] *it is crucial to trust that they're aligned with you in terms of values, shared goals, and communication style*”. This was a predominant theme across most answers, emphasizing the compatibility of work habits and processes, trust, and investor behaviour in challenging times. The personality match was sometimes described through comparisons of marriage or friendship. These answers align with the findings of Valliere and Peterson (2007) and Kim et al. (2021), who emphasized that personal fit and the relationship between founders and investors are highly relevant to entrepreneur’s decision-making process when selecting an investor.

On industry fit and expertise, interviewee 9 clarified: “*Can they work with us? Do they have steep market and industry knowledge to help us build partnerships in technology and market? [...] If they don't, they will create more work for us.*” Other participants agreed that investors with appropriate expertise have a better understanding of the startup’s space and need less explanation, which enables them to provide more effective support. Closely linked to this is the value-add beyond capital, the third most common response. Participants frequently cited gaps in their access to market and talent, stressing the value of utilizing investor’s networks and connections for developing industry partnerships. Interviewee 9 continued: “*They should be able to help us with day-to-day operations. Giving helpful advice on taxes, lawyers, hiring, etc., is usually very helpful,*” highlighting investor’s role in improving work processes.

Other factors mentioned in response to this interview question included money regardless to any other investor characteristics, alignment of expectations, and impact investing. The latter was listed by two out of ten participants, indicating that while social and environmental impact holds slightly less importance overall, it is still significant to some.

4.4.2 Dealbreakers: Reasons for Declining Investment Opportunities

Unlike previous research, which focused on the key factors for entrepreneurs seeking investment, little attention has been given to the elements they would find entirely unacceptable, the so-called dealbreakers. Therefore, I decided to explore where the boundaries of what is acceptable lie for my sample of interviewees. I wanted to understand what would deter them from considering an investor, even if it could jeopardise the further development of their business. I asked them about specific dealbreakers, their stance towards certain groups, individuals, or other factors that might influence their decision. I was also interested in whether, in an extreme situation where such an investor was their only option of survival, they would be willing to accept the offer.

Ethical and political considerations were the strongest and most frequently mentioned factors under this topic. Eight out of ten interviewees mentioned that they would be hesitant or strongly opposed to accepting money from investors who previously invested in polluting industries, such as oil and gas, or unethical industries, such as weapons and casinos. Interviewee 5 explained: *“There are definitely ethical values our company would not give up for an investor. We once considered accepting an investor from the fossil polymeric industry – a very high pollutant industry [...]. But how does that look, having someone from an industry that's extremely polluting the atmosphere or the environment invest in a company trying to have a positive impact?”*

Interviewee 4 shared their view on unethical industries: *“I have trouble taking money from someone with mostly questionable morals, who, for example, makes a lot of money with online casinos and making people addicted. I don't want to be involved in that.”*

These considerations align with the findings of Drover et. al. (2014), who observed that while ethical reputation of the investor plays a vital role in the decisions of startups, they may still accept funding from such investors when facing financial difficulties.

The second most common dealbreaker, a topic mentioned by seven participants, was value misalignment. This entailed concerns about investors lacking genuine interest in their business, prioritizing profit over the startup's goals, not aligning with the product or climate mission, failing to support the business' mission or vision, or not caring about impact. Additionally, investors' harsh and unsupportive behaviour, weak communication, and bad reputation were noted as dealbreakers. Bias and discrimination concerns, including racism, sexism, homophobia, lack of diversity, and gender inequality, also led to scepticism. Interviewee 10 pointed out: *“[...] as someone in climate, I would never take money from anyone related to oil and gas. Beyond that, just the usual: racism, sexism, homophobia, etc. [...] ultimately, it comes down to culture and values alignment.”*

Two participants offered an unusual dealbreaker; they would refuse investors from countries with conflicting political regimes, such as Russia and China if raising money in the US due to potential conflicts of interest. Six participants were also against accepting money from

investors in countries and regions associated with human rights violations and restrictive regimes. Reflecting on this, interviewee 1 commented: *“In general, I would be sceptical of countries with unfree regimes, countries that don’t follow basic human rights or those that violate freedoms of others [...]”*

Consistent with the findings of Vaidyanathan et al. (2019) and Valliere and Peterson (2007), four participants in this research identified various investment terms and conditions as potentially problematic. These included unfair deals or undesirable term sheet conditions, unreasonable KPI expectations, aggressive negotiations, non-negotiable terms or special clauses that could limit future fundraising, and ticket sizes that were either too big or too small. Sharing their perspective, interviewee 4 noted: *“One clear deal breaker is an unfair deal where too much equity is requested for too little money. [...] When they push so hard that you must change your product or pivot in a certain direction, I think they don't understand the game.”*

Nevertheless, the majority of the participants recognised that startups cannot afford to be too picky when capital is scarce. As a result, entrepreneurs need to stay flexible in their decision-making. Interviewee 8 strongly emphasized their stance on having zero dealbreakers when fundraising: *“At the end of the day, it is always more important to have money.”*

Eight out of ten participants noted they would probably or certainly take the money from a dealbreaker investor if it were their only chance of survival. While their decision would still depend on who the investor is, they justified it with the overarching argument of using “bad money” to do something good, along with the responsibility they feel toward their startup’s employees, among other factors.

4.4.3 Type, Stage, Focus, and Portfolio

In the following section, I will discuss the interview questions designed to explore key factors such as investor type, investment stage, investment focus, and portfolio, as outlined in the literature in section 1.4 of this work.

The goal of the first question was to discover which types of investors were preferred among the ten early-stage startups. Respondents in the pre-seed stage preferred government grants and subsidies because they offer free money without dilution. They also favoured angel investors, who are less formal, act quickly, are often former well-connected entrepreneurs who understand the market. VCs ranked third in importance, while philanthropic money was slightly less important. Banks and private equity were not considered significant, as they have strict rules, and without a stable revenue, their funding is extremely hard to obtain at early stages. For respondents in the seed stage, government grants and subsidies remained the top priority, but VCs surpassed angel investors in second place, as they can provide larger funding amounts. Attitudes towards philanthropic money remained unchanged, partly because it relies on luck, cannot be actively sought out and lacks a uniform approach. The

pre-Series A startup's responses aligned with those of the seed stage startups. Most respondents agreed that banks and private equity only become relevant at much later stages. Additionally, respondents also suggested alternative funding sources, such as strategic investors, client-funded collaborations with data-sharing agreements, and crowdfunding.

The second question aimed to determine whether respondents prefer investors who focus only on early stage investing or those who invest across several stages. Responses showed a balanced preference, with six participants split relatively evenly, leaning slightly towards early-stage investors, while two participants at each end strongly preferred either early or later-stage investors. Advocates for early-stage investors claimed that risks are highest in the early stages, especially for startups with complicated technology. Since most startups fail early on, it is crucial to have the right support and an investor who understands their challenges. On the other hand, those favouring multi-stage investors argued that a long-term perspective is essential. They stressed that multi-stage investors can provide follow-up funding, offer larger investments, and bring valuable expertise for scaling, especially for capital-intensive companies. Here, one of the main advantages was an investor's ability to support the startup throughout its journey. Participant 8 explained their balanced perspective: *"If the investor is very involved in our business, it is important they provide the right value. Focusing on our specific stage helps, but their support to help us achieve later stages is important too."*

Unlike the with the investment stage, responses on investor focus indicated a strong preference for specialisation, with seven out of ten participants agreeing that a specialised investor is essential for a startup's survival and development. They emphasized the complexity of climate tech and the unique challenges of its various subsectors, adding that industry-specific investors bring expertise, market access and insights, and valuable network connections. These aspects make it easier for startups to pitch their visions and secure investor support. However, three out of ten participants recognised value in diversified investors, since they can contribute multi-industry knowledge and fresh perspectives. Participant 3 expresses their preference for a specialised investor: *"A very broadly focused fund that is in eight, nine industries wouldn't have a clue about what's important at this stage for us, an all-protein startup with very specific technology."*

Regarding the next question on investor portfolio, the results revealed that investors with experience in similar companies or direct competitors are seen as potentially invaluable sources of capital for climate tech startups. Given their understanding of the industry, its challenges, key milestones, and their interest in such business models, the majority of participants saw opportunities in contacting both kinds of investors. Still, a few would be cautious and first consult their existing investors if their technology or vision overlapped with that of a direct competitor. Nevertheless, multiple participants stressed that there is no competition in preventing climate change. Ultimately, founders can gain valuable insights and strengthen their network even if an investor rejects them because of a portfolio conflict.

These findings are consistent with the work of Kim et al. (2021) and Drover et al. (2017), who concluded that startups prioritize investors with strong and relevant portfolios.

4.4.4 Ticket size, Value-Added Services, Compatibility, and Reputation

The factors discussed in this section, namely ticket size, value-added services, personal compatibility, and reputational factors, were drawn from existing literature on the topic and are described in detail in Chapter 2.1. Participants were asked one or more open-ended questions about each factor, as well as to rate each factor on a scale from 1 to 10, with 10 being the best. The responses will be reviewed in the order of interview questions.

The average score for ticket size between ten participants was 7.3. When asked about the importance of ticket size, the main sentiment was that the alignment between the investor's ticket size and the startup's funding needs is critical. If these do not match, the investor and the startup are not suitable for each other. Multiple interviewees also stated that conflicting expectations could result in wasting equity or resources. An interesting point that developed was a preference for balance, with many startups opting for smaller amounts from several investors rather than the entire sum from one. This approach lets investors de-risk their involvement, as well as allows startups to diversify their funding, increasing the likelihood of securing follow-up investments in later stages. Participant 7 on their experience: *"We once had a problem where an investor wanted to invest more than what our range is, and we didn't take it because we wanted to diversify."*

Value-added services factor had an average rating of 7.1 out of 10. Respondents discussed how its relevance varies depending on the kind of services offered. Many had no interest in general value-add like marketing or human resources but found strategic guidance from specialised investors with the right knowledge and connections extremely beneficial. They believed that the founding teams should be able to manage the general value-added services themselves. Participant 1 elaborated on this topic: *"One contact can completely pivot your company into a different direction, different business, different clients. That is essential."*

Only one participant would gladly accept a 30% reduction in ticket size in exchange for additional value-added services, acknowledging a positive past experience with a similar deal. Five participants remained indifferent, observing they would only agree to such agreement if it included exceptional benefits, such as strong strategic guidance. Meanwhile, four participants strongly opposed this notion, arguing that regardless of the investment size, investors should provide great support, and that securing enough capital is a priority.

After comparing the results, one key factor showed higher relevance than the others: personal compatibility. Previous studies, such as Kim and Valliere's, have also found this factor to be relevant. The average rating for personal compatibility was 8.7 out of 10, with participants highlighting the importance of strong personal and professional alignment with investors, established trust, transparent communication, shared values and a commitment to

long-term growth over short-term profits. These qualities were also said to be beneficial when tackling difficult challenges together. Participant 7 shared: “*At times, they will also annoy you. You need to have a good position to talk to them, be open, and trust them. After signing the documents, you depend on them [...]*”.

The average score for reputational factors among ten participants was 7.7, highlighting its importance in startups fundraising decisions, as also observed by Smith (2001), Hsu (2004), Vaidyanathan et al. (2019), and Valliere et al. (2007). All interviewees emphasized importance of conducting due diligence when selecting investors. They would always contact other founders, investors, or portfolio companies of a specific investor to examine an investor’s value-add and working style. Reading between the lines during due diligence also helps determine whether an investor’s reputation is favourable enough to avoid future fundraising concerns.

When asked to decide between \$500,000 from a reputable investor or \$1,000,000 from one with a questionable reputation, responses were largely consistent. If time permitted for further fundraising elsewhere, everyone would go with the reputable investor. Some mentioned their unwavering values, while others feared the consequences of negative reputation. Five participants noted that the finest investors make future fundraising considerably quicker and easier, with one participant describing them as a “*lighthouse to other investors.*”. Nevertheless, seven out of ten interviewees would likely accept funding from an un reputable investor under severe time pressure, while three would stand their ground.

In addition to all the previously mentioned factors, participants suggested a few other significant factors that were not discussed in the interviews. These included the lifetime and age of a fund, the geographic location of an investor, and whether an investor truly understands the startup’s specific needs and challenges. Regarding geographic location, the possibility to meet with an investor frequently, speak the same language, or share cultural values fosters the alignment of common values, enhances communication, and increases mutual support.

4.4.5 Sustainability

The following section of the interview questions explored whether sustainability should also be considered as one of the key factors for climate tech startups. When presented with the choice between a lower ticket size from a sustainable investor, such as Bill Gates, and a higher amount from a noticeably unsustainable investor, such as a Russian oligarch, nine out of ten participants opted for the former. However, some pointed out the difficulty of making a well-informed decision in such a hypothetical scenario. Overall, the participants concurred that partnering with a sustainable investor could improve their chances for future fundraising and open doors to new opportunities. Several interviewees expressed discomfort with investors who did not share their vision, or were associated with corrupt capital, suggesting

that a Russian oligarch with a negative reputation could undermine their company's credibility and deter future investors. For some, sustainability and impact were among the most critical considerations when selecting investors.

On the contrary, some respondents offered more pragmatic solutions, suggesting they would assess the advantages of pursuing the sustainable investor against the disadvantages of the unsustainable one. Their decision would also depend on the amount of required capital needed at the time, which would outweigh sustainability concerns. Due to the capital-intensive nature of their businesses, some entrepreneurs might not be able to work with sustainable investors offering insufficient capital.

If few suitable alternatives existed, many participants would seek capital from any available investor, including unsustainable ones, as long as their practices were not extremely detrimental, such as involvement in wars, and would not negatively affect the startup's reputation. Ultimately, while many consider sustainability an important factor, they do not view it as a dealbreaker. Interviewee 2 shared their opinion on working with oil and gas investors, who are often seen as unsustainable in the climate tech sector:

“If we [a capital-intensive deep tech startup in direct air capture] were to work with an oil and gas company, we would ask them not to use our CO₂ for enhanced oil recovery. However, we would be open to collaborating with them on a big impactful project, such as building a direct air capture hub to sell negative emissions.”

The average score on the importance of an investor producing sustainability reports and behaving sustainably was 5.9. Nearly all participants agreed that sustainability reporting by investors is not a decisive factor in their decision-making. Instead, they perceived these reports as a means for investors to signal their alignment with startups. Many participants voiced their scepticism towards sustainability reporting, explaining that it can serve as a tool for greenwashing. They pointed out that reaching net-zero impact on paper is relatively easy, allowing investors to appear sustainable and impactful without creating meaningful change. Furthermore, the lack of standardization in sustainability reporting frameworks complicates the evaluation of quality of reported information. While interviewees saw investors' compliance with certain practices as a step in the right direction, two participants discussed that an investor's general approach to sustainability was more important. Instead of fixating on reports, they tend to observe whether an investor genuinely understands the need for change, is committed to making a positive impact, and is dedicated to cultivating sustainability within their industry. Interviewee 5 shared their perspective on the subject:

“[...] it's not the reports that matter, but what they say when you talk to them. You can tell whether they really understand sustainability and impact or if they are just making green investments because they are following the trend, the zeitgeist. I rate the importance of sustainability as a nine, but the making of the reports as a five out of ten.”

4.4.6 Distribution of Importance Across Key Decision Factors

To determine the relative importance of each factor, participants were asked to distribute a total of 100 points among all discussed factors. The more important a factor was to them the more points they had to allocate to it. This task aimed to additionally address the first and third research questions by determining the most important factors and assessing whether sustainability should be considered an important decision factor.

Analysis of eight responses indicated that the predominant factor, as observed earlier in this research, was personal compatibility, scoring 15.75 points, followed by ticket size with 14.375 points. Reputational factors ranked third with 10.75 points, closely followed by sustainability at 10.625 points. Factors like investment focus, investor type, investment stage, and portfolio were deemed somewhat important, while value-added services showed a slight decrease in importance compared to its individual average score from the earlier segment of the interviews. Some participants suggested that factors such as understanding needs and challenges, networking, fund lifecycle, and location should also be considered.

Two participants were excluded from the analysis of this question due to their unique answers. Participant 9 marked investment stage, ticket size, reputational factors, and fund lifecycle as strict yes/no questions, suggesting that investors who did not meet these criteria would automatically be excluded. Participant 5, on the other hand, rearranged several factors, combining portfolio, value-added services, personal compatibility, and direct and indirect contact into a category they labelled “networking,” giving it 50 points while clarifying that, for them, networking entailed anything related to soft skills. Participant 5 also placed sustainability under investment focus, assigning it 30 points, as investment focus must involve climate tech investors, which covers sustainability. They considered investment stage a strict yes/no question and were unwilling to rate ticket size, as, due to limited investor options they would consider investors with any amount. While these two participants were excluded from the average relative score of each factor, both gave sustainability significant weight, indicating they considered it important.

4.5 Research limitations

While the interview results reveal certain patterns and similarities in participants’ responses, it is important to acknowledge the limitations of this research before interpreting the findings and presenting recommendations.

The participant sample size is too small to generalize the findings to the broader climate tech population. Interviewing a larger number of startups might uncover contrasting observations, indicating that these findings should be viewed with caution. Additionally, the semi-structured interview method, while great for extracting deep, open-ended responses full of experience and sentiment, limited the study to a small, non-representative sample.

This study relies on a convenience sample of startups, selected based on my personal connections, cold outreach, and their willingness to participate in interviews. These circumstances increase the likelihood of selection bias, as the sample's limited diversity may not represent the complete range of experiences across the climate tech industry.

Given that most startups are based in Germany, with only a few outliers from other parts of the European Union, the geographical distribution of participants is regionally imbalanced. As a result, it would be unjust to apply the findings of this research to either Germany or the EU collectively.

The climate tech industry is extremely diverse, consisting of numerous subsectors with specialised technologies. While I attempted to include startups from different areas within the industry, this research does not cover all aspects of climate tech. Therefore, the findings may be skewed towards the perspectives of the sectors represented, potentially overlooking others.

Although extensive research exists on how investors perceive and evaluate startups that are fundraising, there is a lack of relevant literature concerning how fundraising startups perceive and evaluate their potential investors. Moreover, much of the existing research focuses primarily on venture capitalists. While this study attempts to discuss other types of investors, knowledge gap remains regarding other types beyond VCs.

Despite these constraints, this study provides important perspectives on startup behaviours and preferences within the climate tech industry, paving the way for future research with larger samples and more advanced methodologies.

4.6 Discussion

In this chapter, I interpret the empirical results to address the three research questions this thesis aims to answer. While some results exhibit slight variations, the majority align with prior scientific research, particularly in validating the high importance of reputational factors, personal compatibility and portfolio. This study further confirms the significance of financial considerations, with ticket size, defined as the typical investment amount an investor offers, emerging as a key factor. This finding complements previous research which often addressed the broader concept of valuation. In addition to confirming these established patterns, this study builds upon previous research by investigating two underexplored elements, namely dealbreakers or non-negotiable factors, and the role of sustainability in investor selection. An overview of the research questions and their key findings is provided in table 3.

