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**ACQUIRING EARLY STAGE VENTURE CAPITAL FUNDING:
THE IMPORTANCE OF STARTUP TEAMS' LANGUAGE SKILLS**

Master's Thesis in International Business

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<p>Abstract:</p> <p>With constant innovation occurring around the world, startups struggle to be noticed. To survive and grow, startups need resources, which they rarely possess. The needed resources can be financial, social and human capital, which are areas a venture capital firm can help with. The large number of startups constantly emerging and the limited amount of venture capital financing, forces venture capital firms to make difficult investment decisions based on both quantitative and qualitative measures. This thesis investigates the impact of languages when acquiring financing, focusing on the relationship between venture capital firms and startups. The aim of this thesis is to understand how spoken language within startup teams impacts venture capital firms' investment decisions. Specifically, this thesis will investigate the venture capital firms' investment decision-making process and generate an understanding of how spoken language in the startups' founder teams affects the venture capital firms' decision to invest. The research target is also to conclude if the venture capital firms consider post-investment factors already in the pre-investment phase.</p> <p>The theoretical part focuses on the relationship between venture capital firms and startups, the investment process, and the social capital of the two parties. Regarding the methodology, the data were collected through in-depth semi-structured interviews with people working with venture capital financing. The results of the study show that mostly indirect and unconscious effects regarding the language capabilities of startups have an impact on the investment decision of venture capital firms. Within the investment process, languages seem to have the greatest impact in the face-to-face meetings. The reason languages have an effect at this stage is the in-depth analysis of the startup team which is decided by the venture capital firms throughout the investment process. The likelihood of receiving venture capital financing depends on the connection that is transmitted between the venture capital firm and startup, which is largely affected by the language spoken by the startup. Because of the importance of English within the startup world, it is also essential to have sufficient English capabilities to be eligible to receive venture capital financing.</p> <p>One implication of this study is the existence of unconscious factors that might affect the outcome of the investment decision, which can be connected to the spoken language between venture capital firm and startup. Another implication is that language should be consciously considered already in the pre-investment phase to obtain a better working relationship between venture capital firm and startup in the post-investment phase.</p>	
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1. Introduction

The creation of startups is important for the overall economic growth (Bertoni, Colombo, & Grilli, 2011; Vanacker, Collewaert, & Paeleman, 2013). An issue that startups have is the lack of capital available in the early stages, meaning that the chance of success depends on the access to capital. Kaiser et al. (2007) have called this phenomenon liability of newness, while Salamzadeh & Kawamortia Kesim (2015) call it the valley of death, both terms being quite descriptive. Kaiser et al. (2007) indicates that it is difficult to prove that the company is worth investing in because of the lack of experience and past success of the company. The second description, the valley of death, aims to paint a picture that it can be challenging for startups to survive, where the lack of capital will result in many startups failing.

Companies need capital to survive and grow. A common way of acquiring funds in the early stages of a startup is through the so called FFF, meaning (1) Friends, (2) Family and (3) Fools. After this stage, it is usually not relevant to apply for a loan from the bank. The reason for this is the uncertainty of future cash flows and the limited assets the company possesses to put as collateral. These reasons make it too risky for a bank to invest in startups (Kaiser, Lauterbach, & Verweyen, 2007). Instead of bank loans at this stage, startups tend to turn to equity financing, either in the form of business angels, venture capital (VC) firms (Kaiser, Lauterbach, & Verweyen, 2007), or in some cases, government-supported aid programs (Business Finland, 2020). Many of the largest and most influential companies of our time has been funded by the help of VC financing, e.g. Google, Microsoft and Cisco (Jeng & Wells, 2000), emphasizing the importance of capital during the early stages of a company's life.

VC financing is not only about the received financial capital, but also about the support received from the management of the VC (Davila, Foster, & Gupta, 2003). It has been argued that, in some cases, the support and managerial help received has been more crucial for the success of startups than the financial capital itself (Timmons & Bygrave, 1986). The importance of the aspects in addition to the financial capital of a VC backed funding suggests that it is critical to achieve a cooperative relationship and shared vision between

the VC and startup to be able to create added value. The relationship between the two parties has been researched, with some conclusions indicating a significant information asymmetry and lack of trust between the two parties (Shane & Cable, 2002; Gompers, 1995). The information asymmetry and lack of trust between the two parties suggests that there are aspects to improve, where an increase in these could result in better cooperation and a higher chance of the startups succeeding. The relationship and cooperation of the VC firms and startups can, therefore, be connected to the communication between the two parties. Thus, language can be thought to be of crucial importance, which is why this thesis assumes that language capabilities of startups will affect the investment decision of the VC firms. The focus of this thesis is on the pre-investment phase but will also include post-investment discussions because of the earlier mentioned statement regarding the importance of a well-functioning relationship between VC and startup.

1.1. Problem area

According to Kaiser et al. (2007), it is important for startups to gain VC financing for the survival of a company. The Nordic countries have the fastest growing startup scenes in Europe and one of the fastest in the world. In Finland, the startup scene has had a big surge after the success of companies such as Supercell Oy (Business Finland, 2020). Examples of companies that are now competing on the international markets, part of the top companies within their industries that have come from Finland and that were backed up by VC firms are Rovio Entertainment Oyj (Rovio, 2011) and Oura Health Oy (Dickey, 2018). The areas in which the high-growth startups from Finland operate in are usually high-tech, which can range from anything between software, gaming and digital services to health tech, energy and environmental industries (Business Finland, 2020). Industries where VC financing is especially important is the high-tech industry because it needs a certain amount of capital to enable the product and/or service to be validated before they start creating cash flow. VC financing has been proven one of the most important financial capital sources for high technology-startups (Gupta & Sapienza 1992).

In recent years, Finland has been more active and successful within the area around startups (Pääomasijoittajat, 2020). Successful Finnish startups are not uncommon, and one reason for these companies to have succeeded is the availability of VC financing. The VC field has also been evolving and becoming more relevant within the Finnish startup scene. Finland is a big producer of different technology and high-tech startups. Finland is big in innovation, which is important for the Finnish export to remain competitive. With the increase in startups, there has also been an increase in available VC financing in Finland from Finnish and foreign actors (Pääomasijoittajat, 2019). Even though the available VC financing has been increasing, the market for acquiring financing is still highly competitive. In this competitive market, startups must stand out and prove to their potential investors why their business is worth investing in. Communication and, therefore, also languages have an important part in convincing VC firms. The increase of foreign capital invested in Finnish companies is, thus, making it ever more important for startups and companies in general to be more culturally aware, including having sufficient language capabilities.

The importance of internationalization is adding pressure and competitiveness to startups, as the need for various competences and knowledge in startups also increases. Internationalization is crucial in Finland because of the small size of the domestic market, therefore, to be able to scale the business, they need to internationalize. Within VC firms, a very important point for investing in startups is that the business has potential to grow exponentially (Feld & Mendelson, 2016). Internationalization in early stages is also becoming more important in today's business world. The small size of the team that startups usually consist of and the lack of capital available may discourage startups to take on the road to internationalize and, thus, also blocking them from becoming high-growth startups. The lack of capital and expertise in various areas are aspects that VC firms can help with (van Dijk, Schrevel, van Stormbroek-Burger, & Blomme, 2014).

As the relationship between VC firms and startups that VC firms invest in can range from anything between 1 and 10 years, it is important to have a working relationship. Many scholars argue that the relationship between VC and startup is quite difficult. One reason for this is the so-called agency theory, which will be explained in a later stage of this

thesis. The importance of finding the right startups to enter this relationship with is therefore very important. For VC firms to enter this relationship, they need to feel certain about both the startups business, but maybe more importantly, the team. The trust towards the startup team can, therefore, be thought to have a large impact on the investment decision (Hallen, 2008; Sorenson & Stuart, 2001). The successful VC financed startup stories usually have a longer than 4-year relationship behind them, meaning the relationship, and therefore also the communication, needs to be considered all the way from the beginning to achieve a working relationship.

1.2. Purpose and research questions

The purpose of this thesis is to understand how spoken language within startup teams impact VC firms' decisions in the pre-investment phase. In other words, this thesis will investigate the VC firms' investment decision-making process and generate an understanding of whether spoken language in the startups' founder teams are considered and what kind of effect they have on the VC firms' decision.

The research questions I would like to uncover are the following:

1. Which areas of a VC firms' investment decision does research suggest that language capabilities affect?
2. Do language skills within startup teams influence the VC firms' investment decisions, and if so, how?
3. How should VC firms examine a startup team's language capabilities considering the post-investment phase?

1.3. Definitions

Below are short definitions of the key concepts that are used in this thesis.

Venture capital

VC financing can be explained as being a private equity capital that is usually used in early stage privately owned companies that have potential to reach high growth. The outcome that the VC firm usually wants to achieve is that the startup either makes an initial public offering or is sold to another company (Leitner, 2009).

Startup

A startup is a company that is in the early stages of its growth and development. Thus, a startup is a company in the process of introducing their first product to the market, creating a customer base or creating organizational processes (Klotz, Hmieleski, Bradley, & Busenitz, 2014).

Startup team

The startup team is the main group of people which the startup consists of. To be considered a part of the startup team, a person should be at least two of the following three criteria: 1) founder, 2) owner or 3) manager (Ben-Hafaïedh, 2017).

Agency theory

Agency theory explains the ownership structure of firms and is based on three assumptions; 1) that a principal-agent relationship exists, 2) these two parties have different interests and 3) information asymmetry exists. Agency theory argues that

because of the three previously mentioned assumptions, agency costs will incur (Jensen & Meckling, 1976).