Table 4: Overview of research questions and their main findings

Research questions	Key factors	Additional insights	Core insights
Which are the most important factors that influence a startup's decision when choosing the most suitable investors?	<ul style="list-style-type: none"> • Personal compatibility (shared values, trust, communication, long-term relationship) • Reputation (credibility signal, supports future fundraising, "lighthouse effect") • Ticket size (must match needs, preference for balanced funding across investors) 	<ul style="list-style-type: none"> • Industry fit & expertise reduce friction and improve support • Strategic value-add (networks, guidance) highly valued • Generic support (e.g. HR, marketing) seen as less relevant 	Startups prioritize long-term alignment and strategic partnership over short-term capital
What are climate tech startups' dealbreakers/non-negotiable factors when choosing investors?	<ul style="list-style-type: none"> • Ethical concerns (polluting or controversial industries) • Value misalignment (lack of shared mission or priorities) • Unfavourable contract terms (equity, control, conditions) • Investor behaviour and reputation 	<ul style="list-style-type: none"> • Political & social concerns (human rights, regimes, discrimination) • Dealbreakers vary depending on urgency and available alternatives 	Dealbreakers are context-dependent, reflecting a trade-off between values and survival
Should sustainability also be considered as an important factor for startups when choosing investors?	<ul style="list-style-type: none"> • Importance of sustainability varies across startups • Rarely treated as a strict dealbreaker • Often secondary to immediate funding needs 	<ul style="list-style-type: none"> • Skepticism toward ESG reporting (perceived as superficial or greenwashing) • Preference for real actions and genuine commitment over formal reporting 	Sustainability is increasingly important, but often secondary to financial constraints

Source: Own work.

The first research question was designed to identify the key factors influencing climate tech startups' decision-making processes during fundraising. Despite the relatively small participant sample size and the unique preferences of each startup, the results revealed consistent patterns in preferences for certain factors, such as personal compatibility, reputational factors, and the amount of money offered.

Although the potential significance of personal compatibility was recognized in earlier studies, it was neither thoroughly assessed nor strongly emphasized in comparison to other elements. In contrast to prior studies, this research identified personal compatibility as the most important factor, with most participants highlighting it as highly relevant. This suggests that the interviewed climate tech startups prioritize communication, trust, and strong problem-solving skills over financial concerns. Personal compatibility is considered a long-term factor that fosters successful partnerships.

This shift aligns with the observations of Valliere & Peterson (2007), who note that while all startups place importance on the financial and contractual aspects of the investment, “*as entrepreneurs gain experience they increasingly value the personal compatibility of the VC as important in their selection*”. They further suggest that “*entrepreneurs place high value on the quality of the relationship with their VC investor*”, potentially viewing this quality as a moderator for all other benefits, like value-added services. This is strongly supported by Kim et al. (2021), who found that follow-on investments, a byproduct of a strong relationship, are crucial, noting that “*follow-on investments were seen as an important demonstration of the trusting relationship between VCs and founders*”. Similarly, Smith (2001) found that startups prefer investors who fit their company culture and have a reputation for reliably supporting them through multiple investment rounds.

Furthermore, according to interviewee responses, the relationship between the startup and a potential investor needs to start quite some time before the actual fundraising. Instead of depending on last-minute cold calls for capital, establishing early trust and familiarity significantly enhances the likelihood of securing funding later. For any climate tech startup, networking and cultivating partnerships should be a long-term, strategic commitment, as it is essential for achieving fundraising success.

In this study, ticket size (i.e., the amount of money offered) and reputational factors alternated between the second and third most important factors among participants. Similarly, prior research has consistently recognized the importance of both valuation and reputational factors. In a comparable manner, Smith (2001) stated that reputational factors are “*disproportionately represented among the most important criteria*,” with the top criterion being a “*reputation for investing in successful companies*”. The willingness of participants to prioritize reputation over purely financial valuation is empirically supported by Hsu (2004), who demonstrated that a financing offer from a high-reputation VC is three times more likely to be accepted by a startup, even when the financial offer is lower. This confirms that “*entrepreneurs are willing to forego offers with higher valuations in order to*

affiliate with more reputable VCs ". This is further mirrored by Smith (2001), who observed that of the 97 firms that received more than one offer to invest, 36 did not accept the highest offer. While these factors remain fundamental considerations in investor selection, participants in this study expressed a preference for investors who ensure a balance between short-term financial requirements and long-term strategic advantages, rather than having to choose between the two. Carrying out due diligence on potential investors is seen as an integral part of addressing these trade-offs, allowing participants to assess both financial and strategic value an investor could bring.

While earlier research has given little attention to investor focus and stage, my findings indicate that interviewees assign considerable importance to investor focus, specifically industry fit, deep knowledge and experience. The inclination toward specialised investors therefore often outweighs the appeal of generalists with wider, cross-industry expertise. Opinions on investor stages vary, some prefer early-stage investors for their understanding and support, while others appreciate multi-stage investors for their capacity to provide follow-on funding and scaling. Participants are generally open to compromising on their preferred stage if the investor has a great deal of experience in the field. In contrast to previous research that solely examined startup preferences for VC investors, I investigated how interviewees view other types of investors too. Ultimately, obtaining funding on favourable terms matters more than the kind of investor, although startups typically look for investors who are compatible with their current stage.

There was a divide in earlier research regarding the significance of value-added services, some considered it relevant, while others did not. My research reinforced these findings, as participants primarily favoured highly specialised services like industry connections and strategic guidance, while disregarding general value-add services like marketing or human resources as non-essential and unnecessary. This matches Kim et al. (2021), who validated that *"consulting and monitoring, which VCs consider to be important value-adding activities, were not selected as important by all startups"*. They suggest that startups often feel they should solve the problems themselves because they care more deeply about and understand their companies. The authors also note that *"consulting and monitoring are not what they expect from VCs, but full support and empathy are more important"*. To have more control over their decisions, some participants even prefer less engagement from their potential investor. While startups prioritize industry fit during selection, they can be disappointed in the execution phase; as noted by Vaidyanathan et al. (2019), *"[...]VCs fall short of meeting expectations in providing the marketing-related expertise desired by entrepreneurs"* and startups often *"reject the idea that VCs contribute in any significant way to making them more innovative"*. This reinforces the sentiment from Valliere & Peterson (2007) that entrepreneurs are not necessarily looking for *"smart money"* but are simply seeking *"money at a good price, from someone they can work with"*.

Sustainability is one of the factors with growing importance, which I will discuss in the third research question.

While my findings show that climate tech startups prioritize compatibility and industry expertise, it is important to acknowledge the critical perspective of Valliere & Peterson (2007). They suggest that while founders might claim to value compatibility above all else, in reality they often remain “*price shoppers*” because a low valuation can become a dealbreaker that outweighs everything else. This distinction marks the shift from preferred qualities to the non-negotiable factors discussed in the following section.

The second research question examined dealbreakers, or non-negotiable factors that climate tech startups consider when choosing investors, a topic that has not been covered in the previously examined literature. Many climate tech startups were established to address environmental challenges and create positive impact. Accordingly, many participants perceived investors connected to polluting industries as clear dealbreakers. However, their dealbreakers are not limited to environmental considerations; participants were also reluctant to accept capital from investors who go against their ethical or cultural values, offer unfavourable contractual terms, are involved in conflicting political affiliations, or otherwise misalign with a startup’s mission.

Nevertheless, many participants defined their dealbreakers as context-dependent rather than definitive, emphasizing the dilemma between respecting their core beliefs and obtaining the capital required for survival in a fiercely competitive environment. This dilemma finds strong theoretical support in Drover et al. (2014), who argue that the direct effect of ethical reputation is “*conditioned by the magnitude of the consequences*”. Their research indicates that startups are “*more willing to partner with VCs who have a negative ethical reputation when the consequences of not doing so are severe (e.g., bankruptcy)*”. While it is often claimed that startups are “*not willing to gain these benefits at 'all costs' by overlooking the VC's reputation for questionable ethical behavior*” (Drover et al., 2014), the practical reality of the climate tech sector often forces a compromise. When choosing the latter, they often justified compromising their principles by directing the acquired capital toward climate-positive innovation. My findings indicate that while startups pursue authentic partnerships, their willingness to compromise is determined by the immediacy of their financial needs. This often leads to a trade-off where startups accept “*short-term gain for a long-term loss*” regarding agency costs associated with misaligned investors (Drover et al., 2014).

The findings indicate that climate tech startups view fundraising as more than merely a passive method of receiving any available capital. Rather, they approach it with well-defined standards and expectations, seeking to have their needs met. By doing so, they challenge the traditional dynamics between investors and startups, in which investors usually have the upper hand. These startups place a high priority on strategic goals and value alignment, pursuing authentic partnerships whenever possible. In the end, a startup’s willingness to compromise on dealbreakers will be determined by how much their values differ from the investor’s, how quickly they need funding, and whether obtaining other investors’ capital is a viable option.

The third research question focused on the role of sustainability in investor selection and whether climate tech startups consider it an important factor. Although prior research has not taken sustainability into account as a potentially relevant factor in investor selection, the findings from this research suggest that it is receiving increasing attention. Participants indicated that collaborating with a sustainable investor not only improves a startup's reputation in the industry but also increases the chances of securing follow-on funding, a factor Kim et al. (2021) identified as a primary signal of trust.

Driven by strong climate beliefs and a commitment to building impactful businesses, some participants refuse to compromise in their choice of investors, looking for partners who truly understand the unique climate challenges the startups address. These startups regard sustainability as an indispensable factor and are unwilling to accept investors who do not share their ideals. Meanwhile, other participants prioritize business success, risk avoidance, or even survival, and adopt a less rigid approach. They are open to cooperating with investors lacking strong sustainable practices, as long as the financial benefits outweigh the possible drawbacks. This prioritization of financial viability over non-financial ideals aligns with Valliere & Peterson (2007), who suggest that when survival is at stake, startups move away from idealistic criteria and instead focus on securing capital on the most favorable economic terms. For these startups, sustainability is not an absolute dealbreaker, except in cases involving extremely unsustainable investors.

Although sustainability was not consistently favoured throughout the interviews, it ranked fourth in the relative importance of all investor-related factors. This implies that its significance is increasing, as many participants have rising expectations on the sustainability of their investor's investment practices. Participants voiced scepticism toward the sustainability reporting tools used by investors. Such reports were viewed as symbolic, lacking real substance, and often prone to greenwashing. Instead, participants favoured investors that demonstrate genuine dedication to sustainability through their practices, as opposed to superficial reporting.

This exposes a weakness in available reporting standards for investors. Rather than accepting all different types of reports, or pushing a strict, one-size-fits-all approach, policymakers and industry leaders could encourage investors to implement impactful sustainability practices. Instead of relying on broad standards that contribute to greenwashing or unnecessary administrative load, they could define tailored, measurable criteria that emphasize transparency, genuine impact, and practicality, helping startups better evaluate their alignment with investors. To strengthen credibility, third-party assessment of sustainability reports could be introduced. Furthermore, providing incentives to investors and startups that demonstrate credible sustainable practices may foster authentic involvement.

The findings of this research provide significant utility for both the academic community and the professional climate tech ecosystem. Theoretically, this study largely confirms and aligns with the findings of previously conducted research by Smith (2001), Valliere &

Peterson (2007), Hsu (2004), Drover et al. (2014), Vaidyanathan et al. (2019), and Kim et al. (2021). Furthermore, this work builds upon the foundation of aforementioned research, by introducing sustainability and context-dependent dealbreakers as critical selection variables. By doing so, this research successfully fills a gap in traditional literature, which has historically focused on general financial metrics and overlooked the mission-driven constraints of the climate tech sector. Practically, on the other hand, this research serves as a strategic compass for startups navigating fundraising trade-offs and allows investors to better understand the priorities and internal decision-making processes of the startups they seek to back.

Ultimately, my findings suggest that the modern climate tech startup is moving toward a model where personal fit, empathy, and the signaling power of follow-on funding are paramount. As Hsu (2004) and my own results show, startups are often willing to accept lower valuation to secure a reputable partner, but this has its limits. When the threat of failure becomes immediate, the pragmatism of survival often overrides even the strongest ethical or sustainable dealbreakers, confirming the observation by Drover et al. (2014) that survival needs can force a compromise on even the most non-negotiable factors.

For further research, I suggest additional large-scale qualitative research involving larger samples of companies in the climate tech industry. This would allow for a deeper understanding of the key factors in the selection of the most suitable investors and the decision-making process of startups. Another suggestion is to carry out some cross-national studies and see how climate tech startups think and prioritize factors across regions and countries.

Sustainability should be more extensively embedded into future research as the climate tech sector evolves. It would be interesting to see how this factor is perceived when/if the sustainability reporting becomes more standardized. It would be necessary to break sustainability down to smaller pieces and explore specific aspects of sustainability and to analyse how smaller sub-factors influence startups' decisions when choosing investors.

5 CONCLUSION

To better understand how climate tech startups select their investors, this master's thesis focused on three main areas: key selection factors, dealbreakers, and the role of sustainability in the decision-making process. Drawing from secondary research paired with qualitative interviews with chosen early-stage climate tech startups, personal compatibility was deemed the most significant selection factor, followed by ticket size and reputation. Participants consistently highlighted the importance of trust-based relationships and long-term strategic alignment. While earlier research has not primarily focused on dealbreakers, this research introduces a novel perspective by identifying context-dependent dealbreakers, such as affiliations with polluting industries or ethical misalignment.

One of the most illuminating insights is the conflict between startups' ambitious sustainability objectives and the practical necessity of securing financing. While climate tech startups consistently express strong commitment to climate goals and a clear preference for mission-aligned investors, the empirical data highlights that the realities of a highly competitive fundraising environment often force them to navigate difficult trade-offs. In such cases, the fundamental need for financial survival may outweigh strict ethical or sustainability alignment, showing that startups' ability to choose freely is often more limited than it appears.

The findings might provide useful perspectives to aspiring climate tech startups looking to raise money, as well as those in related industries. They emphasize the importance of defining investor criteria early on, balancing financial, strategic, and ethical alignment, and steering clear of misaligned partnerships that could jeopardize a startup's long-term vision. Accordingly, startup leaders should deliberately foster investor relationships, perceiving funding as a partnership founded on shared values and goals rather than solely a financial transaction.

This research has several limitations. The sample is relatively small and geographically concentrated, primarily consisting of startups with headquarters in Germany and a few other European countries. As a result, the findings are not entirely generalisable and should be interpreted as exploratory insights rather than definitive patterns. The use of the semi-structured interview method implies the results are interpretative and may be affected by the participants' subjective experiences.

These preliminary findings could be expanded upon in future studies by studying a larger, more diverse sample of climate tech startups across regions and subsectors. Comparative studies across national contexts may reveal cultural or structural differences in investor selection criteria, dealbreakers, and the attitude towards sustainability. Further research should examine how particular sustainability subdimensions, such as transparency, long-term impact, or ESG criteria, influence founder decisions as sustainability continues to gain relevance in startup ecosystems. This is especially important as sustainability reporting becomes more consistent and credible across the industry.

LIST OF KEY LITERATURE

1. Bocken, N. M. (2015). Sustainable venture capital – Catalyst for sustainable start-up success? *Journal of cleaner production*, 108, 647–658.
2. Drover, W., Wood, M. S., & Fassin, Y. (2014). Take the money or run? Investors' ethical reputation and entrepreneurs' willingness to partner. *Journal of Business Venturing*, 29(6), 723–740.
3. Hsu, D. H. (2004). What do entrepreneurs pay for venture capital affiliation? *The journal of finance*, 59(4), 1805–1844.

4. Kim, J., Bae, T. J., & Lee, S. M. (2021). Key elements that affect selection of the venture capital by a startup. *Asia-Pacific Journal of Business Venturing and Entrepreneurship*, 16(2), 1–17.
5. Smith, G. (2001). How Early Stage Entrepreneurs Evaluate Venture Capitalists. *The Journal of Private Equity*, 4(2), 33–45. <http://www.jstor.org/stable/43503258>
6. Vaidyanathan, R., Vaidyanathan, V., & Wadhwa, V. (2019). Exploring Entrepreneurs' Perceptions of Venture Capitalists' Added Value. *Journal of Macromarketing*, 39(4), 447–462.
7. Valliere, D., & Peterson, R. (2007). When entrepreneurs choose VCs: Experience, choice criteria and introspection accuracy. *Venture Capital*, 9(4), 285–309.
8. Vogeley, J., Haski-Leventhal, D., & Lundmark, E. (2022). From Nirvana to Shiva in Impact Investing: Value (In)congruence in Investor–Investee Relationships. *Business & Society*. <https://doi.org/10.1177/00076503221145004>

REFERENCE LIST

1. Abdulsaleh, A. M., & Worthington, A. C. (2013). Small and medium-sized enterprises financing: A review of literature. *International Journal of Business and Management*, 8(14), 36.
2. Agrawal, A., & Hockerts, K. (2021). Impact investing: Review and research agenda. *Journal of Small Business & Entrepreneurship*, 33(2), 153–181.
3. Allen, C., Metternicht, G., & Wiedmann, T. (2018). Initial progress in implementing the Sustainable Development Goals (SDGs): A review of evidence from countries. *Sustainability science*, 13(5), 1453–1467.
4. Appelbaum, E., & Batt, R. (2014). *Private equity at work: When wall street manages main street*. Russell Sage Foundation.
5. Barber, B. M., Morse, A., & Yasuda, A. (2021). Impact investing. *Journal of Financial Economics*, 139(1), 162–185.
6. Barman, E. (2017). The social bases of philanthropy. *Annual Review of Sociology*, 43, 271–290. <https://doi.org/10.1146/annurev-soc-060116-053524>
7. Barrett, S. (2009). The coming global climate–technology revolution. *Journal of Economic Perspectives*, 23(2), 53–75.
8. Barrot, J. N. (2017). Investor horizon and the life cycle of innovative firms: Evidence from venture capital. *Management Science*, 63(9), 3021–3043.
9. Basias, N., & Pollalis, Y. (2018). Quantitative and qualitative research in business & technology: Justifying a suitable research methodology. *Review of Integrative Business and Economics Research*, 7, 91–105.
10. Bauer, D., Junge, S., & Reif, T. (2024). May the resources be with you: A systematic review and framework of startup funding options. *Management Review Quarterly*, 74(3), 1365–1396.
11. BDO. (2021). *Sustainability Frameworks – A Snapshot*. <https://www.bdo.ch/de-ch/publikationen/newsletter/ifrs-info/sustainability-frameworks-snapshot>

12. Bernstein, S., Korteweg, A., & Laws, K. (2017). Attracting early-stage investors: Evidence from a randomized field experiment. *The Journal of Finance*, 72(2), 509–538.
13. Bertoni, F., Ferrer, M. A., & Martí, J. (2013). The different roles played by venture capital and private equity investors on the investment activity of their portfolio firms. *Small Business Economics*, 40, 607–633.
14. Bocken, N. M. (2015). Sustainable venture capital – Catalyst for sustainable start-up success? *Journal of cleaner production*, 108, 647–658.
15. Bonini, S., & Capizzi, V. (2019). The role of venture capital in the emerging entrepreneurial finance ecosystem: Future threats and opportunities. *Venture Capital*, 21, 137–175. <https://doi.org/10.1080/13691066.2019.1608697>.
16. Cadman, T. (2012). The legitimacy of ESG standards as an analytical framework for responsible investment. In *Responsible investment in times of turmoil* (pp. 35–53). Dordrecht: Springer Netherlands.
17. Capizzi, V., Croce, A. and Tenca, F. (2022), Do Business Angels' Investments Make It Easier to Raise Follow-on Venture Capital Financing? An Analysis of the Relevance of Business Angels' Investment Practices. *British Journal of Management*, 33: 306–326. <https://doi.org/10.1111/1467-8551.12526>
18. Cassar, G. (2004). The financing of business start-ups. *Journal of business venturing*, 19(2), 261–283.
19. Cegielska, E. (2020). Limitations on the activity of business angels in financing startups. *Acta Scientiarum Polonorum. Oeconomia*, 19(3), 5–12.
20. Chatzitheodorou, K., Skouloudis, A., Evangelinos, K., & Nikolaou, I. (2019). Exploring socially responsible investment perspectives: A literature mapping and an investor classification. *Sustainable production and consumption*, 19, 117–129.
21. Credit Suisse. (2022). *Sustainable Investment Framework*. https://www.responsibilityreports.com/HostedData/ResponsibilityReportArchive/c/NY_SE_CS_2022.pdf
22. Cremades, A. (2016). *The art of startup fundraising: Pitching investors, negotiating the deal, and everything else entrepreneurs need to know*. John Wiley & Sons.
23. Cumming, D. J., & Johan, S. A. (2013). *Venture capital and private equity contracting: An international perspective*. Academic Press.
24. Cumming, D., & Zhang, M. (2019). Angel investors around the world. *Journal of International Business Studies*, 50, 692–719.
25. De Clercq, D., Fried, V. H., Lehtonen, O., & Sapienza, H. J. (2006). An entrepreneur's guide to the venture capital galaxy. *Academy of Management Perspectives*, 20(3), 90–112.
26. Delmas, M. A., & Burbano, V. C. (2011). The drivers of greenwashing. *California management review*, 54(1), 64–87.
27. Dodgson, M., Gann, D. (2020). Philanthropy and Innovation. In *Philanthropy, Innovation and Entrepreneurship*. Palgrave Pivot. https://doi.org/10.1007/978-3-030-38017-5_3

28. Drover, W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A., & Dushnitsky, G. (2017). A review and road map of entrepreneurial equity financing research: Venture capital, corporate venture capital, angel investment, crowdfunding, and accelerators. *Journal of management*, 43(6), 1820–1853.
29. Drover, W., Wood, M. S., & Fassin, Y. (2014). Take the money or run? Investors' ethical reputation and entrepreneurs' willingness to partner. *Journal of Business Venturing*, 29(6), 723–740.
30. Dutia, S. (2014). Agtech: Challenges and opportunities for sustainable growth. SSRN. <https://doi.org/10.2139/ssrn.2431316>
31. Eccles, R. G., & Klimenko, S. (2019). The investor revolution. *Harvard Business Review*, 97(3), 106–116. <https://hbr.org/2019/05/the-investor-revolution>
32. Eccles, R. G., Ioannou, I., Serafeim, G. (2014). The Impact of Corporate Sustainability on Organizational Processes and Performance. *Management Science*, 60(11):2835–2857. <https://doi.org/10.1287/mnsc.2014.1984>
33. Epstein, M. J., & Yuthas, K. (2017). *Measuring and improving social impacts: A guide for nonprofits, companies, and impact investors*. Routledge.
34. Feld, B., & Mendelson, J. (2019). *Venture deals: Be smarter than your lawyer and venture capitalist*. John Wiley & Sons.
35. Feldman, S. J. (1983). Industry analysis and investment decision-making under conditions of uncertainty. *Managerial and Decision Economics*, 4(3), 193–207.
36. Gilligan, J., & Wright, M. (2020). *Private equity demystified: An explanatory guide*. Oxford University Press.
37. Giovannoni, E., & Fabietti, G. (2013). What is sustainability? A review of the concept and its applications. In *Integrated reporting*, 21–40. Springer.
38. Global Sustainable Investment Alliance. (2020). *Global Sustainable Investment Review 2020*. <https://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf>
39. Gompers, P. A., & Lerner, J. (2004). *The venture capital cycle*. MIT press.
40. Gompers, P. A., & Wang, S. Q. (2017). *Diversity in innovation* (No. w23082). National Bureau of Economic Research.
41. Gompers, P. A., Gornall, W., Kaplan, S. N., & Strebulaev, I. A. (2020). How do venture capitalists make decisions?. *Journal of Financial Economics*. 135(1), 169–190.
42. Gompers, P., & Lerner, J. (2001). The Venture Capital Revolution. *Journal of Economic Perspectives*, 15 (2), 145–168. <https://doi:10.1257/jep.15.2.145>
43. Gompers, P., Kaplan, S. N., & Mukharlyamov, V. (2016). What do private equity firms say they do? *Journal of Financial Economics*, 121(3), 449–476.
44. Graham, P. (2004). *Hackers & painters: Big ideas from the computer age*. O'Reilly Media.
45. Gupta, A. K., & Sapienza, H. J. (1992). Determinants of venture capital firms' preferences regarding the industry diversity and geographic scope of their investments. *Journal of Business Venturing*, 7(5), 347–362.
46. Gutterman, A. (2022). *Seed Capital*. SSRN. <https://doi.org/10.2139/ssrn.4256132>

47. Hague, K. (2016). *Funded: The Entrepreneur's Guide to Raising Your First Round*. O'Reilly Media.
48. Hand, D., Dithrich, H., Sunderji, S., Nova, N. (2020). *Annual Impact Investor Survey 2020*. Global Impact Investing Network.
49. Hand, D., Ringel, B., Danel, A. (2022). *Sizing the Impact Investing Market: 2022*. The Global Impact Investing Network. <https://thegiin.org/publication/research/impact-investing-market-size-2022/>
50. Hill, B. E., & Power, D. (2002). *Attracting capital from angels: How their money—and their experience—can help you build a successful company*. John Wiley & Sons.
51. Hochberg, Y. V., Mazzeo, M. J., & McDevitt, R. C. (2015). Specialization and competition in the venture capital industry. *Review of Industrial Organization*, 46, 323–347.
52. Hornsby, A., & Blumberg, G. (2013). *The Good Investor. A book of best impact practice*. Investing for Good.
53. Hsu, D. H. (2004). What do entrepreneurs pay for venture capital affiliation? *The journal of finance*, 59(4), 1805–1844.
54. Ibrahim, D. M. (2010). Debt as venture capital. *University of Illinois Law Review*, 1169.
55. IOSCO. (2021). *Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management: Consultation Report*. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>
56. IPCC. (2022). *Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* (H.-O. Pörtner et al., Eds.). Cambridge University Press. <https://doi:10.1017/9781009325844>
57. Isaksson, A. (2006). *Studies on the venture capital process* (Doctoral dissertation, Umeå University, School of Business, Sweden). Umeå University.
58. Ivashina, V., & Lerner, J. (2019). *Patient capital: The challenges and promises of long-term investing*. Princeton University Press.
59. Janaji, S. A., Ismail, K., & Ibrahim, F. (2021). Startups and sources of funding. *United International Journal for Research & Technology*, 2(08), 88–92.
60. Jones, J., & Embry, E. (2021). Exploring impact investing's emergence in the philanthropic sector. *A Research Agenda For Social Finance*, 11–36. <https://doi.org/10.4337/9781789907964.00008>
61. Kandel, E., Leshchinskii, D., & Yuklea, H. (2011). VC funds: Aging brings myopia. *Journal of Financial and Quantitative Analysis*, 46(2), 431–457.
62. Kaplan, S. N., & Schoar, A. (2005). Private equity performance: Returns, persistence, and capital flows. *The journal of finance*, 60(4), 1791–1823.
63. Karl, T. R., & Trenberth, K. E. (2003). *Modern Global Climate Change*. *Science*, 302(5651), 1719–1723. <https://doi:10.1126/science.1090228>
64. Khan, M., Serafeim, G., Yoon, A. (2016). Corporate Sustainability: First Evidence on Materiality. *The Accounting Review*, 91(6): 1697–1724. <https://doi.org/10.2308/accr-51383>

65. Kim, J., Bae, T. J., & Lee, S. M. (2021). Key elements that affect selection of the venture capital by a startup. *Asia-Pacific Journal of Business Venturing and Entrepreneurship*, 16(2), 1–17.
66. Klačmer Čalopa, M., Horvat, J., & Lalić, M. (2014). Analysis of financing sources for start-up companies. *Management: journal of contemporary management issues*, 19(2), 19–44.
67. Klonowski, D. (2015). *The venture capital investment process*. Springer.
68. KPMG Private Enterprise. (2023). *Venture Pulse Q2 2023. Global analysis of venture funding*. <https://assets.kpmg.com/content/dam/kpmg/ie/pdf/2023/09/ie-venture-pulse-q2-2023.pdf>
69. Kuckertz, A., Berger, E. S., & Gaudig, A. (2019). Responding to the greatest challenges? Value creation in ecological startups. *Journal of Cleaner Production*, 230, 1138–1147.
70. Lam, S. S., & Tan, X. R. A. (2021). Towards a unifying framework of impact assessment in impact investing. In *Theories of Change: Change Leadership Tools, Models and Applications for Investing in Sustainable Development*, 77–101. Springer International Publishing.
71. Landier, A., & Nair, V. B. (2009). *Investing for change: Profit from responsible investment*. Oxford University Press.
72. Lautermann, C., Hoffmann E., Young, C., Duscha M., Kern W., Steyrer T., Feddersen K. (2022). *Recommendations for the design of sustainability reporting standards under the Corporate Sustainability Reporting Directive (CSRD)*. German Environment Agency.
73. Lee, T. M., Markowitz, E. M., Howe, P. D., Ko, C. Y., & Leiserowitz, A. A. (2015). Predictors of public climate change awareness and risk perception around the world. *Nature climate change*, 5(11), 1014–1020.
74. Lerner, J. (2013). The boulevard of broken dreams: innovation policy and entrepreneurship. *Innovation Policy and the Economy*, 13(1), 61–82.
75. Lerner, J., & Nanda, R. (2020). Venture Capital’s Role in Financing Innovation: What We Know and How Much We Still Need to Learn. *The Journal of Economic Perspectives*, 34(3), 237–261. <https://www.jstor.org/stable/26923549>
76. Lingnau, V., Fuchs, F., & Beham, F. (2022). The link between corporate sustainability and willingness to invest: New evidence from the field of ethical investments. *Journal of Management Control*, 1–35.
77. Ljungqvist, A., & Richardson, M. P. (2003). The cash flow, return and risk characteristics of private equity. *NBER Working Paper No. 9454*. <https://doi.org/10.3386/w9454>
78. Magaldi, D., Berler, M. (2020). Semi-structured Interviews. In *Encyclopedia of Personality and Individual Differences*. Springer. https://doi.org/10.1007/978-3-319-24612-3_857
79. Manning, C. (2020). Artificial intelligence definitions. *Human-Centered Artificial Intelligence, Stanford University*. <https://hai.stanford.edu/sites/default/files/2020-09/AI-Definitions-HAI.pdf>

80. Marra, A., Antonelli, P., & Pozzi, C. (2017). Emerging green-tech specializations and clusters – A network analysis on technological innovation at the metropolitan level. *Renewable and Sustainable Energy Reviews*, 67, 1037–1046.
81. Metrick, A., & Yasuda, A. (2010). The economics of private equity funds. *The Review of Financial Studies*, 23(6), 2303–2341.
82. Morrisette, S. G. (2007). A Profile of Angel Investors. *The Journal of Private Equity*, 10(3), 52–66. <http://www.jstor.org/stable/43503520>
83. OECD (2011), *Financing High-Growth Firms: The Role of Angel Investors*. OECD Publishing. <https://doi.org/10.1787/9789264118782-en>.
84. OECD (2016), *Financing SMEs and Entrepreneurs 2016: An OECD Scoreboard*. OECD Publishing. https://doi.org/10.1787/fin_sme_ent-2016-en
85. OECD. (2017), *Investing in Climate, Investing in Growth*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264273528-en>.
86. Phalippou, L., & Gottschalg, O. (2009). The performance of private equity funds. *The Review of Financial Studies*, 22(4), 1747–1776.
87. PitchBook 1a. (2023). *Q2 2023 Global Private Market Fundraising Report*. <https://pitchbook.com/news/reports/q2-2023-global-private-market-fundraising-report>
88. PitchBook 1b. (2023). *Q2 2023 European Venture Report*. <https://pitchbook.com/news/reports/q2-2023-european-venture-report>
89. PricewaterhouseCoopers. (2023). *State of Climate Tech 2023: Investment analysis*. PwC. <https://www.pwc.com/gx/en/issues/esg/state-of-climate-tech-2023-investment.html>
90. Rahi, S. (2017). Research design and methods: A systematic review of research paradigms, sampling issues and instruments development. *International Journal of Economics & Management Sciences*, 6(2), 1–5.
91. Richardson, B. J. (2013). Socially responsible investing for sustainability: overcoming its incomplete and conflicting rationales. *Transnational Environmental Law*, 2(2), 311–338.
92. Rock, D., & Grant, H. (2016). Why diverse teams are smarter. *Harvard Business Review*, 4(4), 2–5.
93. Romasanta, A., Ahmadova, G., Wareham, J. D., & Pujol Priego, L. (2021). *Deep tech: Unveiling the foundations*. (ESADE Working Papers Series No. 276). ESADE. <https://doi.org/10.2139/ssrn.4009164>
94. Russell, S. J., & Norvig, P. (2010). *Artificial intelligence: A modern approach*. Pearson Education.
95. Saltuk, Y., Bouri, A., & Leung, G. (2011). Insight into the impact investment market. *Social Finance Research*.
96. Saunders, M. & Lewis, P. & Thornhill, A. (2023). *Research Methods for Business Students*. Pearson Education.
97. Schwienbacher, A., Baker, T., & Welter, F. (2014). Financing the business. In *The Routledge Companion of Entrepreneurship*. 193–206. Routledge.
98. Skalicka, M., Zinecker, M., Balcerzak, A. P., & Pietrzak, M. B. (2023). Business angels and early stage decision making criteria: Empirical evidence from an emerging

- market. *Economic research-Ekonomska istraživanja*, 36(1), 25–50. DOI: 10.1080/1331677X.2022.2063920
99. Smith, G. (2001). How Early Stage Entrepreneurs Evaluate Venture Capitalists. *The Journal of Private Equity*, 4(2), 33–45. <http://www.jstor.org/stable/43503258>
 100. Snider, A. (2015). *Impact investing: The performance realities*. Wealth Management Institute. 1–14.
 101. Stolz, D., & Lai, K. P. (2020). Impact Investing, Social Enterprise and Global Development. In *The Routledge International Handbook of Financialization*, 288–300. Routledge.
 102. Taherdoost, H. (2016). Sampling methods in research methodology: How to choose a sampling technique for research. *International Journal of Academic Research in Management (IJARM)*, 5.
 103. Talan, G., & Sharma, G. D. (2019). Doing well by doing good: A systematic review and research agenda for sustainable investment. *Sustainability*, 11(2), 353.
 104. Tech, R. P. (2018). Introduction: High-Tech Startup Financing. In *Financing High-Tech Startups: Using Productive Signaling to Efficiently Overcome the Liability of Complexity*, 1–28.
 105. Thanapongporn, A., Ratananopdonsakul, R., & Chanpord, W. (2021). Key success factors and framework of fundraising for early-stage startups in Thailand. *Academy of Strategic Management Journal*, 20, 1–16.
 106. The GIIN. (2022). *What You Need to Know about Impact Investing*. <https://thegiin.org/impact-investing/need-to-know/>
 107. Tiba, S., van Rijnsoever, F. J., & Hekkert, M. P. (2021). Sustainability startups and where to find them: Investigating the share of sustainability startups across entrepreneurial ecosystems and the causal drivers of differences. *Journal of Cleaner Production*, 306, 127054.
 108. TRWG. (2021). *General requirements for disclosure of sustainability-related financial information prototype*. www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-general-requirements-prototype.pdf
 109. UNCTAD (2021). The Rise of the Sustainable Fund Market and its Role in Financing Sustainable Development. *United Nations Conference on Trade and Development*. <https://unctad.org/publication/rise-sustainable-fund-market-and-its-role-financing-sustainable-development>
 110. United Nations. (2022a). *The Sustainable Development Goals Report 2022*. <https://unstats.un.org/sdgs/report/2022/>
 111. United Nations. (2022b). *SDGs – Explainers* <https://www.un.org/sustainabledevelopment/why-the-sdgs-matter/>
 112. Vaidyanathan, R., Vaidyanathan, V., & Wadhwa, V. (2019). Exploring Entrepreneurs' Perceptions of Venture Capitalists' Added Value. *Journal of Macromarketing*, 39(4), 447–462.
 113. Valliere, D., & Peterson, R. (2007). When entrepreneurs choose VCs: Experience, choice criteria and introspection accuracy. *Venture Capital*, 9(4), 285–309.

114. Virlics, A. (2013). Investment decision making and risk. *Procedia Economics and Finance*, 6, 169–177.
115. Vogeley, J., Haski-Leventhal, D., & Lundmark, E. (2022). From Nirvana to Shiva in Impact Investing: Value (In)congruence in Investor–Investee Relationships. *Business & Society*. <https://doi.org/10.1177/00076503221145004>
116. W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A., & Dushnitsky, G. (2017). A review and road map of entrepreneurial equity financing research: Venture capital, corporate venture capital, angel investment, crowdfunding, and accelerators. *Journal of management*, 43(6), 1820–1853.
117. WCED, S. W. S. (1987). *Our common future*. 17(1), 1–91. <http://www.un-documents.net/our-common-future.pdf>.
118. World Meteorological Association. (2022a). *State of the Climate in Europe 2021*. <https://public.wmo.int/en/Our-Mandate/Climate/Regional-Climate-Europe>
119. World Meteorological Association. (2022b). *State of the Global Climate 2021*. <https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>

APPENDICES

Appendix 1: Interview guide

My name is Pia Horvat, and I am currently writing my master's thesis at the School of Economics and Business, University of Ljubljana. As a part of my research, I am investigating key factors and dealbreakers that influence how early-stage climate tech startups decide which investors to approach. I would like to ask you a few questions based on your experience in this area.

Before we begin, I would like to ask you whether:

- I can record this interview. The recording will help me capture and transcribe your responses, and it will be deleted afterwards.
- I can state your work role in my thesis. Your identity will remain anonymous.

Firstly, [name], thank you so much for participating in this research.

Introduction

- What is your position in the company?
- Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc. (*Source: Kim*)

Key variables and dealbreakers

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- Which are the three most important factors you consider when choosing your investors? (*Source: Kim*)
- Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.
- Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?
- In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?

Specific variables

- Investor type:
 - o Which type of investor do you prefer and why? (*Rate the importance of each investor type on a scale of 1 to 10.*)
 - a) Venture capitalist: __
 - b) Angel investor: __

- c) Banks: ___
 - d) Private equity: ___
 - e) Government grants and subsidies: ___
 - f) Philanthropic money: ___
 - g) Other: ___

- Investment stage:
 - How important is it for you that an investor specializes in your specific stage of development and why? (*Rate the importance of each option on a scale of 1 to 10.*)
 - a) Seed/Early stage only: ___
 - b) Investing in any/all stages: ___

- Investment focus:
 - Which investment focus do you prioritize and why? (*Rate the importance of each option on a scale of 1 to 10.*)
 - a) Investors specializing in your industry: ___
 - b) Investors with a broader focus across multiple industries: ___

- Portfolio:
 - Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.

- Ticket size:
 - Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why? (*Source: Smith, Valliere & Peterson, Vaidyanathan et al.*)
 - a) Ticket size: ___

- Value-added Services:
 - Are value-added activities an important factor to you when selecting an investor? Why?
 - Would you accept a 30% lower ticket size if you are offered additional value-added services?