Resource dependency theory

The resource dependency theory argues that companies depend on resources of different kind, e.g. human capital, financial capital, and social capital. The resources of the company should, therefore, affect the organizational structure of the company by optimizing the resources (Pfeffer & Salancik, 1978).

Social Capital

Social capital is part of the social sciences that makes it possible for individuals to gain advantages and create solutions to problems with the help of social networks (Poteyeva, 2018). These ties can be family, classmates, friends or friends of friends, through which the members of the network can gain access to information, which would otherwise be out of reach (Nahapiet & Ghoshal, 1998).

Language

Language can be spoken or written and is used by people in a social class to express themselves. Language is used to communicate with people that have knowledge of the same language.

1.4. Delimitations

This thesis will be limited to only account for VC financing, not including crowdfunding, angel investors, banks or governmental aid programs. The companies which the interviewees work for need to be active on the Finnish market. Because of this, my thesis will have a Finnish perspective, with results mainly relevant for the Finnish market. A

limitation regarding the languages will be to only cover spoken language capabilities, meaning that written or body language used between the VC firms and startups will not be considered. The spoken languages used between the startups and VC firms will also be limited to people in relevant positions of the VC firms. With relevant people it is meant employees of the VC firms that are in contact with the startup from the beginning of the relationship and is therefore able to influence the decisions made throughout the stages leading up to a startup either being denied or approved VC financing. Companies having received or being considered to receive financing from a VC firm will be limited to only cover startups, and not include small and medium sized enterprises. In this thesis companies classified as startups are in the early stages and are run by one or a few of its founders.

1.5. Methodology

Both the purpose and research questions influenced the choice of research method. The purpose of this thesis is to study how language capabilities influence VC firms' decision to finance startups. Because the purpose is to gain an in depth understanding of the decision-making process and receive opinions and experiences related to the process, it will be relevant to do a qualitative study.

Qualitative methods are usually used when the purpose of the study is to obtain a deeper understanding of actions, patterns and attitudes (Ahrne & Svensson, 2015), which is why it is relevant for the study in this thesis. In this study, the specific method to attain the primary data was through interviews, both in the form of a pilot interview to obtain initial insight into the topic, and a set of more in depth semi-structured interviews. To answer the research, it was required to have in depth conversations with the respondents, in this case in the form of the semi-structured interviews. The respondents for the semi-structured interviews were employees at companies working within VC financing.

The primary data collected from the interviews was then analyzed together with using secondary data such as scientific articles, theories and other publicly available information found on the web around the relevant area of the study. The relevant area of the study

involves both the language effects on decision-making but also regarding the relationship between VC and startup. The interviews were performed through an online service, enabling them to be recorded with video and sound. The interviews were then transcribed to accurately retell and analyze the answers.

1.6. Structure of the thesis

This thesis contains seven chapters in total. The first chapter introduces the reader to the topic, emphasizing the importance of the subject and going through the purpose. After the introductory first chapter, the two next chapters (Chapter 2 & 3) will explain the theory which is used in this thesis. The first theory chapter (Chapter 2) introduces the reader to the VC financing, including the underlying assumptions regarding the relationship between VC firms and startups. Things that will be discussed in this part will be general information regarding VC financing, the VC and startup market in Finland, agency theory, resource dependency theory and the investment process of VC firms. The second part of the theory (Chapter 3) will discuss languages and social capital. In this chapter I connect languages to social capital and further connect social capital to the decision-making of VC firms.

After the theory, I go through the methodology that I have used in my study in chapter 4. By using the methodology, I then present the data that I collected in my semi-structured interviews in chapter 5. After presenting the collected data, I proceed to analyze the data in chapter 6. Chapter 7 consists of the conclusions, including a discussion of the findings, implications of the research, critical review of the findings and suggestions for further research. The thesis is concluded with a Swedish summary in chapter 9.

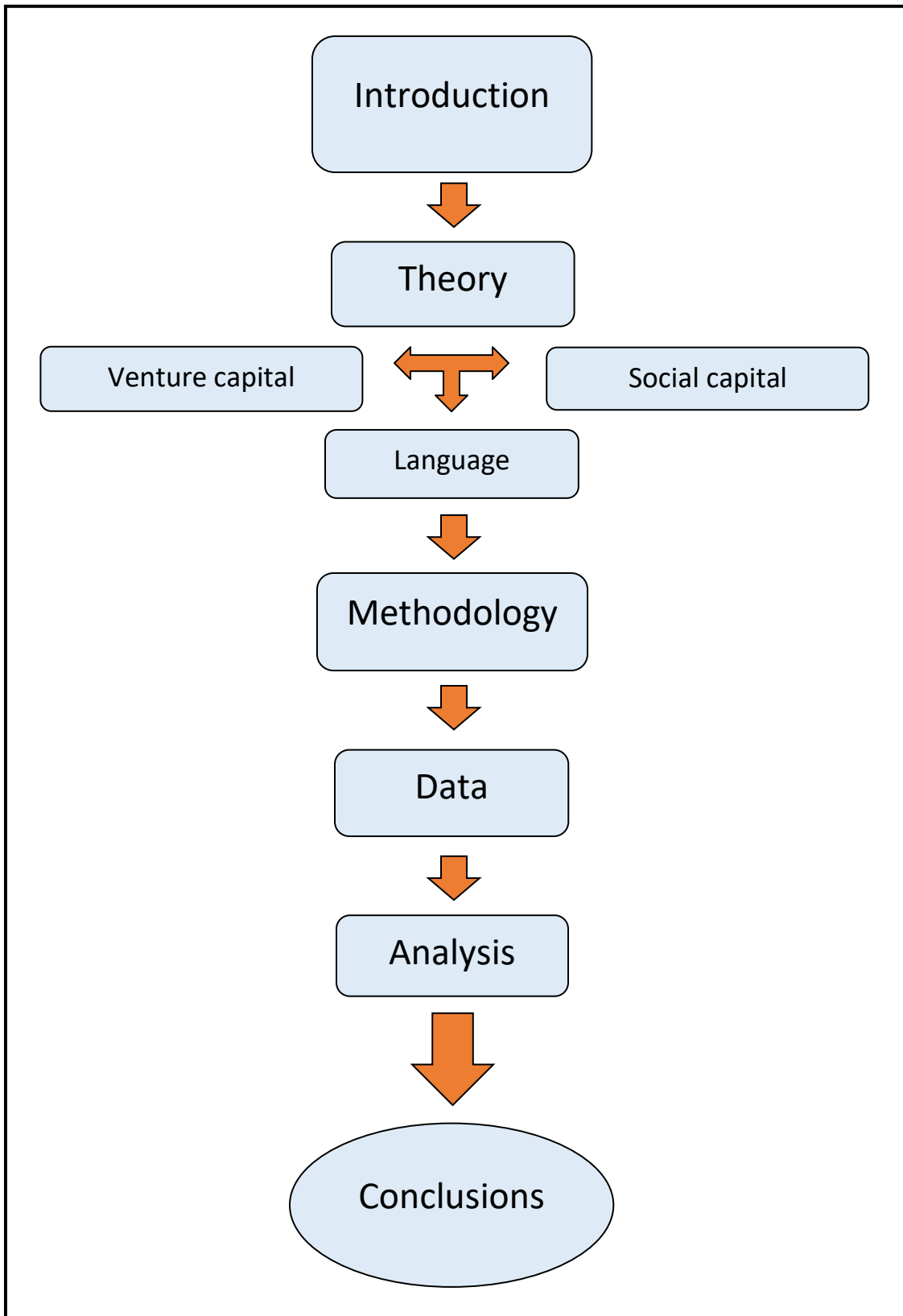


Figure 1 Structure of thesis

2. Relationship between venture capital firms and startups

In this chapter, matters related to the relationship between VC firms and startups will be mentioned. The chapter first introduces the general information regarding VC financing and then goes further into more detail regarding the relationship between VC and startup. Relevant theories that I used within this chapter were agency theory and resource dependency theory. I also include information regarding the VC firms' investment process and the VC and startup market in Finland to give a more wholesome picture of the situation.

2.1. General information about venture capital financing

VC financing is a crucial part for startups with regard to becoming successful and achieving growth (van Dijk, Schrevel, van Stormbroek-Burger, & Blomme, 2014). VC financing is a form of private equity capital, which is an important factor in the creation of startups, employment and the amount of innovation created in companies (Bertoni, Colombo, & Grilli, 2011; Vanacker, Collewaert, & Paeleman, 2013).

VC financing usually happens in stages, where the VC firms can decide if they want to continue to fund the startup or not (Gombers & Lerner, 2000). A continuation of funding usually occurs if the startup achieves pre-set milestones, which is an indication that the startup is developing and that the funding given by the VC firms is helping and achieving results, such as in the form of increased cashflow or R&D progress (Feld & Mendelson, 2016).

VC firms can be categorized depending on the stage of the companies they invest in. A normal way of categorizing VC firms is with the following stages: Pre-Seed, Seed, Series A, Series B, Series C and so on, where the Pre-Seed is the first financing round. Generally, the further startups go in the rounds, the larger amount of capital will be sought by the startup (Feld & Mendelson, 2016).

In addition to the financial capital which the VC firms provide, they can also assist in other ways. Research show a substantial part of the added value that the VC firms bring to the table is non-financial, such as the social connections, experience and knowledge from the VC firms (van Dijk, Schrevel, van Stormbroek-Burger, & Blomme, 2014; Barney, Busenitz, Fiet, & Moesel, 1996; Sapienza H. J., 1992). The social connections can be introducing startups to the VC firms' own network or helping with recruiting the right people, while at the same time providing the startup managerial support and making the startups more professional (Lim & Cu, 2012; Timmons & Bygrave, 1986; Leitner, 2009).

A startup and VC can have quite different perspectives regarding the interests to seek/provide VC financing. A driven entrepreneur will rate building a successful business as one of the most important aspects. To do this, it requires raising enough money to fund the startup and receive expertise and a network to be able to grow the company. Another aspect to consider when acquiring VC financing is how much equity, and therefore also control, the startup is ready to sacrifice. The startup usually wants to share the risks of the startup with investors, without losing too much equity and control. The reason for doing all this is to start receiving financial returns from the startup, which in the early stages of startups' lives can be challenging (Schoar, 2011). The main reason for VC firms to invest in startups is to maximize their own financial returns. Because of the high risk and effort involved in investing in startups, the return they hope to achieve need to be significantly higher than investments made in the stock market. The entrepreneurs in the startups might need guidance in certain areas, which the VC firms can be of help in. The part that VC firms are usually especially interested in is the way the startups use the capital they possess. VC firms are also interested in being able to participate in later rounds of financing. Another important aspect for VC firms is the ability to liquidate the equity they have in a company either through a merger or an IPO (Schoar, 2011).

It is common that people from the VC firms sit on the board of directors in the startup that they are funding, to be able to influence how matters are handled and to give advice (Gombers & Lerner, 2000; Leitner, 2009). VC contracts can also contain parts that explain who make the decisions in the startup, which usually depends on how well the firm is

doing, where the VC firm can take action if the entrepreneur is not achieving what was expected or promised (Leitner, 2009; Feld & Mendelson, 2016).

2.2. Market-related information

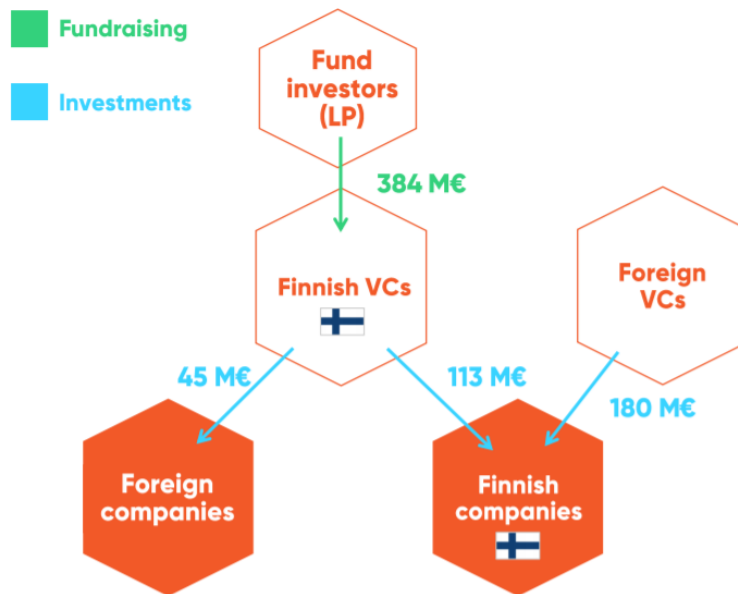
VC firms are crucial for innovation and, therefore, also for startups to succeed (van Dijk, Schrevel, van Stormbroek-Burger, & Blomme, 2014). Finland was ranked at first place on innovation in 2018, according to the Consumer Technology Association scorecards (Flores, 2018). To gain a better understanding of the VC and startup market in Finland, statistics regarding these areas will be mentioned. In this section, I will therefore not only explain what the Finnish market regarding VC financing looks like, but also general information regarding the startup scene in Finland.

Before proceeding to the VC and startup markets, it is interesting to note that the total private equity investments into Finnish companies in 2019 were 1 billion euros and the total fundraised funds were 919 million euros, which is a 131% increase from the year 2018. The new raised funds will be invested in both startups and growth companies in and outside of Finland in the coming years. The majority of the 1 billion euros that were invested in Finnish companies were in growth companies, but there were also investments made in early stage startups. Investments made into growth companies are therefore not made by VC firms and are not part of the statistics that will be presented in the next chapter. (Pääomasijoittajat, 2020).

Even if the total of raised funds to private equity saw a big upward swing in 2019, the number of investments into Finnish companies and the total size of the investments decreased from the previous year (1 billion euros into 242 companies). (Pääomasijoittajat, 2020).

2.2.1. Venture capital market

In total, there are around 35 VC firms in Finland. The average size of the funds that these VC firms manage are 40 million euros, which is only 40% of the European average (Pääomasijoittajat, 2018). The average size investment per startup made by Finnish VC firms has risen from 600 000 to 740 000 euros from 2017 to 2019 (Pääomasijoittajat, 2020).

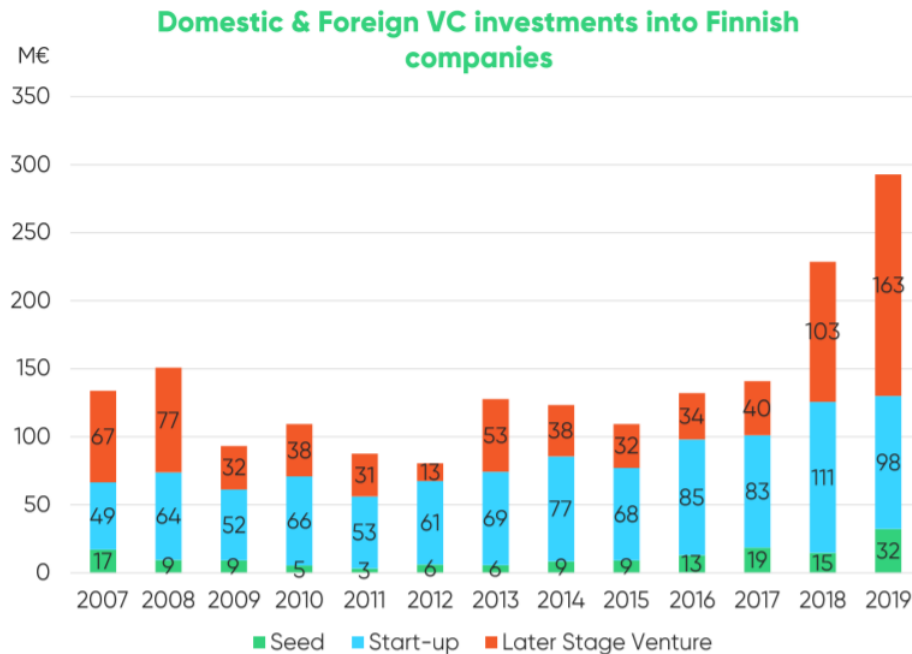


Note: VC investments only.
Sources: FVCA, EDC

Figure 2 Venture capital Domestic-Foreign (Pääomasijoittajat, 2020).

Even if the private equity market in Finland in general saw a decrease in both the number of investments and the total size of the investment, the VC market's equivalent numbers to these was record high in 2019. The raised VC funds had a 329% increase from 2018 with a total of 384 million euros. Startups and early-stage growth companies in Finland received a total of 293 million euros from VC firms, where 180 million were from foreign VC firms and 113 million from Finnish VC firms. 61% of the total VC investments made

into Finnish companies were therefore from foreign VC firms. Even though the majority of the VC investments (61%) were made by foreign VC firms, the number of investments made by foreign VC firms were only 14% of all the investments. Most of the foreign VC firms' investments were also made together with Finnish VC firms. This statistic highlights that the foreign VC firms invest more rarely, but with significantly higher amounts and through syndication rather than investing alone. (Pääomasijoittajat, 2020).



Sources: FVCA, EDC

Figure 3 Venture capital Investments (Pääomasijoittajat, 2020).

Finnish VC firms invested a total of 158 million euros, where 45 million went to foreign companies (28% of Finnish VC firms total investments). Out of the 158 million euros that Finnish VC firms invest, 132 million are made by the private sector and only 26 million by the public sector. This means that the private sector holds 84% of this market. The size of the investments by Finnish VC firms into foreign companies rose from 26% to 28% of the total size of the investments. There is a visible trend that the Finnish VC market is

becoming more international, with not only an increase in Finnish investments made in foreign companies, but also in the foreign VC firms' investments in Finnish companies. (Pääomasijoittajat, 2020).

2.2.2. Startup market

Helsinki has been ranked #1 in the world regarding local connectedness between founders, investors and experts (Business Finland, 2020). The Finnish business society is supportive of entrepreneurship and have a Silicon Valley-inspired culture. This, in combination with one of the world's largest startup events, Slush, supports the fact that Finland has been rated among the best places in the world for startups (Business Finland, 2020).

Each year, there are around 4000 startups that begin to operate in Finland. Out of the yearly startups that begin to operate, around 300-400 are growth startups that have seen a considerable growth within 3 years of their start. The Helsinki area has over 500 startups in the tech industry (ibid.).

In 2019, the total size of investments made by VC firms into Finnish startups were 293 million euros, which is a 28% increase from 2018. The number of investments in the same comparison was 176 in total, being a 13% increase from the previous year. In total, startups received capital totaling over 1 billion euros from VC firms and private equity companies. Also including the business angels, this figure would increase even further. (Pääomasijoittajat, 2020). In 2018, Finland's startups received the most VC in Europe when comparing the capital to the GDP. The VC compared to the GDP in Finland was 0,096%, which was twice the European average (Pääomasijoittajat, 2019).