- Personal compatibility:

- Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why? (*Source: Valliere & Peterson, Kim*)
 - a) Personal compatibility: __

- Reputational factors:
 - Do you conduct due diligence on potential investors?
 - Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?
 - Would this answer change if you were under severe time pressure?
 - Rate the importance of reputational factors on a scale of 1 to 10. Why? (*Source: Valliere & Peterson, Kim*)

- Direct and indirect contact:
 - Which scenario do you prefer and why?
 - a) Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.
 - b) Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required. (*Source: Gompers et al., 2020*)

- Sustainability/Impact
 - Would you rather have:
 - a) A sustainable investor (imagine Bill Gates) that offers lower ticket size or
 - b) A noticeably unsustainably investor (imagine a Russian oligarch) that offers an extremely high ticket size?
 - Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.
 - a) Sustainability/impact: __

Additional variables

- Are there any other variables that you consider important when choosing an investor that we haven't discussed?
- How important are these additional factors on a scale of 1 to 10?

Weighting factors

To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (*i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%*)

Factors to consider for point allocation:

- Investor type
- Investment stage
- Investment focus
- Portfolio
- Ticket size
- Value-added Services
- Personal compatibility
- Reputational factors
- Direct and indirect contact
- Sustainability/Impact
- Other

Appendix 2: Interview transcript – Participant 1

- **What is your position in the company?**

I work in various positions. I am self-employed. I'm a teaching assistant at the university and I also work as a journalist editor at the financial newspaper.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

I would be nice that I would be able to trust that person, that we would be aligned on our values, that we would have similar goals on What should the direction of our venture be. So, values, common goals, and that I would be able to trust that person.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

If I would see that this person is only going after the money, that this person doesn't actually care about what I want to achieve with my business. I've had a similar past experience. I observed this with one investor, who would say, "I want the best for the companies that I invest in", and then I saw him on multiple occasions, at some conferences, as well as in an interview, where he was clearly stating that he doesn't really care much about what he's investing in. He just wants to invest into trendy ventures that will earn him the highest yield.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

If they would be coming from a country that doesn't respect human rights or if they are anyhow related to the army industry. In general, I would be sceptical of countries with unfree regimes, countries that don't follow basic human rights or those that violate freedoms of others, such as China and Israel.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

That's a complex question because, are you willing to sacrifice years of work for the principles, the values you believe in? It would really depend on the situation. If this would make me bankrupt, for example, then I would have a second thought and I would maybe lose my integrity a little bit, to be honest.

- **Which type of investor do you prefer and why?** *Rate the importance of each investor type on a scale from 1 to 10.*
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

For VC, I would put six. Because I think there are some things wrong with the VC world. They oftentimes don't really care much about the companies they invest in. They just wanna make a hype and bring as much money as possible into the companies they've already invested in, and then they wanna milk those companies. I've heard about some bad examples, which is why I would prefer angel investors. I rated angel investor ten because they usually have some prior business experience. They were entrepreneurs themselves and know the struggles, the challenges, and they're willing to help. You can bond with them better, you can trust them better. It's not like a whole organization with huge funding that feels pressured to provide returns. Angel investors are also more readily able to understand that things might go wrong, into a different direction and provide help in those situations. For banks, I put eight. Because if you get money from a bank, they have very strict criteria for giving you a loan. Usually, the terms with banks are quite clear. If I would be able to get a bank loan for my business that would be suitable for me, I would take it. It's like a sweet spot with eight. I would rate private equity seven. In a way, private equity can work similar to VC's. It depends in what field are they specialized in, but from my prior experience, private equity could also be just angel investors on a higher level with more funding. Still, they need to provide returns for their clients, which might not be the most optimal scenario. I put a nine for government grants and subsidies. Oftentimes that's free money, which is fairly good. Governments provide very good terms because they want to encourage entrepreneurship activity. I put nine, not ten, because those subsidies can deter you from, can cushion the actual experience you should have on the market because of this money. You might be a bit blind and not exposed to the real market scenario. For philanthropic money, I put six. That probably wouldn't be much money. If there is, I would maybe feel bad because I got that money. Those organizations have some goals and then I would feel like I need to follow their interests, not mine, especially because I would get that money on very good terms. I would also consider crowdfunding. I would rate that with nine because I think it's already a good test for your product. You're already kind of pre-selling your products, you're making it available to your first clients, those who are most eager to buy it, who have the high interest. You can get a lot of feedback from them in a very early stage.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** ___
 - **Investing in any/all stages:** ___

This is a tricky question, because in the beginning, you might want to take on the expertise of the specialised early-stage investors. However, in the later stages, when you're thinking about scaling your company, you would want to have someone already on board who could be more helpful and experienced in the later stages. I will put five for a) and five for b), because I think it is beneficial to go either way, depending on the situation.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

6 points to specialised industry investor and 4 to broader focus investor. It's better to have someone who is in your field because they have experience from that field. On the other hand, you might get more help, more support, and more focus for someone who is investing in multiple industries. If this investor hasn't invested in your field or your type of company, he or she might have more incentive to help you, guide you, and provide you support.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

I would reach out to the investor who invested in similar companies more likely. They obviously have the interest and the prior experience working with similar companies. It would be a plus, as well, if they have previously invested in one of my competitors. However, it could be too risky and damaging. For example, if it turns out that I have some advantage compared to this competitor, I think it would be an unfair advantage in case I could gain something from the competitor because of the contact with this investor. So, no I wouldn't reach out.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Eight out of ten. If I know that I'm looking for 250K and this company is usually investing 1M+, they probably have focus elsewhere. It's a different thing working with companies that seek higher investment amounts and those that are still in very early stages.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Yes, definitely. It's not all about the money, especially when you look at, for example, network effects. One contact can completely turn or pivot your company into a different direction, different business, different clients. I think that is definitely essential.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

Yes, I would be willing to accept lower ticket size if I was offered those additional services, but again, it depends on what these services are. They would also need to work well with other factors, such as if the investor and I are on the same page, if I trust him, if we have the same vision.

- **Rate the importance of personal compatibility (*i.e., the alignment of values*) between the investor and you on a scale of 1 to 10. Why?**

Eight out of ten, I consider it a very important factor. When you take investment, you are highly dependent on that person and since there will certainly be challenges, it's probably way easier to overcome those if you two are also personally compatible. However, on the other hand, I put eight, not ten, because people are very different, and while we might have similar vision, a perfect fit, there can be differences in our personality, style, traits and so on. I think a startup founder needs to be able to make a little trade off here as well.

- **Do you conduct due diligence on potential investors?**

Yes, for sure. They will probably do due diligence for me. And I think it's also important for startup funders to do the same, because we are establishing a deal agreement which is also based on trust and that can only be mutual.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

It depends on the situation, such as terms and how damaged the reputation of that investor is. Will that cause problems when I am raising the next round? Maybe I wouldn't be willing to take half less, but 30%.

- **Would this answer change if you were under severe time pressure?**

Yes, probably it would.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Comparing it relative to the personal compatibility, I would rate it 7. I think this factor is directly related to the personality factors of investor. I associate it integrity and values, which are a part of the personality traits.

- **Which scenario do you prefer and why?**

- **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
- **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

That's not that important to me because I guess even if you do cold call contacting, it's important to establish new connections, find new potential partners. And I think it's sometimes even encouraging to reach out of your established circles and networks. I think that could even be a strength, not a challenge. It does not mean that you are not able to establish a well-trusting relationship with an investor that you have no prior contact to.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

I would rather take the money from an sustainable investor. It's better for my company on the long run, as well as I would not feel great if I knew that I got the money from someone whose vision is not aligned with mine, I would have problems with that.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Eight out of ten. It is important to have a sustainable investor. However, you definitely need to be careful of greenwashing practices. In many cases, sustainability has turned into ideology, and oftentimes it does not serve the purpose.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

No, not right now.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 15
 - Investment stage: 10
 - Investment focus: 7
 - Portfolio: 5

- Ticket size: 10
- Value-added Services: 17
- Personal compatibility: 20
- Reputational factors: 5
- Direct and indirect contact: 1
- Sustainability/Impact: 10
- Other: /

Appendix 3: Interview transcript – Participant 2

- **What is your position in the company?**

I'm the founder and CEO. My main tasks are investor relations, raising money and ensuring that we have enough runway, that we can finance all operations at our company.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

We are a startup based in Berlin. Twelve employees, growing the team to twenty by the end of 2024. We develop a new direct air capture technology. So, we are a hardware industrial climate-tech company, who builds container-sized units to remove and filter CO₂ out of the air. That CO₂ can be stored to issue carbon credits which can be sold to companies to offset their emissions or used to produce any kind of products.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

Number one is, do we actually really enjoy working with these people? It's a little bit like marriage. People, who invest in your company will work with you until you sell this company. Also, how do they behave when things go down? Having a startup means that things will go down, there will be a time where things are not working. So, is this an investor who helps and supports you? Or is this an investor who puts a lot of pressure on you and says, 'What is going on? What are you doing?'. You need to have someone who's really your partner in crime, who helps you and you enjoy working with. The second most important part for us is, whether they can actually help us. We do a very deep tech technology, which is complicated. We are not expecting an investor to build our technology, you will always be the one who builds it, no one else will do it for you. But can they, for example, help us with a network towards industries, towards customers, towards follow-on funding? We are very lucky we got one investor who was an employee in one of the first tech companies in the world, he did this for ten years, saw everything and he's now on our board and he can help us with everything. So that's very important. The third point is whether we opt for strategic investors or normal generalist VCs. A strategic can mean big oil & gas companies, or a big energy company, and a normal VC can mean a Berlin-based investor who invests in climate tech. There's no right and wrong, every company and every startup does it differently, but we move more and more towards energy and oil & gas companies. That is because we are very CapEx intensive company. Every investor who can help us with that by, for example, buying a unit from us, or giving us space where we can deploy our technology, or connecting us with their own customers, is very important. These are the three most important points to work with for us. The fourth point, maybe a little bit less important,

is their reputation or that everyone knows them. Still, for us it is the most important to realize ‘Who can actually really help us to build a good company?’.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

I think it always depends on investment terms. So that's number one. And some investment terms there are some investors who, let's say, push too hard. Sometimes, when you have very tough negotiations about investment terms, it becomes very difficult when you negotiate too hard. You also want to work with these people long term. So maybe it's not the best idea to break the relationship while you're negotiating investment terms. There are some investment terms where there are always very heated discussions between founders and investors. This can be, for example, regarding what is called a ‘good lever’ or ‘bad lever’ event. These terms define the situations in which you, as a founder, could lose your shares. Investors normally structure these terms very, very tightly, while founders try to make them more open. This can include situations where you are, for example, obliged to make a prenup when you marry. Investors may say you have to do a prenup to ensure your shares are protected from your ex-partner. This can also include a lot of discussions about valuation. A hard deal-breaker for us would be, if we start negotiating terms with an investor and you can feel that they only care about themselves. They’re not thinking about you as a founder. They just have their terms, they're not negotiable, and they just push them through. What is very important for us is that they're open-minded, that you’re like one team and you're trying to get the best outcome for both sides.

Another deal-breaker would be, if an investor cannot they tell you, very openly and honestly about the amount of money they can deploy and when they can do it. It luckily didn't happen to us, but we saw it at other startups. They signed a term sheet, which is not legally binding, it's more that you have the expectation that this investor goes with you through the whole investment process. After signing, the investor didn't close their fund and needed another six or seven months, which can kill you as a startup. Not being open and honest about this topic is the second deal breaker. The third deal breaker is just generally about vision and values, because the other two dealbreakers are very technical. To many climate tech companies, it's a deal-breaker to work with oil and gas – we see it a bit differently, as we work more with oil and gas. Of course, we would probably not work with a weapon company. We ask ourselves, Why do they want to invest? Do they have the same vision for this company? Do they want to invest to make you large? Or do they invest because they want to buy you in the next turn? This vision and the roadmap you want to have for the company needs to be very clearly aligned. Another very important deal-breaker is when some strategic investors want to put in their special clauses, such as, they will be the first ones who can buy the technology, have discounts or similar. This is something we should not accept because it would restrict us a lot in our future fundraising.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

First conflict I want to mention is about countries. You have to make one decision, where to get all of your money from. For example, when you raise a lot of money from the US, it's difficult to raise money from China, because there are some conflicts. The second conflict would be when you get money from foundations. They often have rules that you cannot raise money from oil and gas, or that when you do, this investor is not allowed to take a voting seat in your board. This is set in place to stop oil and gas investors from influencing your company. These are just very important decisions you have to make, and there's no right and wrong. We have money from foundations and from oil and gas, but oil and gas have smaller shares and no voting seats. We have currently more money from USA, Europe and Middle East, and nothing from China. In the end, it is important to try and build a credible and transparent company, especially in climate tech. Some people, as mentioned, criticize oil and gas and see it as a major downside. Others see it as very positive, because such tech savvy companies investing in you credits your technology and gives you assurance you built a very good technology.

The market environment is not easy. Many green tech, NGO's, or climate tech companies, don't have the capital to finance everything they are doing. The question in the end is who can finance you and help you? In our case, we're talking about a deep tech industry, which we want to scale to billions of tons. We're trying to build an industry which is double the size of the oil and gas industry by 2050, and we have basically 20 to 30 years. Of course, the oil and gas did it over 100 years and had billions and billions of subsidies. So just to be honest and on the realistic side, we as a technology company, we can only build technology and scale it up if we have capital and expertise. These are in the energy and oil and gas industry, and they need to transform as well. Therefore, large energy companies who are in renewables work perfectly with us.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

It depends, probably yes. One of my friends did exactly that and they had a very, very bad deal which narrowed them down a lot. Now they continue working and it's a bad, horrible situation. If in this case, you can get investor you're not super happy about, but you get the capital, I think it's fine. Afterwards, when you are deciding on a new shareholder or investment agreement, new board seats, and get new investors, it's normally much easier to mitigate. As a founder, my overall objective or my responsibility towards my company and the team is to keep the company foremost alive and give them time to build a great product which we can sell. That we don't need the VC money anymore. So, yeah, if you need the money, you need the money.

- **Which type of investor do you prefer and why?** *Rate the importance of each investor type on a scale from 1 to 10.*
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

When we were a pre-seed company, government grants and subsidies, and philanthropic money were the highest priority, a 10. This is the normal way to go before you go to VCs, you should try to keep your dilution low. When we were in between pre-seed and seed, it was angel investors who helped us first. And that's often typical, right? The first one you get is from angels. In the seed round, Venture capitalists' money and government grants and subsidies were 10 because it's still too risky for banks and private equity. We are currently targeting series A, and our number one priority are VCs and government grants, because we are CapEx intense. In this case, angel investors are very low, score 0, philanthropic money score 5. For us, crowdfunding would always be a 1 or a 0. Later on, in series A or series B, private equity and banks are the priority, score 10, that is because we try to build a bankable product. When you are in climate tech and CapEx intense, the most important point is to get a bankable product and to finance it with banks and private equity. If we could get money today from banks and private equity to build a machine, we would take it, but they don't give us money yet. Therefore, they are very important, but not relevant yet in seed and pre-series A stage. This situation is very typical for hardware climate startups.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** ___
 - **Investing in any/all stages:** ___

Three to seven. We very CapEx intense, capital intensive, and it's great when someone can do follow-on investments.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

Ten to zero. Because no one in the world has ever built or really figured out direct air capture yet. It's very complicated. It doesn't help us if a general VC comes and tells us that they will help us with sales. In comparison, an investor who actually did a lot of hardware, CapEx

industrial technology can be very helpful to us. We would not take a general VC if they can't help us.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

I have the feeling that at least in our area, in direct air capture, companies tend to work together. We have one investor who's only focus is CDR – Carbon Dioxide Removal, and they invested also in our competitors and we're absolutely fine with that, we have no problem. I have a feeling investors have more problems whether to invest in companies who are competitors or not, but we don't. It's because we have to build a new industry.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Seven out of ten. I got some advice from a few very successful founders, and they say: “don't optimize valuation/dilution, optimize speed”. As a first-time founder, you tend to optimize valuation, but if the investor can't help you, why would you accept their offer? Of course, this factor is not unimportant, because you need the shares in your follow-on investments, especially when you are very capital intensive like us.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

It depends on what kind of value-added services. A strategic investor who has a sales team and can help us sell our machine is very, very highly valued. We would even take a lower valuation for that. Or if they, for example, are going to buy a machine from you. It is a strategy; it comes back to 'how they can help us'. We are not interested in value-added services of a general VC who offers some HR or marketing. Many VC's offer this naturally already. The most important is the strategic importance.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

30% is a lot, but probably more like 10 to 20% for value-added services that offer strategic importance, and not the ones from generalist VCs.

- **Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why?**

Ten out of ten. It's like marriage, you see them every day.

- **Do you conduct due diligence on potential investors?**

We always do due diligence by asking portfolio companies of their investors or asking other founders or investors. We always do it. We will never accept anyone without doing it.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

In the case when the reputation is really bad, imagine a weapons company, and they're horrible, we would always go for a more reputable investor if we can afford it. The question is can we afford it or not?

- **Would this answer change if you were under severe time pressure?**

If we cannot afford to pick the reputable investor under severe time pressure, the answer would change.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

This is relative, because when we take money from a big oil and gas company, the reputation in our industry is amazingly high. But this same reputation in the eyes of foundations is probably questionable. Still, in our view the reputation factor is valued pretty highly, 9.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

It is super important that you always build up a relationship with an investor before. You should never do cold outreach, I think we never did a cold outreach. It was always through warm introductions from other founders or investors. This is important because if you, for example, have three months left of money, and you're reaching out to investors, very high chance is that you're going to fail. We build relationships, sometimes over one or two years. For example, end of last year, November, we would tell them we start fundraising in the beginning of next year. Then in the first two weeks of February, we already have 20 to 30 calls with investors who know us and are interested in our sector. Doing fundraising is only process management and relationship. That's why the importance of direct and indirect contact is a ten. It's very important.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

In our case, you would definitely go for Bill Gates. A sustainable investor would have a big impact for us, they would open more doors to other funds in that space, etc. The problem is

that if there is a sustainable investor, who cannot give us enough money, we can also not work with them. That's the problem. There has to be a balance.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Five out of ten. If we were to work with an oil and gas company, we would ask them not to use our CO2 for enhanced oil recovery. However, we would be open to collaborating with them on a big impactful project, such as building a direct air capture hub to sell negative emissions.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

This could probably go under reputational factors. Social credit. When I talk to other founders and they tell me, hey, these are amazing investors, they always helped me. This is very important to us. If I have founders who tell me this investor is horrible, then we would try to avoid them.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 3
 - Investment stage: 3
 - Investment focus: 3
 - Portfolio: 12
 - Ticket size: 10
 - Value-added Services: 15
 - Personal compatibility: 17
 - Reputational factors: 10
 - Direct and indirect contact: 17
 - Sustainability/Impact: 10
 - Other: /

Appendix 4: Interview transcript – Participant 3

- **What is your position in the company?**

I'm the Chief of Staff.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

So, what we do is develop alternative proteins made from mycelium. Mycelium is the root-like structure of a mushroom. We take a mycelium strain, feed it a carbon-rich source, grow it in bioreactors, and then harvest the biomass after a few hours to form meat or fish alternatives. There is no animal harm, less environmental issues that evolve around animal farming, and it's healthier because very few additives are used. We were founded in Berlin roughly two years ago, and now we're a team of eight, including a founding team of three.