A study made by Finnish Venture Capital Association (FVCA) and KPMG shows that companies that received VC or private equity investments grew significantly more in terms of both the number of employees and revenue of the company. The revenue was annually growing around 6 times more and the employees grew annually 15 times more than it did in companies not receiving VC or private equity. (Pääomasijoittajat, 2019).

2.3. The relationship between VC firm and startup

One way to describe the relationship between VC firms and startups is by using the agency theory by Jensen & Meckling (1976). Agency theory might be more used when discussing the relationship between board of directors and shareholders of a company but is also well suited for the VC-startup relationship. This theory works within the VC-startup context in many ways, which will be explained in the following sections.

The VC and startup usually have different sets of interests, where they both generally want to benefit as much as possible. VC firms are companies and has fiduciary duties to its stakeholders where the Limited Partners (LPs) are the most important stakeholders, which is one of the interests they must keep in mind. This means that even if a startup has a good relationship to a VC, their fiduciary duties should affect the VC in a way that they are hesitant to make irrational decisions regarding their investment decisions. This said, Feld & Mendelson (2016) mentions that if a VC does not like you, they will also most likely not invest in you, meaning that not only do the startups need to be a rationally good investment, but they also must connect with the VC firms on some level. A common way for VC firms to benefit in these cases are when the startup is sold or when the startup makes an IPO. The startup on the other hand might not always want these scenarios, or at least not on the VC firms' terms, which creates a conflict of interest. Information asymmetry is also something that has been proven to exist in previous studies between VC firms and startups (Shane & Cable, 2002; Gompers, 1995), which is why agency theory can be used when talking about the VC-startup relationship (Jensen & Meckling, 1976).

The agency theory explains that to align the interests of the two parties, agency costs occur. These costs can be residual loss, control costs or managing costs. Agency costs exist in this case because when the startup team gives up a part of their equity, the other part will then also share the costs of what the startup is spending (Mallin, 2018). To align the interests and keep both parties invested in doing the best for the company, the VC and startup can make contracts to increase the trust and minimize the risk. These contracts are usually the so-called shareholder's agreements. This agreement usually consists of things

which will keep the founders of the startup committed to doing their best, while also not giving away too much control to the VC firms (Ramsinghani, 2014; Jensen & Meckling, 1976)

Another relevant way of looking at the VC-startup relationship and the startup team is with the help of resource dependence theory (RDP-theory) introduced by Pfeffer & Salancik (1978). This theory is more general towards the external control of organizations but can as well as agency theory also be used in the context of VC firms and startups (Pfeffer & Salancik, 1978). Building on the RDP-theory, Haynes & Hillman (2010) highlights the importance of social and human capital. Social capital in this context is the actual and potential network of knowledge within the startup and the VC, while human capital is the knowledge, information, and experiences of individual people. The reason why these are important, is because the theory argues that both breadth and depth is needed. Breadth is when the social and human capital is wide, aiming for heterogeneity, while depth is when the people have specific and detailed knowledge of specific things. I.e., Haynes & Hillman (2010) combine social and human capital to instead think in regard to resources overall. RDP-theory, therefore, argues that both breadth and depth is needed, and that a company needs to take both aspects in consideration when e.g. hiring people (Haynes & Hillman, 2010). In the VC-startup context, this implies that the VC needs to uncover the same things regarding the startup team, i.e. that they have both breadth and depth.

2.4. Investment process

The investment process can be thought to be quite standardized, with most companies following the same pattern. The investment process is shown in Figure 3. below. I will only go through the parts relevant to this study. It starts with the sourcing and screening of opportunities, where the biggest elimination of possible investment opportunities happens. During and after this is done, it is time for the Due Diligence, which is both in regard to the quantitative (analyzing financial statements and capital efficiency) and the qualitative (analyzing the startup team) side. The more challenging of these two is

regarded to be the analysis of the managerial side, i.e. the qualitative side. This has to be done throughout the process, and involves less quantitative measures, since the main idea is to obtain a good idea to what kind of people they are that are in charge of the startup. This part can be called management team diligence (Ramsinghani, 2014).

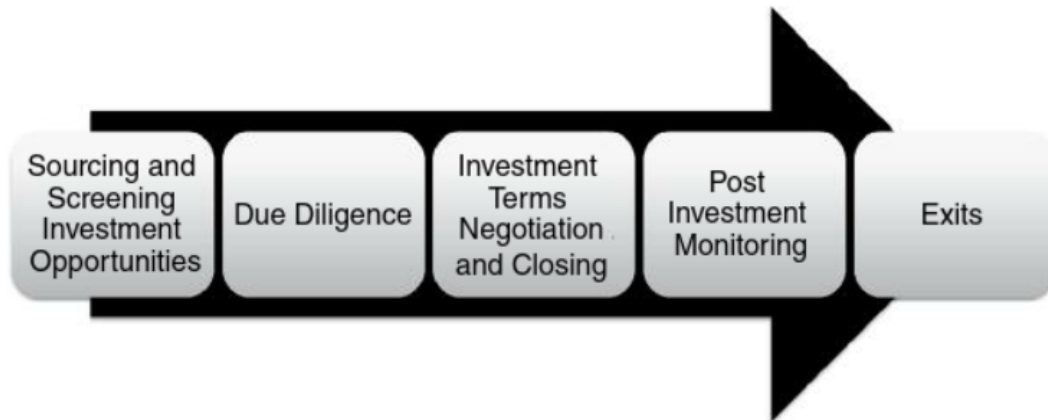


Figure 4 Investment Process (Ramsinghani, 2014).

Important aspects to look at when it comes to the management team diligence is integrity, making and executing decision, people skills, and attracting high performing team members. These things are not quantitatively measured and take time to process, meaning this is done throughout the pre-investment phase. (ibid).

“Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don’t have the first, the other two will kill you. You think about it; it’s true. If you hire somebody without [integrity], you really want them to be dumb and lazy.” -Warren Buffett (ibid.)

Digging deeper into these traits that are necessary in teams, integrity seems to be the most important one. Integrity can be thought to consist of how honest you are and if it is visible in what you do. This can be thought to be quite an obvious trait to have but is very hard to identify in people. There are people in different spectrum, meaning there will be people that are easy to spot that are not honest, and that are honest. The problem lies within the people who fit in between these lines, which is the majority. These people are hard to

interpret if they are what they say, i.e. if they have integrity or not. Analyzing these kinds of things can take very long and might need many meetings and sessions with various people to answer the questions the VC firms are looking for. (ibid).

The charisma of the people pitching their business idea or startup is important. Other external factors such as the voice, gender and attractiveness of the pitchers can also influence the pitch. Even though you can come a long way with charisma, you also need a good idea and business plan to back it up. The pitch therefore also needs to have substance, not only charisma. But since there are so many startups for the VC firms to choose from, the VC firms already do the initial screening of startups involving going through the market, financial aspects and potential before the startup even has the chance to pitch. (ibid).

3. Social capital

In this chapter I will go through the theory I am using regarding connecting language capabilities to the VC firms' decision-making and relationship between VC firms and startups. Resources that a company has can be, e.g. financial, social and human capital. Brush et al. (2001) argue that the more complex a resource is, the more it has potential to bring value and develop into something more. A complex resource is something that is intangible, and knowledge based (Jacobsen Lauvås, Olsen, & Pettersen, 2013; Brush, Greene, & Hart, 2001), where I argue that languages fit in very well. I have chosen to use social capital as the base of my study, going through how the relationship is affected and what might be of importance regarding the VC firms' decision-making process.

3.1. Introduction

The basis of social capital comes from community studies, where the main aspects were the increase of trust, cooperation and collective action. With time, social capital has been used to explain many different phenomena in various fields. Social capital is now thought to have effects on the development of human capital, economic performance of firms and economic regions (Nahapiet & Ghoshal, 1998).

While the exact definition of social capital is being argued, the general idea that social interactions grant actors benefits, is accepted by the majority (Brunie, 2009). Brian Keeley (2007) describes in his book at OECD Insights social capital as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups”. This description tries to involve everything that is necessary within social capital, as it is a very broad topic. Social capital involves the network and relationships that various groups or individuals have. The networks within social capital can be religion, work, family, political affiliation, ethnicity, or nationality. In addition to this, social capital consists of the environmental and cultural aspects that revolve around these groups. In other words, how strong the bonds are between group members, the trust between them and the norms and values that are embedded in the mindset of the members (Clark, 2006).

3.2. Connecting social capital to language

According to Nahapiet & Ghoshal (1998) there are three dimensions of social capital; (1) structural, (2) relational and (3) cognitive. Nahapiet & Ghoshal (1998) mentions that they are aware that parts of the different dimensions may be connected to one another, but the distinction is still important to be able to analyze various aspects. The structural dimension is as the name suggests, regarding the structure of the network, network ties and the network configuration. In a startup team's context, this can be considered the interactions between a startup and various stakeholders in their surroundings, such as financiers, family, friends, entrepreneurial community, accelerator programs etc. The cognitive dimension is about the networks shared norms, language, codes and narratives. The last one, the relational dimension is regarding the trust, norms, obligations and identification within the network (Nahapiet & Ghoshal, 1998).