Our team includes a CEO, CSO (Chief Scientific Officer), and CTO (Chief Technology Officer). Most of the team has a scientific background except the CEO and myself, who come from a business perspective. Over the past two years, we've raised 3.3 million in pre-seed funding.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

First, industry fit. Have they previously invested in alternative proteins? Do they understand the space? Especially in early stage, these investors can give a lot of value-add, which is my second criteria. This value-add tells us what they give to us beyond capital, like networks or intros to potential customers. For instance, one of our investors has connections – limited partners that invested in their fund – that match us and our sector perfectly and are easier to connect to than someone outside our network. Third, how is it to work with a potential investor. Are they approachable and supportive? Some investors are highly operationally involved, quickly reachable – offering advice via WhatsApp, while others, often larger fund investors with huge portfolios are less accessible, there is less handholding. The founding teams need to do their research and decide who they want to work with, who they want to have on their board. In the end, it is almost like marriage, especially in the early stage.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

Investors that have very bad reputation. When you hear that they can be very harsh on you for reaching a milestone, and if you don't reach it, they don't put any effort and support in

you anymore. Of course, there's only a finite amount of capital out there, and sometimes you just need capital to keep the company going. It's difficult to be picky because investors are usually not standing in line to invest in you.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

It is difficult to generalize based on region, countries and their politics. But I would be cautious and would prefer not to take money from countries or regimes, which are not in line with my ethical views, my morals. A lot of VC funds these days take money from Saudi and the Middle East and, in the end, it's difficult to say where this money comes from, but it is most probably not coming from an ethical source. I need to feel comfortable with an investor, our values should somewhat match and fit the company's vision and goals.

Their opinions about gender equality, diversity, etc., are important. Let's say it comes to hiring decisions in our startup, and someone sitting on our board says we shouldn't hire or promote a senior female person. I wouldn't want to have someone like this restricting decisions within a company.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

Yes, but not in all circumstances. If the business model is not sustainable anymore, then it's probably best to wind down the company and start fresh with a new idea. It also depends on whether the term sheet or shareholder agreement are appropriate. If it is super restrictive and keeping me from developing the company in the direction I want, I would probably not take the money.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

Venture capitalist, angel investor, and philanthropic money are 10. Venture capitalist and angel philanthropy are most important. They understand the market, the industry, how early-stage companies work, what it's about. You need to be fast, you need to move fast, and they understand this. They're super well connected, and they can help you get follow-on funding. Philanthropic money, if it's really no strings attached, free money, it's great because you don't need to give away parts of your company. Government grants and subsidies are 6.

Government and grants and subsidies are great in general. From our experience, unlike VCs or angel investors, they don't understand that you have to move fast. We have applied for a grant and we're going to know if we get it in more than a year's time, which is blocking innovation and progress a bit. Banks 4. Banks can help, but at early stage it's unlikely that you will get a loan on great terms. Banks can be a good option for startups with very CapEx heavy investments, and are sometimes cheaper than venture debt, which is usually quite expensive. Private equity 2. I put it very low, early-stage startups are not really private equity case, they have very aggressive targets and they're very controlling, so it wouldn't make sense for them. Crowdfunding is only a bit of a last resort, because you have a lot of random people that can enter your cap table and want to have a say.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*

- **Seed/Early stage only:** ___
- **Investing in any/all stages:** ___

Six to four. Most startups fail within the early stages, and not many make it until Series A. Getting the right support and understanding from the investor in this early phase is crucial. Once you reach that stage, you also want to make sure that the VC is actually able to double down, invest money into your Series A and B, able to write larger tickets. It's so important for early-stage funds (investors) to have a good network to later stage funds to ensure that their portfolio is able to raise from them. VCs that are investing in all stages have very wide networks and know a lot of other VCs investing also at series D, which is helpful for startup.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*

- **Investors specializing in your industry**
- **Investors with a broader focus across multiple industries**

Eight to two. At this early stage you really need people that can connect you with the right people within the industry you operate in. A very broadly focused fund that is in eight, nine industries wouldn't have a clue about what's important at this stage for us, an all-protein startup with very specific technology.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

Would reach out to investors into similar companies, also funds that specialize in foodtech and have alternative protein portfolio companies, given their focus. Probably wouldn't reach out to an investor who invested in a really close direct competitor (close from a tech angle). If they do the same product but with different technology, I would still reach out. Why? They

understand the space, know what to look for. Especially if the previous investment is already a bit older, Series A or B. I would assume that the investors know a lot about what kind of milestones you need to hit for Series A and B. They have a lot of knowledge around that. I would ask them, even if I knew it would be very unlikely that they would invest. You might also learn a lot talking to them and understanding what questions they ask and why – some of them will be super specific, vs. the investors that have never done an investment in this space.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Seven out of ten. It's a bit contingent on how much money you need to reach the next phase and whether you are internally ready to convince someone to put a really large check into the company. In the end, if, if an investor says, "Hey, I want to invest, I know you only need 2 million, but I'm going to give you 5 million," you're not saying no. But then it's a matter of how much equity you need to give up for a 5 million ticket, which ties into valuation. The investor might say, "Okay, I value you quite low, but I'm going to give you a super large ticket," which often means they are going to buy a lot of shares in the company. That can be problematic. You also don't want to waste equity or resources.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

If you have the choice between an investor that offers a lot of value-added services, like talent services or network and connections, it can be very helpful. Our investors provide talent services, which are helpful, especially for senior roles. However, I think founding teams should be able to do this themselves, so I wouldn't rate it too highly. Additional benefits beyond capital can be helpful, especially at the early stages when you're new to the space and unfamiliar with key players. It's good to have someone who has been in the space for some time and knows the right people.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

I would for sure take the larger ticket. Investors can promise value-added services, but maybe they won't deliver. Money is more relevant and reliable.

- **Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why?**

Five out of ten. You need to have a certain fit, but in the end it is still a professional relationship. The investor, especially at early stage, might have a bit more influence on your company, but as you grow and mature, other investors will come on board. This investor

might now only have a very small say and shareholding. Personal compatibility is important in the beginning, but it loses power quite fast.

- **Do you conduct due diligence on potential investors?**

Yes. You want to understand the value-add that they may be promising you. Are they really going to do that? How is it to work with them? Can you just give them a quick call? Who is sitting on the board in the end? Because sometimes you're talking to the principal or partner during the fundraising process, but then in your board they put an associate with two years of experience, who never made a deal in the industry. That's not great. You want to understand these kind of topics. This can mostly be done by reaching out to other startups in their portfolio.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

Probably a lower amount from a more reputable investor. It is important to have a VC with a good reputation on board, especially when it comes to later funding rounds.

- **Would this answer change if you were under severe time pressure?**

Yes. Like I said before, sometimes you are with your back against the wall and it's either you take it now or fight for insolvency.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Six out of ten. Reputation of an investor is important for later stages, but in the end the success of your startup should speak for itself. If you are doing a good job, great investors will anyway invest in your business model.

- **Which scenario do you prefer and why?**

- **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
- **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

Even though the chances for cold contact are low, it doesn't hurt to try. First, I would do cold outreach. If time isn't an issue, you don't really burn that much in resources. It might be worth giving it a shot, maybe it will work. Of course, if time is pressuring you, you go directly to your network and warm intros. It is always easier if there is already a relationship established.

- **Would you rather have:**

- **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**

- **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

I would go with first option. Just imagining having a Russian oligarch on our board, would mean bad reputation for us. It would make other investors down the line from investing in our company. Whereas Bill Gates is a nice name to be listed next to for a lot of VCs.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Four out of ten. If the reputation is not extremely horrible, it won't negatively affect the success of the company, such as future fundraising. In the end, all investors have the same goal, which is returning the money. It doesn't make a big difference if an investor does a report or not, as long as I get a good value out of an investor and as long as they are not sponsoring wars, or something similarly extreme.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

No.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 15
 - Investment stage: 10
 - Investment focus: 20
 - Portfolio: 5
 - Ticket size: 15
 - Value-added Services: 10
 - Personal compatibility: 5
 - Reputational factors: 15
 - Direct and indirect contact: 0
 - Sustainability/Impact: 5
 - Other: /

Appendix 5: Interview transcript – Participant 4

- **What is your position in the company?**

I'm the CEO and founder.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

We are an agritech or green tech startup doing sensor technology for greenhouses. We raised 1M in pre-seed and are currently raising seed. We have 7-8 employees, half fully employed and half students.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

The most valuable thing besides the money is what can the investor add in terms of access to market and talents. Access to resources that we don't have is crucial. Second is the alignment of expectations in terms of what we can achieve and what they look for. That they have a specific knowledge about what they want to achieve, not only financially, but in terms of impact. This way we can meet the needs of the investor, and they can meet our needs and expectations. Here, the right level of communicating expectations is really important. Third is trust; how much do I trust this investor? It's a personal thing, do I trust them to be straightforward and open, so we can discuss things, or will that be someone that I have to manage, make an effort to understand if there's something going on besides both expectations. I would say these are the three most important pieces I look for.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

One clear deal breaker is an unfair deal where too much equity is requested for too little money. Another deal breaker is if their expectations are extremely high, if they push very hard for some key metric, and press you for not achieving specific KPI threshold. Because the earlier the startup, the more difficult it is to fix down on specific KPI's. When they push so hard that you must change your product or pivot in a certain direction, I think they don't understand the game. The third deal breaker is if I don't trust that their interest is genuine. Do they actually care about our mission, or do they care about their mission? I see investors as facilitators who should help the mission of the startup, not hinder it.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

Personally, I don't like to take money from people that made money in morally questionable ways. It is easy to evolve into who you hang with. It's the same with investors, I have trouble taking money from someone with mostly questionable morals, who, for example, makes a lot of money with online casinos, making people addicted. I don't want to be involved in that. On the other hand, you also don't have to be too dogmatic. There are large companies, organisations, that are changing their mission. They evolve, change, so it really comes down to the questions of how trustworthy, how genuine you find these efforts. Still, I do have no-go areas, I have industries with whom I would never work with.

I had difficulties taking money from companies that are also doing investments in bitcoin. For me, bitcoin is the largest waste of energy possible, the most energy-intensive way of money transfer that's possible. I doubt that they are a good alignment with our mission on saving energy if they are investing in energy-wasting technologies.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

Well, I can't generalize this question. I would discuss that with my wife, friends, look at all options, and determine what the price is for taking the money. What is the price for me, personally? For the company? Will there be a chance to get out of this deal at some point in the future, is it just temporary? One of the things is, as an entrepreneur you should never be too dogmatic – in the end, if you need that money to survive for a couple of months, and then you find a better deal, then you've achieved it, you've found a way. If not, you're stuck with that investor, and it might hurt you on the long run. It's a matter of the scenario you're in.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

In the beginning, in pre-seed stage, we focused on Government grants and subsidies and angel investors, and this is where we raised a million euros in total. In seed stage, we use angel investors and venture capital, because they have the most clarity. Venture capital usually has deeper pockets and can therefore create much larger leverage. An angel investor usually has a better network or has more time to offer to you. Both have different kind of value. I believe that a good angel investor is sometimes better than a venture capitalist, especially for our startup, angel investors are on the first place because of a specific challenge

that we have with market access. These angel investors then bring the convincing and commitment of larger funds in venture capital. On the side, you would always look for philanthropic money, because if you have a mission that goes beyond monetary multiple, and have a longer timeframe to develop your impact, it just makes sense. At later stages, private equity become more important. I barely considered crowdfunding, because I believe that it only works if you have a consumer mission, it is difficult for B2B missions – but I’ve seen other people have successfully raised for B2B startups in crowdfunding, so I could be wrong.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** __
 - **Investing in any/all stages:** __

Three to seven. Better to have an investor investing in more stages, i.e., seed, series A, as this shows the long-term perspective of the investor. It is important that they can follow on.

It’s a good sign if you get an investor in the seed stage and they carry on the duty to get the next round with you, and they are willing to invest. This way, you have at least one investor or your existing investors ready to deploy more capital. I would say not necessarily all stages, you don’t need investors that do series D, E, or F, you need someone that can carry you from seed beyond, ideally to series B.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

The earlier the startup, the more important are the extra benefits you get from your investors. As said earlier, that are access to talent and market. If the investor has knowledge or specialization in a certain area, the likelihood of valuable benefits for you simply increase. If you have investors with a broader focus across multiple industries, it’s more likely that they have companies in their portfolio that don’t matter for you, because agritech and green tech industries are so specific and small. For example, if they are specialized in drop shipping or chemistry or production or whatever, it’s less likely to have a match to your agritech startup. Eight to two.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

Investors into similar companies have knowledge and connections.

The likelihood that they invest in a similar startup again really depends on how they look at that startup and its vision. The startups could look very similar in the beginning in terms of their product, but they can be completely different in their vision, on where they want to land. Here, there are a lot of companies that do sensor technology, that measure some elements of the greenhouse and that try to do intelligent light control, but the vision is what sets them apart. I would definitely also reach out to investors that have invested in competitors, unless they are direct competitors that also have an overlap in the vision. In this case, it can become too tricky. I did a mistake on that side previously. I was too careful and too anxious to approach such investors. If I were to do it again, I would do it in a smarter way.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Eight out of ten. Because it basically comes down to the expectations, as I said in the beginning. That's the amount that they're willing to invest and that's what they usually do. So, this is absolutely important. It's like with dating, if you meet someone that says, "It's super important to me that this person could run 10 km every day because I like jogging", then it doesn't make sense to date someone that is a couch potato. And here it's the same thing. What amount are they willing to contribute, which needs to match the amount your startup needs.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Because this ultimately is what really makes a difference between having a great investor and an okay investor. In the end, what they bring to the table is the leverage that you need, to raise the next round. They help you reach a certain goal and, especially if you do something innovative and in the early stage, this value-add becomes more important. If you copy other products, this maybe becomes less important.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

I don't think it's worth a hit on your ticket size, it is actually what makes them an attractive partner. For example, a venture capitalist who's not interested in the success of its startup is not a good investor. It's in their own interest to hook you up with as many benefits as they can, this is what they think as well. They ask themselves if they can add value to certain startups. In our case, this is most of the time difficult because we are in a niche industry, and investors have little experience with AI. A lot of investors have experience with e-commerce and selling stuff, but not with building deep tech, especially in Europe. They also have little to no knowledge about growing food, changing this industry and agritech. If there's an exceptional partner that I know has proven these factors and made another startup successful already or supported another startup to become successful in this area, I'm willing to take a

hit on the valuation. If I can see that this will drastically increase our likelihood to succeed. But I can't generalize this as a decision-making point. I wouldn't trade for sweat equity, services that the company usually has to do. If they offer to do your taxes, your website, any operational task instead of giving money, I wouldn't accept. As an entrepreneur, I'd like to pick the best possible service instead of being locked into a model of the investor.

- **Rate the importance of personal compatibility (*i.e., the alignment of values*) between the investor and you on a scale of 1 to 10. Why?**

Most important part, ten out of ten. Humans are social beings. Any kind of situation can either be stressful or can feel like growing. Really, depending on the person that you have in front of you, it can either be pain or gain. It really depends on the way we interact with each other. Any situation – positive or negative can depend very much on the person you're interacting with. I would say this is the most important piece. This relationship is like marriage.

- **Do you conduct due diligence on potential investors?**

I do due diligence. I definitely hit up other entrepreneurs to see how their experience was with investors who we get closer to or whom we proceed with in the fundraising process. You can learn a lot from these chats. Even if they choose their words carefully, you can hear how it is. Did the investor did add value? - They didn't add any value, but they also weren't much pain. These were the things that the CEOs or founders sometimes said.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

I would definitely use a reputable investor if this increases my likelihood to raise the next round and the rest of rounds. If that reputable investor is like a lighthouse to other investors, this would totally make sense.

- **Would this answer change if you were under severe time pressure?**

If I'm under time pressure, I would ask myself, why is that reputable investor slower than the other one? Why is that even a factor? This thinking would then probably influence my decision making. With half a million, you can continue as well. Continue and gather the rest on the way.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Eight out of ten. The reasons described earlier.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**

- **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

Every relationship starts at some point. Ideally, you are already so successful from previous experiences that you know a lot of people and that are happy to do business with you (again). It is extremely important to know people in the industry and have personal connections, they are the best predictors of success. The more people you know that know and like you, the better your reputation will be. On the other side, investors also look at the reputation of the founder. Who do they know that knows this person? It's personal ties most of the time. But that's not always the reality. You also have to start the reach out at some point. There is no "warm" comes after "cold". That's just a matter of time and experience. Of course, I prefer warm intros and established connections. As I said, we are social beings. We enjoy personal context, people we can trust. Under severe time pressure, I would do as many outreaches as I can, warm or cold.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

It really depends on the status of reputation, on other things an investor brings to the table, such as, for example, a customer that we can win. If it's a Russian oligarch that knows half of the owners of greenhouses in Russia, I'm happy to talk to him, because I can see direct business benefit. If it's Bill Gates, and I'm later allowed to say, "hey, Bill Gates invested in us", I'm super happy to take Bill Gates' money. I would take both people's money. It's not necessarily an either-or decision to make here.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

I try not to focus too much on the paperwork they file. A company can look very sustainable and impactful on paper, like Google and Microsoft, with their commitments not to burn coal, which is all great. But there are also very easy ways to achieve net-zero impact on paper without real impact. For instance, if you buy all the green energy on the market, you may claim to be carbon zero, but everyone else is left without it. So, it really depends on your practice. I focus more on how an investor approaches sustainability. Are they serious about making a change? Are they serious about driving positive impact and sustainability in a certain industry? Adhering to the rules is one thing, but can I trust them to understand that there is a need for a change? Of course, adhering to certain practices also shows one step towards the right direction. I would rate it a six out of ten.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

How much do they understand the specific challenges that we have? What do they have as assets or ideas to overcome these challenges? How much do they understand our current needs? And secondly, what is their view on the human beings that are running these startups? Will they squeeze me to death? Or will they look after my health as well? How do they behave when it becomes stressful?

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 5
 - Investment stage: 7
 - Investment focus: 7
 - Portfolio: 12
 - Ticket size: 18
 - Value-added Services: 2
 - Personal compatibility: 12
 - Reputational factors: 20
 - Direct and indirect contact: 5
 - Sustainability/Impact: 7
 - Understanding need, challenges:

Appendix 6: Interview transcript – Participant 5

- What is your position in the company?

I'm heading the finance department. I report directly to the CEO and I'm responsible for anything money related. Before, I worked for a big corporate tire manufacturer for a few years. So, I have a little bit of a production and big corporate background and I'm trying to add that when we have strategic discussions with founders.

- Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.

The company was founded in 2016 and we had the first bigger financing round in 20 21, after a few convertible loans. The company was founded by the CEO and CTO when they understood that if the built environment wanted to become more sustainable, then they needed to work on more sustainable materials. All that to reduce the carbon footprint of materials. The idea was that if you can take carbon from the atmosphere and put it into materials and keep it there, then it won't be emitted back again and it would in the end lead to lower carbon in the atmosphere. Also, if you make carbon into materials, that means that you do not need to use other higher emitting materials instead. With that idea they developed materials, and they had different ideas on which applications they would be used for. Since we don't have a food grade certificate for our materials, we cannot do it anywhere in the food or drinks industry, as well in cosmetics. So, we use these materials in polymeric applications – anything plastic replacement. Today we mostly work in the built environment. This means that whenever real estate companies or even private owners build buildings, then they can use our materials in all non-static or non-structural components of the building. Those are facade elements, wall panels, kitchens, etc. The idea is that you reduce the carbon emissions of the building by adding carbon negative materials to different elements.