Social capital can be divided into two groups, namely bonding social capital and bridging social capital (Leana & van Buren, 1999). Bonding social capital focuses on the group and relationships between a network, while bridging capital focuses on the individual relationships to different kind of people or groups (Adler & Kwon, 2002). Another way to phrase bonding and bridging capital, is to think bonding as the one that focuses on creating a network with the people that share a common identity, while bridging is when you reach beyond the network that you have a common identity with (Keeley, 2007). For startups, bridging social capital seems to be more important because of the possibility to obtain individual benefits, the possibility to influence individuals, directly share information and reach a more heterogenous set of people (Kannadhasan, Parikshit, Pankaj, & Sivasankaran, 2018; Keeley, 2007). When only focusing on bonding capital, a company can easily exclude themselves from people that are not in their direct reach, while only focusing on the bridging capital increases the possibility that the people within your closest network does not have the trust needed to work well together or that you do not have a close network (Keeley, 2007). Drawing upon this theory and putting it in to the context of a startup, this would mean that only focusing on the bonding capital would lead to a good trust and cooperation between the founding team, while the connections to

investors or market in general might be lacking. When the startup only focuses on the bridging capital, it might mean that they have good connections to knowledgeable people, investors, and mentors, but the thing that is lacking is a common set of goals and a real trust between the startup team.

Connecting social capital to languages may not be accepted by all scholars but is still argued by many to be considered a part of it. Clark (2006) says that if you want to argue language as social capital, you also need to rethink the relationship between linguistics and political economy. Language has already for long been considered as a type of wealth, included in cultural capital, meaning to include languages into social capital would not be too far-fetched either. Clark (2006) argues that all type of communication systems that incur between people would be considered types of social capital. Nahapiet & Ghoshal (1998) specifically mentions language as a part of the cognitive dimension, meaning language capabilities have been thought to be connected to social capital by quite many. It can also be argued that language is part of the relational dimension, as the identification, norms and trust of a group can be closely connected to a network's language. The network ties in the structural dimension can also be seen to be connected in the sense that depending on your language capabilities, you might have different kinds of networks.

3.3. Social capital link to the VC-Startup relationship

Social capital links to companies for quite simple reasons. When people within a company and the people that surround them work well together, business is also better. There is more trust, the knowledge between different parts of the organization will move more quickly and the teams are more productive. This is some of the reasons why it is important for managers and executive personnel to focus on the social capital within their companies (Prusak & Cohen, 2001). Entrepreneurs with sufficient networks have also been proven to be the ones creating opportunities within their startup, meaning networks are an important part in the overall success of the startup. (Leyden, Link, & Siegel, 2014)

According to Burt (2000), social capital has strong connections to social networks and Nahapiet & Ghoshal (1998) connect social networks to being almost identical to the

structural dimension of social capital. Going further, social networks has connections to creating economical value (Ferrary, 2003; Lim & Cu, 2012). And is an important aspect when it comes to acquiring VC financing (Liao & Welsch, 2005). According to Nahapiet & Ghoshal (1998), the base proposition is that networks gives you access to resources. As mentioned earlier, resources are usually lacking within startups, which is another reason why social capital is important to consider. Social capital within startups has been acknowledged to make a large impact on the progress of startups and their success (Hallen, 2008). The way it impacts this is with an increase of access to information, reputation building and availability of opportunities (Alexy, Block, Sandner, & Ter Wal, 2012; Hsu, 2004). It has been noted that the fewer social ties that a VC and startup have, the more they get into disagreements, enhancing the importance of social capital even further. It has also been shown that the more direct social ties between VC and startup, the more the VC will help the startup by giving advice (Lim & Cu, 2012).

The VC-Startup relationship has been studied from various points of view regarding social networks, including investment decisions, VC contracts, post-investment relationships and VC syndication (Sorenson & Stuart, 2001; Ferrary, 2003; Shane & Cable, 2002; Sapienza & Korsgaard, 1996). One of the main arguments backing up the importance of social capital is that it helps the information flow and to build a more trusting and cooperative environment between the VC firms and startups (Lim & Cu, 2012). Another important aspect of where networks are important within VC financing is when VC firms are searching and screening for startups. It is both other competent startups and VC contacts that are the most qualitative and reliable sources who give the best prospects. Other sources that may result in valid prospects are incubators, accelerators, financial institutions, angel networks or governmental aid programs (Ramsinghani, 2014).

3.4. Benefits of social capital

Social capital increases the ability to exploit opportunities by reacting faster, which is crucial in starting and operating startups (Kannadhasan, Parikshit, Pankaj, & Sivasankaran, 2018; Leana & van Buren, 1999; Yang, 2016). Many scholars agree that

connections and networks should be highlighted because of their importance to creating startups (Nahapiet & Ghoshal, 1998; Aldrich & Zimmer, 1986; Adler & Kwon, 2002). It has also been stated that VC firms with more social capital are better able to find good startup prospects that need financing (Alexy, Block, Sandner, & Ter Wal, 2012).

Brüderl & Preisendörfer (1998) further concluded in their analysis that their “network success hypothesis” is valid, meaning that the probability of success within startups is increased by having more network support (Brüderl & Preisendörfer, 1998). Network support in this case can be thought to be social capital. Leyden, Link & Siegel (2014) implies that instead of the knowledge being the more important factor in startups succeeding, it is the effective social networks. This does not mean knowledge would not be important but instead implies that it is the variety of knowledge within the network that is important. It should therefore be variety of knowledge that needs to be enhanced, instead of specific knowledge within a startup team. This points to the fact that a startup needs various insights and knowledge of many different areas, not only regarding the one market that they are going to penetrate. (Leyden, Link, & Siegel, 2014) Successful startups do therefore not only need good ideas, enough resources, a business plan and smart people. They also need a sufficient network and ability to use and manage that network. These things are especially important in startups within universities, because the network will involve fellow students, post-graduates, researchers and professors, who all can give input, ideas, advice or even financial capital (Leyden, Link, & Siegel, 2014).

Prior research has also suggested that direct ties within social capital decreases the uncertainty to its potential partners (Sorenson & Stuart, 2001). This aspect is important to consider within the VC-startup context, because a big factor when it comes to the VC firms’ investment decision boils down to the trustworthiness and certainty of the startup. To avoid uncertainty, studies have shown that companies tend to work with direct ties, such as already known partners (Sorenson & Stuart, 2001; Hallen, 2008). Drawing further upon the uncertainty, Hallen (2008) mentions that when choosing between different startups with similar resources, the company is most likely to choose the one with least amount of uncertainty. Complex resources such as product development, innovation capabilities and the company’s access to customers are usually hard to evaluate in a short

period of time (Hallen, 2008), which makes it even more crucial to decrease the uncertainty in any way possible.

3.5. Summary of theory

To summarize the importance of connecting social capital to the relationship between VC firms and startups, it is mostly about the trust and certainty between the two parties. As was also mentioned regarding agency theory, it is about decreasing the uncertainty. Social capital should therefore be considered as one of the mechanisms used to make the VC-startup relationship more successful or as the mechanism that makes the VC-startup relationship possible.

Regarding the network of the startups, from a theoretical point of view the VC firms should focus on heterogeneity. The reason for this is that a startup needs various types of knowledge, and the broader your network is, the better it should be. Therefore, to accomplish this, your startup team should already have various competences regarding e.g. educational background and work experience. The languages can also be connected here, with the startup being more diverse by having a multi-cultured team with different native languages. The RDP-theory argues that a team needs to have both specific and wide knowledge of various things. The reason it is relevant to this thesis is because languages can be considered cultural diversity, where an increase in the spoken languages should bring more resources to the startup.

The social capital is also important to consider regarding the post-investment phase. As Lim & Cu (2012) also mentioned, the more social ties the two parties have, the fewer arguments will be had, and the more help be given by the VC. This can be brought back to the information asymmetry, where an increase in social capital should make the trust and communication between the parties better.

As a result of the growing startup market and an increase of foreign funds invested in Finnish companies, startups need to think about how they stand out and remain competitive. The reason this can be of importance in this thesis is because an increase in

resources, in this case languages, social capital and human capital, should be considered assets that give startups a competitive advantage. The large amount of VC funding originating from foreign investors, highlights the importance of startups being international from the beginning.

4. Methodology

In this chapter I go through the methodology regarding my study in more detail. I also mention the steps and reasoning behind the decisions I have made regarding conducting my study.

The chapter will commence with presenting the research design and method, and then go further into detail regarding how the data was collected. I finish the chapter by introducing aspects to take into consideration when conducting a study regarding trustworthiness and authenticity.

4.1. Research design

It is important to be able to differentiate between research design and research method. The research design covers the whole framework of the empirical data collection in the study, while the research method more specifically covers how you collect and analyze your data (Bryman & Bell, 2013). In other words, the research design is the plan of the study, while the research method is the strategy used to implement the plan.

A clear structure of the empirical study will make it easier to achieve results and come to conclusions. The purpose of a research design is therefore to establish the frame of the empirical study (Malhotra & Birks, 2003). The research design can also be defined as a framework for the collection and analysis of the data (Bryman & Bell, 2013). According to Bryman and Bell (2013), the research design is important regarding the purpose of the research and what kind of research questions the study is trying to answer. There are different research designs to choose from, but the most important aspect of the choice is that it fulfills all of the criteria that the study has (Bryman & Bell, 2013). The research design can only be locked in after the problem definition of the study has been set. This is because the research design is a plan that will guide the researcher regarding how the study will be conducted (Zikmund, Carr, Babin, & Griffin, 2013). The plan usually shows how

the study is conducted and which methods and processes are used. It is crucial that the research design is made before the study is conducted, as this will affect the outcome and therefore the reliability of the results (Zikmund, Carr, Babin, & Griffin, 2013). The problem definition and purpose of the study will affect the choice of research design. The research design therefore affects the whole study, all the way from the way from choosing how the data is collected to the results (Zikmund, Carr, Babin, & Griffin, 2013).

Studies can either be deductive or inductive. Simply put, a deductive approach tests a theory, while an inductive approach is about generating a new theory. In the deductive approach the researcher usually starts with a hypothesis, that will later be analyzed according to the results. These studies are often quantitative, because there in these studies it is easier to either accept or reject a hypothesis. An inductive approach is more likely made using a qualitative study. A criticism to these approaches has been that a study cannot solely be deductive or inductive. If you do a study that uses an approach somewhere in between these two, it is referred to as an abductive approach (Bryman & Bell, 2013). Since the data I have collected and analyzed is qualitative, my study is inductive, or taken the previously mentioned criticism in consideration, abductive.

4.2. Qualitative research

The research method can be defined as the technique used to collect the data for the study. To obtain useful and relevant data, it is therefore important to choose the most suitable method (Bryman & Bell, 2013). Choosing between qualitative and quantitative research is a most common way to classify the two options and are often considered opposites of each other (Ahrne & Svensson, 2015). A way to describe these two is to consider qualitative research as more descriptive, while quantitative is about measuring the data. Quantitative research can therefore give a broader and more general assessment, while the qualitative research will be more in depth and personalized (Ahrne & Svensson, 2015). Qualitative data is also often represented in words, while quantitative research often come down to numbers, as they are intended to be measured in some way (Guthrie, 2010).

Nowadays, it is also common to combine the qualitative and quantitative method to be able to answer all the research questions more thoroughly (Ahrne & Svensson, 2015).

The size of the sample tends to be smaller in qualitative studies than they are in quantitative ones. As mentioned before, results of the qualitative studies are usually expressed in words. This is because the most common ways to collect the data is by using interviews or observations, meaning the data will be written down or recorded in one way or another. This also means that both the respondent and researcher can have a substantial impact on the results of the study, since they will be able to affect the questions and answers. Because of the smaller sample size, the researcher will have a chance to gain a deeper understanding in the topic (Ahrne & Svensson, 2015). It is important to focus on the authenticity rather than the pure size of the focus group in qualitative research (Daymon & Holloway, 2011). Qualitative studies can usually not be generalized because the results of the study will depend on many different factors that both the researcher and respondent can influence. The results could therefore be different depending on who the researcher has chosen to use as their respondent, how these two parties get along or how the questions are asked (Bryman & Bell, 2013). This study aims to obtain a better understanding of the VC firms' decision making, where it is needed to have in-depth conversations with relevant people, which is why I have chosen the qualitative method.

4.3. Data collection and analysis

In total, one pilot interview with two interviewees and six semi-structured interviews were conducted for this thesis. The pilot interview was held in Swedish, while all semi-structures interviews were conducted in Finnish. All semi-structures interviews were conducted through the online service Zoom, where 5 had both sound and video and 1 had only sound. The reasons the interviews were done online was both because of the distance between interviewee and interviewer and the authorities' recommendations regarding the COVID-19 restrictions.

The data and analysis of the data has been done according to procedures presented by Yin (2016). The interviews were recorded, transcribed and then disassembled. After this, the disassembled data was categorized using the same themes as I had in the interview guide, which made it easier to analyze and draw conclusions. By categorizing the different parts, I was able to highlight topic and subtopics and better be able to notice patterns within the data (Yin, 2016).

4.4. Semi-structured interviews

The purpose of the semi-structured interviews was to obtain an in depth understanding of the pre-investment phase from the perspective of VC firms. The focus point in the interviews was the investment process, criteria and communication between VC and startup.

As mentioned earlier, the research design is not the same thing as research method. It can be necessary to use more than one research method to obtain the needed data (Bryman & Bell, 2013). In my study I first had a pilot interview to gain information from the start to be able to easier identify my focus. The primary data used in this study is from the semi-structured interviews that were conducted for this thesis.

Interviews are commonly used in both qualitative and quantitative research. Interviews can both give specific and more broad answers, since the researcher can choose what and how to ask the questions. Within qualitative research, interviews are the most common method (Hirsjärvi, Remes, & Sajavaara, 1997; Ahrne & Svensson, 2015), where semi-structured interviews are the most popular (Alvesson & Deetz, 2000). There are different varieties of interviews, such as unstructured, semi-structured and structured interviews. Studies where the emphasis is on collecting data related to someone's experience, perception or opinions on a specific topic are well suited to be collected through interviews, which is why I chose interviews as my method, and more specifically semi-structured interviews.

In semi-structured interviews, the researcher can be more interactive than in structured interviews, but not as interactive as in unstructured interviews. Semi-structured interviews have pre-determined questions, but the order which the questions are asked can be different between the respondents. The questions also do not have to be said word by word but can instead freely be explained by the researcher. It is also important to have additional questions that the researcher can ask if the answer is not specific or thorough enough.

In semi-structured interviews the researcher is also able to add completely new questions if the topic evolves in a direction that was not predicted in beforehand. In these interviews it helps if the respondent feels comfortable, relaxed and willing to speak with the researcher, as this will affect their answers (Ahrne & Svensson, 2015). To achieve this, the semi-structured interviews were held in each person's native language, in this case Finnish. The reason for holding the interviews in the respondents' native language was to create an atmosphere where the respondent was as comfortable, relaxed and candid as possible. The respondents would also be able to explain things in greater detail when speaking their native language, instead of answering questions in a language they do not possess as well. I also eased into the interview by first introducing myself and my background to make ourselves more acquainted with each other. Before starting to record the interviews, I asked permission to record the interviews and made sure that the interviewees or the company they represent will not be mentioned in the thesis by name.

Even if the semi-structured interviews are more free than structured interviews, they still significantly differ from a normal conversation. In interviews, it is the researcher who guides the respondent and the purpose of the interviews are to have the researchers questions answered (Ahrne & Svensson, 2015). As in any other interaction between two people, there are possibilities of misinterpretations which can change the results and affect the reliability of the study. Also, as previously mentioned, the interaction between the respondent and researcher can affect the outcome of the study (Holstein & Gubrium). Even small things such as facial expressions and tone of voice can lead the respondent to a specific direction in their answer. The things that can change the direction of an answer can both be conscious and unconscious, meaning these things are important to consider

when conducting and planning interviews (Holstein & Gubrium, 1995; McNeill & Chapman, 2005).

It is not only the researcher that is able to affect the results consciously or unconsciously, since the respondent can also either lie or answer questions in specific manners on purpose, but also unconsciously say things in a way that makes themselves look better (McNeill & Chapman, 2005). In order to keep the interview versatile, the researcher may ask questions of different sort. There are a variety of kinds of questions to choose from, such as introductory, direct or indirect. It is also important for the researcher to be well prepared, take the respondent in consideration and present the questions clearly in order to obtain the most reliable and valid results (Mishler, 1993).

When conducting interviews over the phone or online, there might occur some issues regarding the analysis of the respondents' answers. The issue can occur because it is harder or not even possible to analyze things such as body language or facial expressions (McNeill & Chapman, 2005). The language that the interviews are conducted in is also something to pay attention to, as this will affect the answers of the respondents. Interviews conducted in the respondents' preferred language will usually make them more relaxed and able to answer questions in more detail.

The most important reason for the choice to conduct semi-structured interviews was the possibility to receive an open, genuine and relaxed discussion with the respondents. Because the goal was to gain the respondents' opinions, experiences and processes regarding the topic on hand, interviews were the most logical method to gather the data. This study focuses both on the visible and hidden aspects of how VC firms' decision to either invest or not invest in a startup, which is why additional questions were crucial for attaining sufficient data.

4.5. Trustworthiness and authenticity

Trustworthiness is not necessarily created in a specific way but is instead visible through good transparency and a certain attitude in the written work. A strong trustworthiness is

one of the best ways to improve the credibility of a written work. A way to do this is by openly explaining the methods you use to attain and analyze the data (Yin, 2016).

A way to analyze qualitative studies without sacrificing relevance of the study is by using Guba's trustworthiness model (Guba, 1981). It is based on the truth value, applicability, consistency and neutrality. The truth value, which can also be called credibility, tells you if the researcher trusts the results of the study in the correct context (Lincoln & Guba, 1985). A study has credibility when it is able to present an as accurate description of the interaction so that other people can understand it (Krefting, 1991). In this study, the interaction between interviewee and interviewer has been described as accurately as possible.

The applicability is regarding how the study can be applied in other contexts. Qualitative studies can be considered to be unique in the sense that the results will depend on the interview objects. A consequence to this is that the study is harder to generalize. The applicability is visible when the results of the study is used in other contexts, e.g. when trying to use it in other studies (Krefting, 1991). In cases like this, the responsibility lay on the user. If the researcher has explained the methodology in sufficient manner to allow comparability, then the problem regarding applicability has been fixed (Guba, 1981). My thesis has thoroughly described the methodology used in the study, meaning it is possible to apply or use the results in other contexts if wanted.