We are still pre-revenue, we are pre-Series A. We have closed our seed round and then we've closed the seed+ round in between and now we'll start fundraising for series A soon. We are about to close our first product revenues. We only had development revenues so far. We are currently at 16 employees.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- Which are the three most important factors you consider when choosing your investors?

We usually have a list of investors that we want to reach out to. There are different factors that qualify them to be on that list. Firstly, we are trying to find investors that are in our specific industry - especially climate tech industry in the combination with build environment. We are trying to find investors that are interested in climate tech, so we don't

need to explain to why it's useful to reduce carbon emissions, why a lot of time is needed to develop that, why companies need to be willing to pay more for our product than for a standard fossil-based product. We want them to be aware of the whole climate discussion. Ideally, they should be investing in the built environment already, that could be concrete or any other material that's used in buildings. Bottom line is, it is helpful if they are in that industry already. So, I would say the combination of climate and product fit is great.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

If they are not a good fit in the aspects that I mentioned before, we will probably not work with them. If they have any conditions in the term sheets that we don't want to accept, we will probably not work with them. If the ticket size is either too small or too big, we would probably not work with them. Then in some cases investors want board seats. If we feel like that company is not beneficial to our board, to our advisory board, maybe we wouldn't refuse the investment, but we would probably try to lower the amount so that they don't have such a huge impact. And then generally anyone we think doesn't support our mission would probably not be accepted as an investor.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

I don't think that we would be in touch with investors from countries that we don't support from a political point of view. There are definitely ethical values our company would not give up for an investor. We once considered accepting an investor from the fossil polymeric industry – a very high pollutant industry in our cap table. But how does that look, having someone from an industry that's extremely polluting the atmosphere or the environment and then invests in a company trying to have a positive impact? We had long discussions around that, trying to understand whether it's a good sign that they want to invest in carbon friendly companies and by that support doing better business than what they currently do, or whether we should assume that it's more in the greenwashing sphere, and therefore we don't want to work with them. That deal fell through in the end, and I think some of us were relieved that it didn't happen anyway because we didn't need to take that decision.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

I don't think we would have refused that investor if it was our only option to get funding. But I also think that from a strategic perspective, it's usually not just the founders making that decision. At some point you already have other investors too. The dynamics that usually happens on a board level, where all the bigger investors are represented, is that they would try to come to a decision that everyone supports – even the other investors would not want to be involved with a company that's funded by someone that is not aligned with their ethical values. Let's say that one new investor, who is not aligned with what we want from an ethical

perspective, offers 500,000 €. The other investors would either agree that that is a good investor, and we would come to an agreement on that, or the other investors would say, “Don't take the money from them. We'll break down the total sum and invest that amount ourselves.” We would not take the money if everyone was against that investor. It also depends on how far apart we are in terms of values from that investor. In the specific case I described earlier, we would probably have taken the money because the values weren't that far apart. We had a lot of pros; would have gained a lot of insights into the polymeric industry from them, and we would have helped them make their products better. But if it was really against our values, we probably would have not come to a point with an investor where they offered a deal, and we don't want to work with them. You stop these relationships earlier in the process.

- **Which type of investor do you prefer and why?** *Rate the importance of each investor type on a scale from 1 to 10.*
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

First of all, not all of these funding options are available for startups. Banks usually don't give cash to companies that don't have a stable revenue, and if you can't prove that you can pay back your loans in the foreseeable future, then banks won't give you any money. We are working with banks as well, but in Germany it's difficult because they have really strict rules who they give money to. So, it's hard to get money from them. I think the picture would look totally different in the US where the banks are a bit more generous with startups, but not in Germany. In an ideal case, you have government grants and subsidies. I would give them a 10, the benefit of that is that you don't have any dilution, they don't want company shares. The downside of government grants is that it's usually a lot of work before you get them and it's risky that you might not get them to fund you at all. After that it's a combination of venture capitalists and, what you don't have here, strategic investors. Strategic investors are from big companies, in Germany, for example BMW or BASF. They usually have funds for startups that they want to work with and that have a fit with their strategic direction. They are very close to venture capitalists, but they are not just interested in the success of the startup from a financial perspective, but from a product perspective as well. They want to have common markets or development, or they need the product of the startup to make their own products better. They usually take shares as well, so venture capitalists and strategic investors are extremely similar. I would give them both a nine out of ten. Philanthropic money is a bit difficult; it needs a lot of reporting. If you can get it, great, but it depends on the options. A five out of ten. Crowdfunding and angel investors; it's always difficult to work

with investors that only put in small tickets, because they need a lot of maintenance, and you don't get that much money out of them. I would rank them pretty low, a two out of ten.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** ___
 - **Investing in any/all stages:** ___

Usually, investors will not talk to you if they are not in the appropriate stage. If they are not seed or early stage, they will not even look into your business plan or listen to your pitch because they are focused on later stage investments. If they are investing in any or all stages, then that's fine for us. I don't think we would have a preference, so I give 5 vs. 5.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

We do prioritize investors in our industry, because it's easier to pitch to them, it's easier to convince them of the whole story. If they are focused on our industry, they already understand carbon credits, embodied carbons, etc. There's a lot of advantages to working with people that are from the same industry, specifically in the climate tech industry.

Investment focus is a decisive share of our value proposition, it's a big part of what makes us appealing to investors. It's not an issue if an investor invests in multiple industries, because they usually have partners in their funds that specialize in each industry. There aren't many funds that invest in a wide set of industries without having people focused on each industry. We usually talk to the partner, investor, or associate who is focused on the industry we're in. Five vs. five.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

We don't have competitors that are close enough to be worried about them. There aren't a lot of companies that put biochar into polymeric applications as we do. So, I don't think we had that issue before. If it's similar in a way that they produce biochar or put biochar into cement, great. If it is the same direction but not the exact same idea, then it wouldn't be an issue. For the second question, I believe there is no competition around preventing climate change, the more the better. It's not that we would give away our idea easily and say everyone should do that, but there's nobody who's doing the same right now, so there isn't a big risk. If it's just competing for reducing the carbon emissions of other companies, then we would be happy to work with anyone, because that's the goal and the mission. Maybe we

could even get some benefits from these ‘competitor’ portfolio companies. One of the biggest advantages of investors is that they usually come with a huge network and that's why you want to work with them. They can connect you to someone in the polymeric industry, someone who produces biochar, someone who had the same issues when they tried to get biomass, etc., and you can talk to them.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Usually, this topic is something that's discussed in the fundraising process between the startup and the investor. It's not that we wouldn't reach out to an investor who offers less or more than what we are searching for. We would still start the conversation, but during the process we would find out exactly how much they are willing to invest. I don't think that we've ever declined anyone. If they say they want to invest 100,000€, we won't decline them, we probably just won't put in 50 hours of work to convince them, if we can also talk to other investors that are willing to invest a lot more.

We are not in a position where we can choose between 500 investors and just take the ones that we like best. If we find investors, then that's great and we always talk to them. There's not necessarily an importance of the ticket size, but the investors would not be open to talk to everyone. If you tell them pretty early in the process, that you want to raise, i.e., 5M€, then no single investor will take the full ticket themselves. Usually, they want other investors in the same group to de-risk themselves. Also, you would not want to have one investor taking more than half of the full round. It's not really us deciding that, it's the investor that says you need other investors that de-risk this situation for them – investors that have checked your books, your business idea, done their due diligence and have also decided that this is a good investment. Investors have their ticket sizes, their requirements such as early stage, and ticket size, i.e., 50.000 to 100.000€. Then, if we want a million, they wouldn't really talk to us.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Yes, definitely.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

I think that the relationship between value-added services and ticket size is not that strong, because the investors are interested in the value-added services as well. It's a give and take. They want you to network with their other companies, they want to support you operationally, they want to help you. They also benefit from it, the shares that they own get a higher value this way. I don't think there's necessarily a 30% lower ticket size and then you

get additional value-added services. The value-added services are give and take and everyone benefits from them. I would say they are a bit independent from the ticket size.

To answer this question, we might take the exceptional value-added services and 30% lower ticket, but we would also be searching for other investors who will provide additional money.

- **Rate the importance of personal compatibility (*i.e., the alignment of values*) between the investor and you on a scale of 1 to 10. Why?**

That depends on what share of the company the investor buys. If someone gives you 50,000, they just want to invest, want a small share of the company, then it is not as relevant. If it's an investor who in the end gets a board seat and you have very close relationship with them, then it's definitely important. Nine out of ten.

- **Do you conduct due diligence on potential investors?**

Yes, we do.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

There are so many factors that play into that. We would need to understand why the reputation is bad. Is the reputation bad in an aspect that is relevant to us? How urgently do we need a million? Is it a million because it's nice to have a million, or is it a million because our company will not be able to reach our goals if they only take 500,000? There's no clear answer to that. It depends on how the funding amount was built, if it is urgent, will someone else be able to add the 500,000 that are missing, if you take the one with a better reputation? In the case we have a lot of time to fundraise and there is no time pressure, we will take half the amount from a reputable investor.

A very important reputational factor to consider would be, how quick they are with the payments. We had one investor where we were told that he's easy-going in the due diligence process and discussions, but when it gets to closing the deal, you sign the term sheets and contracts, everything is set, and they would need months and months before they actually pay the investment amount. So, we would rather have someone who is said to be annoying in a board meeting, we can handle that, as long as they pay the investment amount quickly. Waiting for the money for months could damage the startup a lot.

- **Would this answer change if you were under severe time pressure?**

Yes, probably.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

It depends on what the reputation is. If someone is working against our ethical standards, such as using child labour in India, that is a very important piece of information. When we cannot support these actions by no means, then reputation is very important, a nine out of ten. On the other side, if someone is just annoying, but making good business decisions, the importance of this factor is low, two out of ten.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

Definitely the ones with prior relationship established. Because it's faster and easier. Everything in the investment market is driven by relationships and by reputation. I am talking about the word-of-mouth reputation, when somebody presents you in a good way, makes a warm intro for you, and to some extent the investor is already convinced in your good side. No investor can ever understand the company good enough to just take a decision by themselves. They usually rely on other friends, other investors that were successful in similar deals. Apart from that they rely on so many other factors. So, relationship is so important in the whole investment industry that I would say it's always easier and faster to work with investors you have a connection to. Even if we find an investor that we haven't talked to before, we would first try to understand whether we have anyone in the wider network that might have talked to them and try to get in touch with them via this network instead of cold calling.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

As a startup, you try to get a good mix of different investors. Most of the startups need to take what they can get, as long as it is not against ethical standards. In the unrealistic scenario of the freedom of choice, we would definitely take the sustainable option.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Yes, but the fact is that a lot of reporting in the sustainability sphere is not standardized so far. It's not always easy to evaluate what they reported and see whether they actually do good or they just do greenwashing. Just like in any other industry as well, so it's not the reports that matter, but what they say when you talk to them. You can tell whether they really understand sustainability and impact or if they just making green investments because they

are following the trend, the zeitgeist. I rate the importance of sustainability as a nine, but the making of the reports as a five out of ten.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

The most important are network and product fit. I wouldn't say that climate tech is, per se, the industry, I would say it is a condition. After this you can still have a product fit or no product fit. If we work with investors that want to have sustainable packaging for food, then even if they are in the climate tech industry, that doesn't help much, because we can't do food right now, and it's not our strategic direction to go into the food industry right now. It's climate, network, and product as three factors.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 20
 - Investment stage: conditional
 - Investment focus: 30** (combines focus + sustainability)
 - Portfolio: *
 - Ticket size: can't choose
 - Value-added Services: *
 - Personal compatibility: *
 - Reputational factors: not many bad reputation investors in their sector
 - Direct and indirect contact: *
 - Sustainability/Impact: **
 - Other: Networking: 50* (combines value-added services, direct and indirect contact, portfolio, personal compatibility)

Appendix 7: Interview transcript – Participant 6

- **What is your position in the company?**

I'm the co-founder and CEO.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

I co-founded the company approximately two years ago. We're developing new high-tech sensing systems for agriculture. We monitor crop behaviour using ultrasounds and we translate the data into insights for growers, farmers or breeders to get insights in what's going on inside the crop. This can improve grower's greenhouse strategy, such as improve irrigation or reduce energy consumption while still keeping the plants in top form. Breeders can use our technology as a phenotyping tool, with which they select, for example, which crops are resistant to a specific disease. Currently, we're still in the validation process to see which direction we want to go in. We are doing several pilots to find out where our technology is most applicable. We are in early stage, TRL 3-4, pre-seed.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

The first important thing is “the click”. Meaning, do we have a nice gut feeling about the investor? We usually go on events where we talk to investors and after such a talk you either feel connected to or a bit separated from an investor. That's, of course, very subjective, but still a very important factor. Secondly, their credibility. We are a spin-off from university, so we have an investment manager from university, who knows specific venture capital companies. If they have strong ties, that will improve our view of said investor. If it's an investor that we or our manager have never heard from, that might reduce our trust. We're not ready for venture capital yet, we are currently targeting the bridge between subsidies and venture capital, and there are not that many players in that specific gap. So, the third factor would be reaching out to several investors and seeing where you can get the best deal. For example, is it a convertible loan? Under what circumstances? What kind of requirements do they set?

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

It's very important that they are an impact investor, that they are not there just to make the most profit, even when it's not in line with our vision. If they wanted to sell our company to

someone completely out of our vision, that would be a very big dealbreaker, but in agritech, it is hard to imagine that being the case.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

We do have a preference for Dutch or at least European VCs, because it's easier to align with them. A possible dealbreaker might be if the money is coming from the Middle East, because then it's very much tied to oil. That could be why we might say no to a specific investor.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

It's a bit hypothetical, I can't really say, but I also can't say that we definitely wouldn't do that. It depends on the circumstances. We would have a whole team meeting and discuss our options. Usually, it's never just one option, but if it's really our only option and it will allow us to pursue our mission, which is to make responsible societal advancements and make the world a little bit better, then yes. The money would come from that questionable source but would still be used for a good cause.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

In our stage, government grants and subsidies are most important, that's what we've been using so far. After this, venture capitalists and angel investors are somewhat tied in the second place. An angel investor could be used to bridge a certain gap when going towards a VC. So far, we've been lucky to always get enough money from grants or subsidies, but even a bank has awarded us a grant, which was just free money. When I see bank, I also, sort of, see a grant. Of course, we haven't taken a loan from the bank, but that would've been on the third place. Private equity is very far away from where we are, and we've never considered crowdfunding because I think that's more suitable for B2C, while we are a B2B company. We haven't considered philanthropic money yet. So, I would say government grants and subsidies are a ten, venture capitalists and angel investors both a nine, banks seven, and the rest are very far down.

Under other, I would like to mention another way of raising money where you basically let your customer invest into you sooner; we currently work and collaborate with breeding

companies a lot. For example, we develop a product together with the breeding company, they pay us a little bit, but they also get some sort of exclusivity, which can limit us and our work a bit. It is important for us in the beginning, because we gather data and try to really understand what our customer needs. For our next strategy, or step, we will either choose to continue with the breeders, but still be limited and move slower, or raise money independently, do all the pilots ourselves. This way, we wouldn't have to give away exclusivity and would be more free. The downside is that you work less with your customer.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** __
 - **Investing in any/all stages:** __

Seven to three. Initially, we have preference for early-stage investors because they know what kind of challenges we face at this stage. However, if a very early-stage fund tells us that we need to join an accelerator program or some sort of training course in order to get their money, we will probably say no. These programs tell you all about how it's very important to collaborate with your customer and validate that you're solving their problem. Since we've already joined two accelerator programs, and everything around our company is based on validation, validation, and validation, we kind of know what we need to do to get where we want to go. In this specific case, we would have a preference for a later stage VC because they might be more applicable to go to the next phase.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

Eight to two. Eight points towards investors specialized in agritech, or perhaps even hardware development. We are very much technical people, and we now have a lot of insights about the agricultural market. If the investor focuses on these areas specifically, they know the market and could add a lot of value. But then again, we are a hardware software company in agritech, which means there are already three domains in which we could get additional value. If there is a very broad investor that has invested in software and hardware startups, then they might also have some sort of idea on how they can add value to a startup like ours. However, I think knowledge about the agricultural sector is most important.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

Yes, it's even better if they invested in a similar company, because then they know what kind of challenges we face. There's one investor with whom we have very good contact,

but they've invested in a company similar to us that went bankrupt. So, they might have some scars that could make them not interested because they've made a bad judgment before. But for us, they have a lot of insights on what not to do, which would be very valuable. It would be fine for us if they invest in similar companies. If the investor invests in direct competitors, the same analogy holds. They know what kind of challenges we face and which mistakes not to make. If it's a direct competitor, I wouldn't feel as free to discuss everything, I would be more hesitant.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Eight out of ten. It's important. If we're only looking for 1M and they are only investing from 3M onwards, then you're not suitable for one another. If they perhaps make exceptions, then it would be okay. I think ticket size or the amount you're looking for and what they're offering should be aligned.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Yes, especially strategic guidance. We will really be looking for an investor that has a lot of knowledge about the agricultural market. They can help us with which direction to take and can give us valuable advice without directly being at the steering wheel. Networking opportunities are nice to have but not essential. Operational support is also good, but we already get that from the university, who is our shareholder. They help us, for example, with legal advice, so when we get a contract from a breeding company, we can go to the university team and discuss the terms. We find this very valuable, but we're already covered on this topic. We also have mentors that come from the market and working in the market for more than thirty years means they have a lot of knowledge. Of course, it is always nice to have multiple mentors with different types of knowledge and experience to guide us.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

No, mostly because as mentioned, we are already covered in multiple areas and don't really need additional value-added services. They are mainly just nice to have, and we would value money more in this case. Of course, there is one situation in which we would reconsider this opinion and accept 30% lower ticket size, but it is not really a value-added service. It is important to us to have a nice and good relationship with your investor, that you are free to discuss anything that goes well, but also when things go wrong. If we had a very good relationship with one investor compared to another one who wants to just give us the money and order us around, we would definitely take the first one.

- **Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why?**

This is exactly what I was talking about in the last question. This factor is very important. Nine out of ten. The relationship between the founding team and investor should be like a relationship between good friends. It's to be free and discuss anything you want, to get direct feedback. It's also to keep control of your company. We don't want to have it driven by the venture capital interests to only make money, but instead it should align with mine and my teammates' specific goals.

- **Do you conduct due diligence on potential investors?**

Yes, we do. Mainly that's talking to other startups and our investment manager.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

It's a very subjective question. It's easy to say the amount is twice as much, but it's hard to say how questionable the investor is. I would wonder what makes the investor questionable. I would gather intel about the questionability of one investor versus the other one, and then, talk with my team about what the impact is for us. What would be the impact of going with one investor versus the other? And then decide. Probably we would still go with the reputable investor and find the rest of the money elsewhere.

- **Would this answer change if you were under severe time pressure?**

Yes, probably.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Seven out of ten.

- **Which scenario do you prefer and why?**

- **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
- **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

I prefer the second option, reaching out to an established connection. As we discussed, the relationship is important. If they can only offer half the funding, then you go to a second investor with whom you have a prior relationship to get the other half, etc. When you start raising funds, you don't start from scratch. You already go to events throughout the year, you meet with investors. By the time you start fundraising, you already have a very long list of potential investors with whom we've had contact in the past. I think the investor is more prone to invest if they know you from before, if they can follow you on LinkedIn for a year, instead of a random company that comes out of nowhere and says, "oh, can we have some money?". Of course, if you go through the whole list and everybody says no, you start cold calling. So far, for us that hasn't been the case, we did not need to cold call yet.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

Initially, I would say the first option, I prefer to have a sustainable investor with a lower ticket size instead of the unsustainable investor. My gut feeling says so, but I can't make a calculated decision on this because it's a very hypothetical situation. There are multiple factors. For example, in a situation where we would need a very high ticket size, we might go with the second investor. I would ask myself, "What makes the reputation? What's the impact of having the unsustainable investor?". I would really have to think this through and see what the impact of doing one vs. the other would be.

Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.

Eight out of ten. It's very important. It's because it shows us that our values are aligned. There are a lot of investors that claim to be an impact investor, but probably mainly because they know that entrepreneurs think it's very important. But it's one thing to say that you're an impact investor and something else is actually being and working as an impact investor. So, such a report would really give the investor credibility of indeed being aligned with our common goals instead of just saying they're aligned.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

Yes, but this probably has to do something with personality, what I said was the most important aspect. Like I mentioned earlier, we have a preference for Dutch or European VCs, because it's very important to speak the same language. Not literally, but to sort of be aligned, to have a similar look on things. I think that is important to the personal connectivity that you have with this person.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 0
 - Investment stage: 11
 - Investment focus: 11
 - Portfolio: 4

- Ticket size: 22
- Value-added Services: 0
- Personal compatibility: 22
- Reputational factors: 11
- Direct and indirect contact: 0
- Sustainability/Impact: 8
- Other: /

Appendix 8: Interview transcript – Participant 7

- **What is your position in the company?**

I'm one of the co-founders. I'm responsible for the whole customer side, so my title is CCO as a commercial officer. I'm leading the sales team, pushing the signing of the first customers, onboarding them, building customer success and so on. Also, I'm partly responsible for all culture and people, HR topics.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

We officially founded the company three and a half years ago. We raised our seed round in spring, we are in early-stage growth stage. The topic we're working on is impact. It's a browser plugin for corporate travel booking tools, it's very niche. So, in a situation where companies book their business travels, their employees go to a certain tool, like a website. We built an overlay solution for these sites that engages and promotes greener travels, pushing the people towards a greener trip.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

One is classic, it is smart money. Are these investors able to help us grow with their knowledge of the industry, B2B companies, software, etc. Second is impact, it is important that they are not just investing in every kind of company, but that impact is a relevant KPI for them. The third is a soft factor; do we get along? Are we comfortable sharing the good and the bad sides of business with these investors?

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

Yes, for sure. If they don't care about impact, we would not work together with them. If they seem to be very pushy – to an extent where we lose our ownership or our possibility to push a company into a certain direction, we would not work with them. We also already said no to investors where we felt that they want to use us as the human assets and build something else. Bad investment terms are also a dealbreaker.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

If we knew that the money from our investor was 100% from oil and gas, it would be a bit odd to take their money. We prefer family offices, business angels, business angel

conglomerates or small VCs, the ones without big unicorn perspective. It has to be a cultural fit for sure.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

No. We actually had this problem last week, but on the client side. There was this oil and gas company asking us to build them something. It had nothing to do with sustainability or impact, it was just about the technology we're using. We debated; firstly, it's an oil and gas company and secondly, they don't care about impact or sustainability. We're not going to take their half a million and do whatever they want. From a business perspective, that is probably not the right thing. However, from a value perspective, for us it was.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

In our current stage, it always depends on what you get, but in an ideal scenario, the number for VCs would be very low, a two, because we do have VCs now, but we're not so happy. Angel investors would be rated an eight if the ticket is big enough. We don't have experience with banks, I think for startups debt financing would be more interesting, it could be interesting for us at some point. Private equity don't really invest into companies like us, we are way too small, a five. We had and still have government grants and subsidies. It's hard work to get them, but there's a lot of money lying around. It's the best you can get because once you get it, you don't have to do anything. I would give it a ten straight away. We don't have experience with philanthropic money. Of course, if people want to give us our money, we will take it. If it's good money.

- **How important is it for you that an investor specializes in your specific stage of development and why? Distribute a total of 10 points between the options below based on their importance to you.**
 - **Seed/Early stage only: ___**
 - **Investing in any/all stages: ___**

Five to five. It is equal and it doesn't matter. It's their problem, I would say. I mean if they do all stages, I expect them also to understand that we are working differently than a series D startup. But I think if you're a good investor, you know that.

- **Which investment focus do you prioritize and why?** (*Distribute a total of 10 points between the options below based on their importance to you.*)
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

Six to four. There are a lot of advantages if someone invested in exactly our industry, but it does not mean that they only invest in this industry. Usually if you have investors that just invest in your industry, they also have a stake in the industry, so they could want to buy you. It's difficult, but there has to be a sweet spot of that they know the industry very well and might have invested already in that industry. This way they can better understand the situation of the startup. But an investor can also learn from other industries, and of course, they usually want to diversify.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

We did reach out to someone who invested in a similar company, but it was not successful because they said they just invested in a company like ours and they wanted to diversify their fund. It depends on the market whether we would reach out to an investor who previously invested in our direct competitor. If we need the investment and there's no other opportunities, then yes. If not, we would probably try to avoid it.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Seven out of ten. We usually have a range of how much people should invest, a minimum and maximum. We once had a problem where an investor wanted to invest more than what our range is, and we didn't take it because we wanted to diversify. We also had other situations, where the minimum amount was not reached. We are not super strict on this range, but if there's someone invests a minimum of 3M and we just raised 1.5M, we're not going to reach out to them.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

From the top of my mind, smart money, for sure. However, we often experience that investors promise much more than they give in the end. For activities like networking, connections, leads or similar, they always say they know many people, and in the end, this never really works out well. Strategic guidance more so, I would say, because it's in their interest. Anyway, sometimes I feel like they could show more interest to support.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

No, because I kind of expect the investors to provide great value-added services nevertheless.

- **Rate the importance of personal compatibility (*i.e., the alignment of values*) between the investor and you on a scale of 1 to 10. Why?**

Ten out of ten. I would not say my investors are as close to me as my family or my friends, but I definitely agree that it is very important that there are good vibes. At times, they will also annoy you. You need to have a good position to talk to them, be open, and trust them. After signing the documents, you depend on them, and you should really be able to make the best out of it.

- **Do you conduct due diligence on potential investors?**

Yes, we talk to other startups.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

Of course, the half of the needed sum. We have very strong values and stand behind them, as mentioned earlier.

- **Would this answer change if you were under severe time pressure?**

No, for us not.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Eight out of ten.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

Investors with prior relationship. First, we check all possible investors that could fit our business model and us in general, and then we ask for intros. We ask our entire network to help us with warm intros to anyone we are interested in. Even though there has probably been a few cold calls from our side, I believe it's better to have warm intros.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

Definitely the first, sustainable option. We are very much into impact and sustainability, as said, it might be one of the three most important factors we are aware of in investors.

Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.

Five out of ten. I think you can't have it all – if it's an impact investor, they're trying to do their best. That could still mean that they fly a lot for business. Yes, if they are much worse than the average person, then it would be important. It's nicer if the investor is 100% sustainable, there will be a better value fit, but my expectation is not that they will be. I have no expectations in that regard.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

No.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 15
 - Investment stage: 0
 - Investment focus: 0
 - Portfolio: 10
 - Ticket size: 15
 - Value-added Services: 0
 - Personal compatibility: 30
 - Reputational factors: 0
 - Direct and indirect contact: 0
 - Sustainability/Impact: 30
 - Other: /

Appendix 9: Interview transcript – Participant 8

- **What is your position in the company?**

I'm the Commercial and Venture Development Lead. I am also involved in fundraising.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

We make robotic mushroom farms for gourmet mushrooms. We sell mushrooms and sell and build farm systems for existing mushroom companies, and nutritional supplement companies (b2b). We grow shiitake, oyster mushroom, lions' mane, etc. We operate in climate tech as well as foodtech industries and are very hardware-focused. There is around 20 to 25 people, and we are in seed stage.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

The bottom line: whoever is willing to give us money. It is important to differentiate software (i.e., tracking CO2 emissions) vs. hardware climate tech companies; it is easier to raise as a software company, since hardware is CapEx intensive, and therefore holds more risk. In our case specifically, it has been hard to raise money because similar companies went bankrupt before (InFarm etc.). If we could really choose, we would firstly prefer investors with sector experience and knowledge; especially hardware related, to provide additional value, not only money. And secondly, funds that have environmental targets. However, this depends on how many shares the fund will get. Large share means more decision-making power, so we would be more careful.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

At the end of the day, it is always more important to have money.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

As said in the previous question, money is the most important factor.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

Yes.

- **Which type of investor do you prefer and why?** *Rate the importance of each investor type on a scale from 1 to 10.*
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

I would give government grants a ten. They represent a lot of money without you having to give up any shares. Of course, it depends on the type of grant. Here, it is important to check the effort vs. chance of getting it and the value that you get in the end. Venture capital is extremely valuable for us, I rate them with a nine. They can offer us a lot of money, and since we are building mushroom farms including robotics, we are looking for some really big investments. I would rate debt 8, the reason is similar; as they can offer us a lot of money for innovating our technology. We had some angel investors previously, and honestly, we had a lot of hassle with admin work for people who provide quite small sums. Therefore, I would rate it at 6. Private equity is definitely not important yet for our seed stage, as they don't invest in this stage.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** __
 - **Investing in any/all stages:** __

Six to four. If the investor is very involved in our business, it is important they provide the right value. Focusing on our specific stage helps, but their support to help us achieve later stages is important too. These days it's not good to be picky, we could benefit from multistage investors as well.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

Eight to two. We are operating between a mix of very specific industries, hardware and foodtech. Our investors should definitely know well what they are dealing with and should be able to give good advice and mentorship. They bring us valuable knowledge, network, etc.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

I believe that investment in competitors means that the investor is interested in the industry and in the business model – in the case of direct competition. We would definitely reach out to both investors into similar companies and our direct competitors. But we would try to be careful not to over-share in the beginning and also sign important NDAs. At the same time, it would be smart to consult our existing investors to see how to best proceed.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

This does not matter. If the ticket size is really small, we might not reach out because it would be too much of an effort for not a lot of return. Otherwise, we would consider all investors in our general ticket size amount, even the investors that are outside of this amount, in case someone would be extremely keen on investing. Six out of ten.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Most important factor for us is money. We still appreciate industry specific knowledge and network that a specialised investor can bring us.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

No, we would not accept lower ticket size for additional value-added services. Actually, it depends on whether the fund you are working with is super-specialized operational fund, such as Project A. However, especially in Europe, most VCs are not operators. Your own team can do these activities better. Most VCs offer help with anything they can, because it is good for them if you succeed. And anyway, it is a part of their job.

- **Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why?**

It is fine as long as investors are not total jerks. It always depends on the fundraising environment, but even in the case they are unpleasant and mean, we in the end need money to survive. I would rate it as six out of ten.

- **Do you conduct due diligence on potential investors?**

You should always do due diligence and make sure the investor's reputation is somewhat good, so it doesn't affect your future ability to raise from other investors. In the case when a

badly perceived fund invested in you, people in the industry could assume you must be a bad startup, etc. I consider this a very important factor.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

Usually, there is not only one investor in a fundraising round. We would accept money from reputable investor. If you have a very reputable investor, you are a lot more likely to get other investors on board. For example, Sequioa wants to invest in you, and suddenly all other investors want to invest.

- **Would this answer change if you were under severe time pressure?**

If you don't have so many options or if you are under a lot of time pressure, you don't have the luxury of considering this factor.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Seven out of ten, because of the reasons I mentioned before.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

I would not recommend to cold call; it does not work. The investors will barely answer or invest in you. You need to have warm introduction, because investors value skills like networking and building connections. In a way, if you reach out cold, they will assume you don't have these skills. So, yes, in most cases, you have to have warm introduction. Except if the fund is super specialized and exactly aligned with what your startup is doing.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

In the end of the day, it is always more important to have money than a sustainable investor. If the Russian oligarch will give you money, it doesn't mean that you have an unsustainable startup. You would only need to manage the press somehow. It really depends on how bad the oligarch's reputation is vs. how good the sustainable fund's reputation is. If the fund is very sustainable, successful, known in sustainable investing, but they offer a lower ticket, it would make sense to pick them, because it would raise your chances of raising from other investors. The oligarch might harm the chances of raising from other investors. Everyone talks about sustainability, but in the end no one cares. If you have the luxury of choosing a

sustainable investor, that can support your brand, you do it, if not, you take the money you can get.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Five out of ten. If you have the luxury of choosing a sustainable investor, that can support your brand, you do it, if not, you take the money you can get.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

No.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 10
 - Investment stage: 15
 - Investment focus: 15
 - Portfolio: 5
 - Ticket size: 15
 - Value-added Services: 10
 - Personal compatibility: 5
 - Reputational factors: 15
 - Direct and indirect contact: 5
 - Sustainability/Impact: 5
 - Other: /

Appendix 10: Interview transcript – Participant 9

- **What is your position in the company?**

I'm the co-founder and CTO of the company.

- **Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.**

We develop chemical systems for making sustainable aviation fuels. So, transforming hydrogen and CO₂ into syngas, that into hydrocarbons and then into fuels. Our company's part is systems development and manufacturing – we develop catalysts, materials and reactors. Two steps that we work on in this value chain is to activate the CO₂ and then to make the hydrocarbons. We're very small, we have one employee at the moment, one master's student and about 10 advisors that work with us. And we're right now hiring two people. In like the next couple of months, we'll be about six, seven people. We are pre-seed, pre-commercial, we are in development.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- **Which are the three most important factors you consider when choosing your investors?**

The most important part in pre-seed: Can they work with us? Do that they have steep market and industry knowledge to help us build partnerships in technology and market? They need to have a great team with such expertise. If they don't, they can't be as helpful, they will ask a bunch of random questions and create more work for us. The second important part is that they know how to build a follow-up round, that they have the connections to investors in the next stage, in our case that would be seed, that they know the people who are active in our industry, that they have built relationships with them and that they can continuously inform and be informed about anything. The third part: they should be able to help us with day-to-day operations. Giving helpful advice on taxes, lawyers, hiring, etc., is usually very helpful. This can also come from an investor with expertise outside our industry. And the fourth is, of course, that they have money. Sometimes they haven't closed their funds, and they are trying to invest without having closed the funds. That's obviously an administrative problem. The last part is really about whether you get along with them on a personal note. You have to work together, if it's a strange relationship, then it most probably won't work out. Under this point belong the question of responsiveness, people's values, and so on. That's also an important factor that we looked at in our team. So, the main things are industry fit; if they can help us in the industry, in the operations and lastly, if we like them. Because there's a lot of money out there, it's just always a question who you get it from. If you get it from the wrong people, it doesn't help you so much, because they can create a lot of extra problems. You want to avoid that part.

- **Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.**

That are partly political and ethical stuff. There are some cases that are problematic or difficult, for example, Russian or Chinese money. Middle Eastern money is also different. There's a divide between the blocks coming, growing bigger. As a European company, you can play with it, but you probably can't probably have both. And then there's a question about ethics in clean tech. Do we want to accept money from oil and gas? We are cautious about these companies, because they are not always serious about sustainable development, they're going back and forth in their tactics, they pause or even stop certain clean tech projects based on their strategy. It is never clear what they are doing, unfortunately, they're not really committed to clean tech. Ethical reasons are of importance - not super high, but sometimes you can say, you wouldn't talk with the mentioned investors anyway because there's enough alternatives.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

See the answer above.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

Yes, we probably would. In the end, our vision is to reduce emissions. That's what we work on, and people who want to join us are welcome to join. If no one else wants to commit, it's our only option. As long as the investor is ethically and legally fine, there's nothing to say against it. The big overarching argument is using bad money to do something good. If it does good, then the overall purpose is useful. In the end, we are also a chemical engineering company, we use similar principles. These companies have a lot of knowledge in our industry, so they can help us a lot.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**
 - **Venture capitalist**
 - **Angel investor**
 - **Banks**
 - **Private equity**
 - **Government grants and subsidies**
 - **Philanthropic money**
 - **Other**

In pre-seed stage, the best are government grants and philanthropic money, because they are for free, a ten. Following are angel investors with a nine and then VCs with an eight. They're

similar in the way they work. It's just that VCs are more professional and have more resources. In our stage, banks and private equity are out.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** ___
 - **Investing in any/all stages:** ___

Nine to one. That's extremely important. They won't invest if they're not in your stage – we heard this quite a lot in our case. That is because the risks in these stages are different. In an early stage, a startup still has a very high tech risk, and a lot of investors are not comfortable investing in tech risk. In the end, you don't get money from someone who's not specialized on your stage.

- **Which investment focus do you prioritize and why?** *(Distribute a total of 10 points between the options below based on their importance to you.)*
 - **Investors specializing in your industry**
 - **Investors with a broader focus across multiple industries**

Seven to three, preferring the one that is specialised. It's important, but it's not the only thing, it's not a dealbreaker, as we have one that's not specialized, so. A startup builds a portfolio out of different investors and can kind of choose different investors who bring different benefits.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

Yes, absolutely. That's how you build your business. You look onto similar companies, you look at their investors, and that's how you build a list on who to approach, who to talk to. Then, you have to cross the investors who invested into direct competitors off this list. They won't invest in you, we've tried that. It's called a portfolio conflict. They are very unlikely to invest in a similar company that follows a similar tech approach to us. If it is a very different technology and the investor is convinced about the market, potentially you have some chances. We would reach out and if the investor is convinced of the market, they would recommend you to someone else. But it's unlikely that they will invest.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Ten out of ten. We essentially have a couple of questions that we always ask. Those are the industry fit, ticket size, stage, and the lifetime of the fund. Ticket size is an important factor, it needs to fit. If it doesn't, you don't need to continue talking. Let's say you are raising 3M

in seed, so you want to have at least two or three investors in there. If the lead can't do at least 1M, they can't be lead, if the followers can't invest around 600K or they want to invest too much, that doesn't work as well. That's kind of how it works, it's very simple. The ticket size is a yes or no answer. The problem with cleantech is that cash demand is much higher than other industries. There is a lot of hardware and R&D, which costs money. This requires larger ticket sizes, which not many investors can do because it's easier to get 300k together than to get a million or more together.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

Some investors give parts of their investment in cash and the other one in services. These services need to be a good fit for you, because if you don't need these services, they're not really relevant. I always say the services are not as important as cash because we don't need marketing or similar support as much – we need R&D. Even if an investor could provide R&D, it might be in a location that doesn't work for us, like the Netherlands.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

This kind of arrangement is more like a barter deal, which is much harder to make work compared to cash. Cash is much simpler and easier.

- **Rate the importance of personal compatibility (*i.e., the alignment of values*) between the investor and you on a scale of 1 to 10. Why?**

Eight out of ten. It's important because you work with these people. You don't have to be best friends, but you need to get along, share a vision. You need to be able to understand how they work, because sometimes there are these demands that come on a Sunday night. For example, some people are very demanding, and if they have crazy demands all the time, then it's not going to work out. You kind of want to choose, if you can, the people that you like to work with. But it's not the only decision criterion.