Consistency of the data in quantitative studies means that the data is replicable in a similar context (Krefting, 1991). In qualitative studies some variation is expected, where the consistency is instead explained with trustworthiness (Guba, 1981). This study accepts some variation, since it is a qualitative study and the interviewee's have different experiences, knowledge, personality which will affect the results. The variation which might affect the results in this study is among other things the size and type of the company which the interviewee works for, what kind of and how long experience within the field that the interviewee has and the title and work tasks of the interviewee. To minimize the possible negative effects of the variation I conducted the interviews in the same manner, which in this case was through personal Zoom meetings in accordance with my interview guide. Regarding the above-mentioned variety, I tried to find people that worked within

similar positions, meaning members being in contact with startups and being an active part of the investment decisions. I managed to find relevant people that fit this description, with all interviewees being Managing Partners, Partners, Founders, Co-Founders or Investment Directors. These all positions are similar in the way that they all have relatively large areas of responsibility, being active members of the investment decisions and being in contact with the startups from an early stage of the process. The largest variety that is likely to have occurred in my case is the size and type of company in question. Because of the difficulty to obtain interview objects, the size of the company varies quite vastly, from a small company investing 10 000 – 100 000€ per startup to a large company having the initial investment at 2 000 000 – 15 000 000€. Also, one of the companies in my study do not fit in the professional VC criteria, and instead falls into a Family Office category, which will give some variation. The experience of the interviewees within the startup and VC field was quite high, except for the interviewee which was the representative of the Family Office that had the least amount of experience within the field.

The amount of neutrality tells how much the results are based on the interviewees or study's context, the partiality or other motives and perspectives. The aim to achieve neutrality is therefore to have a neutral standpoint, by not weighing a certain opinion higher than another without explaining why this is done. In qualitative studies it is strived to decrease the distance between researcher and informant by prolonging the time that they are in contact (Guba, 1981). I have evaluated my data impartially and presented my data with transparency. I tried to decrease the distance to my interviewee objects by starting the interviews with describing my own interests and experiences within the field and asking them about their background. The goal with this was to connect with them and increase the time spent with them before starting with the actual questions.

Doz (2011) points out that qualitative studies are good at creating theories and answering questions such as why, who and how. Another important point is that using only theory or perspective can only describe narrow phenomenon, while using several theories with various interpretations can create interdisciplinary knowledge. Not only are qualitative studies good for trying out theories, they are also good at showing the usefulness of the theories in different situations (Doz, 2011). Qualitative studies can also support in

developing or the discovery of a previously unknown phenomena or the relevance of a theory that explains a phenomenon (Doz, 2011). This thesis is an attempt to obtain a deeper understanding of how languages can be thought to affect the decision-making in investment decisions. The thesis takes in consideration theories within different areas which can be thought to affect the investment decisions directly, indirectly, consciously or unconsciously.

5. Presentation of empirical data

This chapter goes through the data that I collected through the interviews that were held for this study. I started with a pilot interview and then used the information that I gathered from this interview to make a more fitting interview guide to match my specific topic. In the actual interviews I had five themes, which is also how the data is presented in this chapter.

Table 1 below illustrates what kind of interviews were held, their abbreviations used in the data presentation and analysis and the date and time of the interviews.

Interview	Abbreviation	Date	Place
Pilot interview	P1	14.1.2020	Åbo Akademi
	P2		
Venture Capital 1	VC1	4.4.2020	Zoom (online)
Venture Capital 2	VC2	5.4.2020	Zoom (online)
Venture Capital 3	VC3	5.4.2020	Zoom (online)
Venture Capital 4	VC4	29.5.2020	Zoom (online)
Venture Capital 5	VC5	19.6.2020	Zoom (online)
Family Office 6	FO6	8.5.2020	Zoom (online)

Table 1 Data Sources

5.1. Pilot interview

The interviewees for the pilot interview were two people with relevant experience from working together with VC firms, doing investments into startups and being members of the Finnish Business Angels Network. The questions in the pilot interview contained both general and specific topics, as seen in Appendix 1. The reason for was that I wanted to narrow down the topic for my thesis to avoid making it too broad and at the same time uncovering what specific topics I should focus on in the actual interviews to obtain enough

and relevant data to use. By first introducing myself and letting the interviewees tell regarding their own experiences, I was able to establish that the interviewees were relevant for my study.

One specific thing was pointed out the most which was an important thing to note according to both interviewees was the importance of English within the context of startups. P1 said *“Everything in writing needs to be in English. All speeches, all pitch decks, at least everything regarding the financial side, all material must be in English and then if your English is not good enough, we have an issue. English is completely fundamental”*. The importance of English in the context of the financial side was mentioned in the pilot interview 6 times in total, emphasizing the importance of languages regarding acquiring financing. P2 enhanced the importance of English with the following comment: *“First of all, before even considering VC financing, you go to Business Angels. Since the first financiers for startups are the three F:s, family, friends and fools, the last one being Business Angels. Already at this stage everything must be in English. The reason being that already at this stage you need to prepare your road to international success. English all the way, from scratch”*. Both subjects of the pilot interview therefore had very strong opinions regarding English being the most important language within the startup world.

Both P1 and P2 mentioned that within the operational and social side, languages other than English can have an impact on the investment decision. P2 brought up the importance of being able to present the startups idea in a convincing manner to potential customers at trade fairs, while P1 mentioned the ability to make sales calls to native speakers of a certain country. Regarding the social side, P1 said, *“Obviously if I am meeting people where no one have English as their main language and we speak the same native language, of course we do not speak English”*. P2 had the same opinion, where he commented regarding a recent case where he is a board member and which had recently received VC financing: *“All material is in English but we gladly speak Finnish in our meetings because it is everyone’s native language”*. P2 pointed out the importance of being able to communicate and present in a convincing, trustworthy and open way because it directly correlates with how well the startup will succeed, *“it’s not just the art of*

communication, it's the art of acting" P2 said. Going further with the social aspect of the communication P1 said: "*I lived in Dallas, Texas at one point in my career, and since Americans are so football crazy, no matter who you met, the first reaction they had was always I hate the Cowboys or I love the Cowboys. It was what you discussed the first 15 minutes*". The comments regarding the small talk, importance of convincing communication and that they prefer to speak their native languages in meetings leads me to believe that languages other than English can be of importance even if the lingua franca within the startup world is English. English is therefore the official language that everyone is expected to know, while other languages become a factor regarding the relationship between the parties.

Regarding the diversity and resource-based views on language capabilities, P2 commented "*The language capabilities are also connected to creating a trustworthy team for your startup. For example, we do not invest in startup teams with four engineering graduates from a specific region in Finland. We want different competences but also preferably different cultural backgrounds. If you want a startup to become international, it should already by definition contain international elements from different cultures*". Even if P2 mentioned the importance of cultural diversity and various competences within startup teams, he also stated that English is so dominant that the impact of other languages decreases. P1 pointed out that in today's business world, it is very common to have non-native workers at startups and companies which means that you need to be able to communicate sufficiently also in English.

Thus, the main findings from the pilot interview was that English is of crucial importance and other languages can only be assets if it is relevant for the company in a business perspective. Even if the importance of the connections was not brought up, I did deduce that because meetings together with VC firms and startups are susceptible to be held in Finnish if all participants speak Finnish, there is an underlying benefit in establishing some sort of familiarity and comfortableness between the two parties. Also, the small talk and familiarizing with each other at the first meeting highlights the importance of establishing a connection. The ability for a VC to connect with a startup is therefore affected by the spoken language and will affect the relationship going forward. English can therefore be

thought to have a more direct impact, where it is a must know, while the other languages that you speak more informally can be considered to have a more indirect impact.

The discussions that I had with the interviewees led me to the interview guide that was used in the actual interviews. The pilot interview therefore helped me uncover things that would be necessary to dig deeper into, but also gave me new perspectives on what to focus on. To obtain enough valid results from things beneath the surface such as the indirect impacts, I changed the interview guide adding some additional questions regarding how they evaluate the startup team and what they focus on most during the first meetings with startups.

5.2. Background and experience

The intention of the first theme in my interviews was to familiarize myself with interviewees and the companies they work at. The reason I wanted to go through this was to obtain background information on the people and companies, to be able to draw conclusions on how reliable the data I collect is. All interviewees are based in Finland and working for a Finnish company. They all have Finnish as their native language, which were the language that the interviews were held in.

VC	Position	Size of investments	Startup industry focus	Investment round
VC1	Managing Partner	50 - 1 500 000 €/startup	Technology in general	Pre Seed - Series A
VC2	Investment Director	2 000 000 - 15 000 000 €/investment	Software, Health Tech, Industrial	Series A, B and C
VC3	Partner	300 000 €/investment	Technology, excluding games and social media	Pre Seed - Series A
VC4	Co-Founder, Partner	200 000 - 2 000 000 €/investment	Deep tech	Pre Seed - Series A
VC5	Co-Founder, Partner	300 000 €/startup	Deeptech, Software	Pre seed - Seed
FO6	Partner	10 000 - 100 000 €/startup	Design, FoodTech, Impact investments	Pre Seed - Seed

Table 2 Background information

As seen in Table 2 above, there are some variation to the size of investments made. As for other aspects, they are quite similar except for the last interviewee, FO6. FO6 was the only

interviewee not working for a professional VC. Instead of working at a professional VC, FO6 worked at a Family Office, where they invest their own money. As the interviewee mentioned, they can be considered as a professional Angel Investor, not a VC. The interview with FO6 was mostly used to obtain insights and other perspectives, as the interviewee was able to mention things that VC firms might not want to mention. This was a good way to receive more opinions on the matter and see where the incentives might differ between these two investors.

5.3. Investment process and communication

The second theme was regarding the investment process and communication between the two parties. The reason I wanted to investigate the investment process was to see if the process is mostly the same in VC companies, or if there are variations. The investment process is important consider in this study, because it reveals quite a few aspects regarding where and how the first contact is made and how it then continues depending on the VC firms' view on various criteria. The communication is also important in this study because language is needed when communicating, and I wanted to obtain an understanding of the used languages in various situations. The amount and quality of the dialogue between the startup and VC firms is also important in this study to be able to draw conclusions regarding the importance of the language that is used. Regarding the investment process, I focused on how the first contact was made, i.e. who made contact, how they were able to find the company and what kind of and how much communication was had between the two parties.