- **Do you conduct due diligence on potential investors?**

Yes, we do a bit of a soft due diligence, probably much less than they do on the startup. We ask who their limited partners are, where their money is from, where they are based, what kind of legal structure do they have, and so on. Of course, we also ask the community, see what kind of reputation they have. We also do a due diligence on whether they actually have the money in the account. Once they sign the notary, they are legally obliged to pay the money, otherwise we would get remedies.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

Probably not from the questionable. We would ask all the questions that we have and if we are unsure or doubting some of their answers, because the money might be from criminal activities, or something unethical, we would not take their money. There is a lot of risk involved, because if they don't have trustworthy business activities, they probably also won't do authentic business with you. It's a lot about trust, so probably we would not take their money. We would rather try to make it work with the investor that offers half the amount.

- **Would this answer change if you were under severe time pressure?**

Depends on the circumstances. Possibly, yes, if we wanted to survive.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Nine out of ten. It's a base factor. We would first check what the reputation is like, the ticket size and the maturity. So, if an investor has a very bad reputation, then we would just kick it off the list.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

There are different ways, and we use all of them. I think the most effective way is going to industry relevant conferences, approach people and pitch your company. We go to two or three every year. In two or three days, you get to talk to maybe one hundred people, and then you build from these connections on. The other option is through warm intros. Either angel investors or industry partners, everyone is always trying to be helpful. There's also people who sell this service. They know people, especially the ones that are hard to get to, and they ask for a fee in order to introduce you. The last option is always to call, email the investor, drop your pitch deck, if you haven't met them. The investors will be curious to learn what you do, if it's relevant to them. When there's a highly relevant investor, we definitely do cold outreach if we have no other connections to them.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

You know, I actually saw Bill Gates three times this year. Having a good name in the cap table is so beneficial. In our industry it is a very strong sign to be backed by Breakthrough Energy, which is, in fact, funded by the Gates foundation. In this case, the ticket size doesn't matter so much. That would be a clear yes from us. On the other hand, someone who does not have a good reputation would destroy our reputation as well. So that's a clear no.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Maybe somewhat, six out of ten. The more reports they make, the more you have to make. All of our investors do ESG reporting. Obviously, if they're clean tech investors, they're trying to understand the value and impact of their portfolio. It's a classic homework; I would expect them to do it. If they don't do it, there is a question of are they really a clean tech committed investor. If they don't ask us about the impact, for example CO2, emissions reduction or other impact categories, they're not a serious clean tech investor. Still, it doesn't matter so much to me if the investor understands their impact or not, if they make reports or not. The most important thing for me is that they help us build in the industry. Our company is super dedicated to clean tech, and we know we have a lot of expertise in measuring impact.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

First, fund lifetime is important and usually lasts around 10 to 15 years. In the first year, they need to get settled, and then the fund can start investing. At some point, they need to stop investing and focus on follow-on rounds. Later, they need to start divesting. This means a fund has around 3 out of 10 years where it actively invests. That's an important factor when choosing a fund. If a fund is near the end of its lifetime, they might not be able to invest in you. At the same time, you don't want to be their first startup either. Second, the cleantech industry faces some unique challenges. Investments often need to happen quickly, but deep tech companies don't always generate returns early on. As a result, investors may need to sell their shares at a huge discount if the company hasn't yet proven its product. This creates a systemic problem for cleantech, as conventional fund lifetimes were built for industries like software and e-commerce. That's why evergreen funds, which don't have fixed lifetimes, are very interesting. Funds with longer lifetimes are also a good fit for clean tech.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 11
 - Investment stage: y/n
 - Investment focus: 22
 - Portfolio: 22
 - Ticket size: y/n
 - Value-added Services: 22
 - Personal compatibility: 12

- Reputational factors: y/n
- Direct and indirect contact: 0
- Sustainability/Impact: 11
- Other: Fund Lifecycle: y/n

Appendix 11: Interview transcript – Participant 10

- What is your position in the company?

I've always worked in climate startups, particularly in solar and energy storage. I've worked on various projects, helped companies with fundraising, pitch decks, strategy development, and business development – partly through the blockchain and crypto space, including ICO. Then I joined a startup in the built environment as a late-stage co-founder, leading everything on the business side. I helped raised the 5M seed round, managing the entire process. The funding came from a wide range of investors, including California VCs, family offices, grants, prizes, and high-net-worth individuals. Since last summer, I've been doing consulting, including helping a venture studio develop business concepts around replacing single-use plastics.

- Tell me about your company: what it does and in which sector, which stage of growth it is in, the number of employees, etc.

Currently unemployed, but I will be speaking with regards to my previous fundraising experiences, especially with the startup in the built environment raising the seed round.

Consider this scenario: As an entrepreneur seeking funding for your climate tech company, you have the option to decide which investor to reach out to.

- Which are the three most important factors you consider when choosing your investors?

Firstly, investors that will give you money. Secondly, a balanced investor group between investors that really understand what you are doing and can give you feedback that you trust, and others that offer valuable perspective in other areas. It is important to think about the investor group as a whole rather than just individual investors. Some investors might not have any technical knowledge about what you do, but believe in the vision, while others might lack business experience. Some might be corporate ventures. The key is to have a mix of perspectives. Number three would be trust. Especially if they're going to be on your board. Personally, I've never had a positive experience with a board. So, if they are going to be on your board, helping you make decisions, it is crucial to trust that they're aligned with you in terms of values, shared goals, and communication style. Ideally, they should be close to you, as in-person interactions make a lot of difference in building trust and relationships.

- Are there any situations (dealbreakers and non-negotiable factors) where you would refuse to consider an investor? Please explain.

Yes, definitely. If they are from oil and gas, or other kinds of actively damaging companies or backgrounds. This is a really complicated issue because there are a lot of good people that work in these industries. And frankly, the skill sets from oil and gas are incredibly important

for climate industry, whether it's geothermal or renewables development, or other areas. There are so many things these professionals know better than anyone else in the world. That said, as someone in climate, I would never take money from anyone related to oil and gas. Beyond that, just the usual: racism, sexism, homophobia, etc. It's not like you can tell these things right off the bat, but ultimately, it comes down to culture and values alignment.

- **Expanding on the previous question, could you provide specific examples of investors or investor groups you would avoid? Who and why?**

Nothing specific. Something I've learned throughout the years is that there are two sides to everything. On one side, you can't talk to every investor, you need reasons to say no to some. On the other side, you can't judge people based on where they're from or their background because you may need them or what they offer, at least to some extent. We had this program with a big group of advisors, many well-known names, almost like an accelerator, but much more specific and helpful. They offered one-month sprints where you would pitch what you need to get done in that month while they acted as a mini advisory board. In one of those sprints, we were advised by someone who had created and led the decarbonization strategy for one of the worst oil and gas polluters that has ever existed. This person, however, was one of the nicest, most aware, and down-to-earth people I have ever met. That was my reminder that people are people, and we shouldn't judge anyone based on these things.

- **In a scenario where a dealbreaker investor is your only option for funding to keep the company alive, would you take the offer?**

At an early stage, probably not, to be honest. Maybe there's a very rare scenario, where it's a perfect fit with great people, like a 1% chance, but at such an early stage, I don't think that would necessarily happen. Anyway, if it did, I still don't think I would go through with it. My priority would be to give everyone the space to find their next job, that would be my first concern. There are scenarios where I could imagine doing it, but my gut instinct is that I would just let the company go under. It's really about the employees. If I have 30 people and one of them is pregnant, for example, that's where my mind goes first. When thinking about winding down scenarios, it's never really about me or money, it's about them.

- **Which type of investor do you prefer and why? Rate the importance of each investor type on a scale from 1 to 10.**

- **Venture capitalist**
- **Angel investor**
- **Banks**
- **Private equity**
- **Government grants and subsidies**
- **Philanthropic money**
- **Other**

Angels are probably a 10, you always need them. They usually leave you alone since they're often entrepreneurs themselves and understand how it is. They can be incredibly helpful, especially if they're in the same space or have a strong network. Working with them is a lot less formal, and they can make quick decisions. The downsides are that you can't raise a big round with angels, and dealing with contracts and bureaucracy, especially in Germany, can be a pain. That process can be annoying and potentially slow things down. Government grants and subsidies would be a 9. They are great, really the best option. They don't dilute you and are usually very targeted at R&D and specific stages. However, they're very competitive and come with a lot of reporting and other annoying things to do deal with, so, they're not perfect. I don't have a ton of experience with philanthropic money, maybe an 8. The positive side is that they can probably make decisions quickly and then just leave you alone, which can be nice. But there's no clear category for them, either you get lucky, or you don't. You can't search for that kind of funding easily or take a uniform approach, whereas you can do that with other ones. Venture capital, I'd give it an 8, just because you kind of have to. In most cases, there really isn't another option. One of the things that I've been focusing on over the past years is the financing of production facilities. In climate tech, your first production facility has no dedicated investor, there's no existing asset class or structure specifically for it. So, you typically have to do a combination of multiple funding sources, and venture capital doesn't make any sense for that. First, because they don't understand how it works, it's not their business. Second, giving up equity for physical objects doesn't make any sense. In many ways, venture capital isn't a great fit, especially for climate tech and physical infrastructure, but at the same time, it's often the only option. There are so many VCs out there that if you take a "spray and pray" approach, you'll likely find some alignment. They can also bring helpful experiences, especially in scaling startups and avoiding common mistakes, not necessarily in climate tech itself, but in the mechanics of building a startup. So, 8, just because there isn't another choice. Private equity, a 5, if you can manage it. If you're looking at an exit, whether through acquisition instead of an IPO, it depends on the type of business you have. Generally, they don't get involved at such an early stage anyway. But they have deep pockets, really know how to scale, and have strong operators. If you bring one in, you're probably never worried about money again. That said, they're not likely to be very aligned with you, which is a downside. I would put banks at the bottom, 1. Unless you have a regular business with consistent revenue and don't need to scale much, taking a loan makes no sense, and they most likely won't give one to you. It's not worth wasting your time at such an early stage.

- **How important is it for you that an investor specializes in your specific stage of development and why?** *Distribute a total of 10 points between the options below based on their importance to you.*
 - **Seed/Early stage only:** ___
 - **Investing in any/all stages:** ___

Six to four, it is pretty balanced. Going back to one of the first questions, it's important to know who is actually willing to give you money. If either of these are going to give me money, I will take it. Generalists have their own benefits. They usually have larger portfolios, which means you can get advice from other startups or connect with them for partnerships. They've also seen the full spectrum, so they just know how things work, where they're going, and are familiar with the bigger trends. But it's definitely harder and more competitive to get funding from them. Sometimes you end up wasting your time because you're just educating them and they're not actually interested, which can be a huge pitfall in fundraising. That's why I'd rank them slightly lower. On the other hand, seed and early-stage investors specialize in this space. It's their bread and butter, and they have a repeatable process that is easily understood.

- **Which investment focus do you prioritize and why?** (*Distribute a total of 10 points between the options below based on their importance to you.*)

- **Investors specializing in your industry**
- **Investors with a broader focus across multiple industries**

Eight to two. If an investor has no experience, it's really not a good idea. Climate is a very specific area of investment with so many unique challenges. Sure, someone outside the space can understand them logically, but it's completely different if they have actually seen it and operated in it. That's not to say other investors don't bring value, as they can support in other ways, and having a balance is good. But if you could have only specialized investors, that would be ideal.

- **Would you reach out to a potential investor if they have previously invested in similar companies as yours? Would you reach out to an investor if they have previously invested in your direct competitors? Please explain.**

I would say yes to both of these. The competitors one is a little trickier, but at the end of the day, your deck is probably pretty obvious and not a secret. A lot of startups get paranoid about this, especially in the US, which is very reasonable because there are a lot of bad people around. However, I think it's typically a sign that investors understand the opportunity and are willing to put money into it. If you get that signal, you're already a pretty good percentage of the way to a 'yes' compared to an investor who's never invested in this area and might not be convinced yet. So yes, I would say yes to both.

From my perspective, there aren't really direct competitors in climate at the moment. Obviously, that's not true to some extent, but for the most part, if you're doing what you're doing well, you will have customers. It's not like with tech, where you might choose one meditation app over another because the company is better. In climate, it's more like, "Do I want plastic made from cactus or from recycled materials?" and you compare based on factors like cost and quality. At this stage, I'm sure we'll eventually reach a point where it becomes more cutthroat, but for now, especially in areas like carbon removal, your

technology is either good and cheap enough or it's not. It's not like you'll lose out on removing CO2 from the atmosphere because of a competitor. So, generally, there's no close enough competition at this stage that would make me worry.

- **Please rate the importance of ticket size (i.e., the typical investment amount that the investor offers, e.g., \$1M to \$3M) on a scale of 1 to 10. Why?**

Seven out of ten. You don't want a ticket too small or too big. You don't really want just one investor, even though, in a lot of ways, it would be simpler, easier and more straightforward. But balance is good, so if you are raising 2M, having one person put in 1M and two others put in 500K or one putting in 700K and another 300K, etc., is probably better. Also, when moving on to the next rounds, there are any number of reasons why an investor might not reinvest. However, that's typically seen as a bad sign, especially if it's your lead investor. So, by balancing with other investors, you lower the chances of none of them reinvesting, which is important as you go along.

- **Are value-added activities an important factor to you when selecting an investor? Why?**

I think it can be nice. One of our previous investors was a design consultancy. We gave them some cash and equity for their services, and they helped build out our brand, marketing and identity. In such cases, it can be really beneficial because you're aligned together. I'd like to believe that the services are more worthwhile or better when they're also an investor because they want to see you succeed even more. Outside of that, I don't think it matters much if you're picking between two investors, and one offers more benefits.

- **Would you accept a 30% lower ticket size if you are offered additional value-added services?**

That is similar to what we did with the design consultancy situation. I think it's fine, especially if you really believe the value-add is significant and specific to what you're doing. There are definitely some nice things, like one of our smaller investors gave us access to a PR team, which was pretty crazy. Those people are not cheap! So yes, there are benefits. I would be open to lower size tickets or less favourable situations if I think it's worth it.

- **Rate the importance of personal compatibility (i.e., the alignment of values) between the investor and you on a scale of 1 to 10. Why?**

This is a ten out of ten. It's one of the only things that matter. It will never work out if you don't get along, even if you can like bear them for a year. Especially if they're on your board. There has to be a great match in personalities and values.

- **Do you conduct due diligence on potential investors?**

You always should. It's sometimes hard to do that as a startup, unless you have a really good network in the VC space where you can just ask people what they think of certain investors. I definitely did some of due diligence, but unfortunately VCs are often really opaque situations. The best thing that you can do, regardless of the VC, is to reach out to their portfolio companies and ask them, especially if the VC in question was their lead investor. Say, "Hey, we're thinking about this investor," because typically, startups will give you some level of honesty unless they've been prompted by the VC to connect with you, which sometimes happens. Even then, you can usually read between the lines or ask specific, direct questions about things you're concerned about. You can read their reaction and get a sense of what working with this investor really is like. So, especially for a lead investor, I'd say this is important and you definitely something you should do.

- **Would you prefer to accept \$500,000 (half of your needed sum) from a reputable investor, or \$1,000,000 (full sum) from one with questionable reputation? Why?**

Easily reputable. Especially in climate, there are a handful of highly reputable investors where, if you have their name on board in any form, money either stops being a problem or becomes much easier to raise. So, the other half a million would come pretty easily if you have a reputable investor on board. Even for an amount of 200.000, I would still go for it, partly because they can help you raise the rest of the money and partly because in general such investors are rare. There just aren't that many of them. I would say probably rate it a seven. You should always strive for the best ones, but it's really competitive, and sometimes they're just not a fit for whatever reason. At the end of the day, you need the money.

- **Would this answer change if you were under severe time pressure?**

I don't think it would really change, to be honest.

- **Rate the importance of reputational factors on a scale of 1 to 10. Why?**

Seven out of ten. Reasons described earlier.

- **Which scenario do you prefer and why?**
 - **Cold contacting an investor with no prior relationship, but who could provide the full amount of funding needed.**
 - **Reaching out to an investor with whom you have a prior relationship, even if they can only offer half of the funding required.**

I think it all happens in parallel. The way I usually go about it is by first reaching out to people I already know while also making a list of everyone I want to contact or think is relevant, which is typically around 100 to 200 names. Then, I use my network to try to get introductions. I'm not sure I've ever cold contacted anyone, to be honest. Especially in the age of AI, it's pretty much useless. Even an introduction can sometimes be useless, so a cold call at this point seems like a waste of time. One thing I'd add is that conferences can be a

good way to connect. It's like speed dating, you talk to a bunch of investors for 10 minutes at a time, and it can be really useful.

- **Would you rather have:**
 - **A sustainable investor (imagine Bill Gates) that offers lower ticket size or**
 - **A noticeably unsustainable investor (imagine a Russian oligarch) that offers an extremely high ticket size?**

I would definitely go with a sustainable investor. Valuation is a really tricky thing, especially in climate. There are baselines and rules about how much you should give away each round, and the higher, the better in a sense, because you don't give away as much equity. But at the same time, it has to reflect what you are actually worth and what you'll need to raise in the future. If you need to raise hundreds of millions in the future to build your company, then giving away too much equity early on isn't good for anyone, not you nor investors. They don't want you to dilute yourself out after two or three rounds, because if you're no longer incentivized, that's a major risk for the business. There's usually a fair balance when it comes to valuation, and having an excessively high valuation can actually be harmful. If your revenue doesn't grow accordingly, you'll end up in a down round, and that can be the kiss of death. I know that's not the main point of this question, but that's where my mind goes.

- **Rate the importance of a potential investor behaving sustainably/impactful, such as producing sustainability reports, adhering to sustainable practices, having sustainable values, etc., on a scale of 1 to 10. Please explain.**

Six out of ten. I don't think it really matters. It's usually just a big show, especially for VCs because it's just startups. It's one thing if you're a bank or someone that also invests in coal and billion-dollar companies, then it really matters and is super important. But if you're a venture company investing in seed companies, it's more to show, "Look, I'm aligned". From that perspective, it's nice to have that alignment, and it confirms that they're willing to invest in it. Also, just by investors doing that, maybe they can help you do it as a company or point in the right direction. It's not bad, but it's not that important to me.

- **Are there any other variables that you consider important when choosing an investor that we haven't discussed? How important are these additional factors on a scale of 1 to 10?**

I would say location is also an important factor. I mentioned it before, but it's nice to be able to be in person for board meetings and relationship building in general, especially in this digital age. In addition to that, I would say being really aware of where you want to do business. If you're not going to do business in the US, don't get a US investor and the other way around. The same with Europe, location matters a lot, for example, if you're in Germany and you get a German investor, it's a lot easier to deal with all the bureaucracy, especially if they're your lead investor, they might have local lawyers and can help you with many challenges. This factor is probably also around five or six out of ten.

- **Weighting factors: To understand the relative importance of each factor, I'd like you to distribute a total of 100 points or 100% among the factors we've discussed. The more important a factor is to you, the more points or percentage you should allocate to it. You can distribute the points or percentages in any way you think reflects their importance. (i.e., a very important factor might get 30pts or 30%, while a less important factor gets 5pts or 5%. The total should add up to 100 points or 100%)**
 - Investor type: 3
 - Investment stage: 10
 - Investment focus: 10
 - Portfolio: 10
 - Ticket size: 10
 - Value-added Services: 3
 - Personal compatibility: 15
 - Reputational factors: 10
 - Direct and indirect contact: 15
 - Sustainability/Impact: 10
 - Location: 4