The investment processes of the interviewed VC firms correlate with the process described in the theory. Quickly mentioning the main aspects, the first contact is usually made by the startup, by sending a message to the VC firms containing the pitch deck. All interviewed VC firms mention this as the way that the communication is usually started. The VC firms then process the pitch deck, from which they decide if the startup will go to the next step, i.e. a face-to-face meeting. After the initial face-to-face meeting, it is usual to write e-mails back and forth, at the same time as due diligence is made and more

meetings are held so that all of the relevant people within the VC firms have met the startup team. As the last step, the terms of the shareholder's agreement are discussed and then signed. This whole process can vary in length depending on the deadline regarding the financing round. There might also be a specific time when the round closes, while at other times there is no specific deadline but instead the startup might be open for investors until a certain amount of financing has been achieved.

The reason for the VC firms to first want the pitch deck is to quickly be able to decide if they are compatible with each other. Most startups are already eliminated by various reasons in this stage, before being granted a face-to-face discussion with the VC firms. The reason for being eliminated at this stage can be many because there is usually some sort of checklist of things that need to be fulfilled to qualify. Some of the mentioned reasons why startups are eliminated at this stage was the valuation, revenue streams, profitability, market size, scalability, and business idea, i.e. things that can be quantitatively measured. All interviewees said that the pitch deck is usually written in English, where a couple of the interviewees even mentioned that it would raise questions if the pitch deck was made in Finnish. As VC4 said, "*if the material would come to us in Finnish, it would raise a sort of warning flag*". Regarding why the VC firms always want the pitch deck first, VC1 commented "*If we are non-compatible from the foundation, it is much more efficient, faster and less painful to base the first decisions on the written material*". Incompatible in VC1s meaning meant that the startup was in a field which the VC does not operate in or if the startup is in a too early or late stage. To be able to eliminate a startup at this stage, VC1 says they need to have objective reasons why they are not suitable for them. The first stage can therefore be thought as a quantitative method to eliminate startups from the process and is not affected by things such as the team or team dynamics. The quantitative way of eliminating startups was even more visible in VC2, where they also focused extensively on the financial details regarding the startup. The reason for this was that VC2 needed the startup to meet specific requirements regarding the revenue. Something to note was that VC firms focusing on the very early stage startups were a bit more resilient and forgiving to startups, meaning that they met them face-to-face with a smaller threshold, which was visible in VC3 and VC5. VC5 said "*we go through the pitch decks quite flexibly, since we do very early stage investments and we*

understand that the startups are not completely ready”. According to VC1 on the other hand, the very early stage startups usually wants to meet and talk things through instead of first sending their pitch deck because their overall business idea is not yet that well thought through, which usually points to the fact that they are also in a too early stage to even seek investments.

For the companies that qualify for the face-to-face meeting, the purpose is to see if the startups can present their idea in a clear and convincing way but also to allow the VC firms to ask questions. If they go further in the process, they then have more meetings with more people from both parties, meaning all relevant people from the startup and a larger group (e.g. an investment committee) from the VC firms. In these meetings they go through things in more depth to not only try to uncover things related to the business itself, but more importantly, to analyze the team and team dynamics. Reports and due diligence are usually made throughout the process.

Most of the interviewed VC firms had similar focus points for the first meeting, where the analysis of the team was highlighted the most. VC2, VC4 and VC5 mentioned that overall, the first meeting is mostly about obtaining a holistic view regarding the startup. VC2 specifically mentioned that they want to know the structure of the company and who the main people responsible for the startup are, while VC4 mentioned they try to do an as thorough analysis of the team as possible. Table 3 below illustrates the most important things to consider in the first meeting by direct quotes from the interviews. All focus on similar things, such as the team and communication, i.e. qualitative factors.

VC	What is the main focus in the first meeting?
VC1	<i>"We do quite a deep review of their personalities, including their strengths and the way they act."</i>
VC2	<i>"The peoples' abilities, the way they communicate and how they are able to present their idea. You could also call it a personality analysis."</i>
VC3	<i>"We want to focus on the founders and then go through the technology or business idea."</i>
VC4	<i>"The thing we focus on in the first meeting is also the most important thing to consider when investing, which is the team."</i>
VC5	<i>"The point of the first meeting is to not only get an overview of what they do, but also what is in between the lines."</i>
FO6	<i>"It is more about looking at the whole package instead of analysing every little detail."</i>

Table 3 Focus of first meeting

It was also mentioned that in the end, the meetings with the startup is about drawing conclusions to what kind of people you are dealing with, understanding the team in regards to what their strengths are and where they might be lacking. As VC4 mentioned, *"it does not matter how good your idea is, if you do not have the right team working it will not become a success story"*.

VC5 mentioned that the face to face meetings after having made the initial eliminations based on the pitch decks are very important. In the interviewees opinion it is very hard to gain a deep understanding and to read between the lines if the communication is done only by e-mail, phone calls or even through video calls. The information they need to make a holistic and thorough analysis of the startup and its team members require them to meet in person. Things such as the team dynamics is something that the interviewee mentioned is very difficult to analyze if you do not meet the team in person.

Regarding the spoken language at meetings, VC1 said *"if all people that are present at the meeting speak Finnish as their native language, of course we speak Finnish"*. The majority of the interviewees mentioned that they communicate with the startups in Finnish if everyone from the startup team are fluent in Finnish. VC4 mentioned that almost all startups from Finland that contact them have Finnish speaking founders. The discussions

can therefore quite often be held in Finnish, even though all the material, official presentations and pitches are held in English.

The general idea of the communication that happens between VC firms and startups was to analyze the team and the business. The business was analyzed from different perspectives, e.g. going through the developed technology, what market they are in, the size of the market, scalability, financial data and so on. The team analysis was not explained by the VC firms as specific as the business analysis, and was leaning towards explanations such as receiving the right feeling from the team, getting to know what kind of people they are, what drives them etc. The team analysis is therefore less specific, harder to do but still crucial for the outcome of the investment decision. The difficulty to explain this was brought up by VC5 who said *“the thing regarding reading between the lines is that I cannot completely open up my subconsciousness, I know and feel that it is happening but I cannot explain what it is”*. It was also mentioned regarding the time pressure they experience due to the investment rounds that they are sometimes forced to make rash decisions based on their feelings towards the startup team.

All companies mentioned that the first contact can be made by both sides, i.e. the startup and the VC firms can be the one making the first contact. It was also mentioned by everyone that even though both parts can make the first contact, the majority of the first contacts is made by the startups. This is quite easy to understand, as there are quite a limited number of VC firms active on the Finnish market which are easy to find. The number of startups on the other hand is bigger, and since the early stage startups that the VC firms focus on are by default in the early stages, they are also harder to find. As VC5 said *“our problem is that we seek early stage startups which are not on anyone’s radar and rare to see in the news or on some website”*. A couple of the ways mentioned by VC firms to get in contact with early stage startups were to meet them at an event focusing on startups or networking or by being referred to them by other VC firms, angel investors or some other contact from their network. It was also mentioned that even though the majority of the first contacts are made by the startup, it is more common for a company to go further in the process when it is the VC firms that make the initial contact. This is also quite understandable, since if a VC makes the contact to ask a startup for their pitch deck,

it means they have already made some research into the startup or gotten to know about them from a contact, ending up in a conclusion that this startup looks like a good fit upon the initial research.

5.4. Investment criteria

The third aspect I focused on was the investment criteria. I wanted to understand where the VC firms' focus is when eliminating startups from their process and how it can be connected to the language capabilities. To better be able to do this, I went through the interviewed companies' websites and compared these with the answers that I got from the interviews regarding the criteria. My biggest focus regarding the investment criteria was to receive a better view on how they evaluate the team, including factors such as the network, communication abilities and the overall feeling they receive from the startups.

All six interviewees mentioned the team as one of their criteria in their interview and/or had it as a listed criterion on their website. Most VC firms even mentioned the team as the most important criterion. This was especially interesting for my topic, since language capabilities are part of what a team can consist of and one of the parts that I analyzed the most. If the interviewee did not start explaining what they meant by the team criteria, I asked follow-up questions for them to open this topic further. Table 4 contains quotes regarding how the interviewees consider the team in their investment decision.

VC	Team criterion
VC1	<i>"We start from the core of the pitch and they have to be able to explain how they will implement their plan. Above all, they have to have a credible ability to know what is essential."</i>
VC2	<i>"It all starts from the first feeling you get, the psychological side. It is the chemistry between the people and dynamics of the team that is the number one thing."</i>
VC3	<i>"Something very central is the view we get and form from the founder team. We look at a) they get things done and b) can we work well together, i.e. that some kind of chemistry is present."</i>
VC4	<i>"It is primarily the team, we need to believe in the team. All venture funds probably mention that the team is in the center, but of course there is no absolute way to measure this. It is partly intuition, but we also think about who we would like to work with."</i>
VC5	<i>"We strive to or have to measure a lot of qualitative things. We use scorecards with three dimensions, where one is the team."</i>
FO6	<i>"When we consider the team, we look for different types of expertise and backgrounds, which is important. Especially in small companies where the resources are scarce it is important to have a multicultural teams, because it also brings value to the business."</i>

Table 4 Team criterion

As seen from the quotes in Table 4, the team is of crucial importance in the investment decision. VC2 mentioned something important regarding the team criterion, which was *"this is in minimum a 4 year journey together, usually 6-8 years, which means that if the co-operation does not work from the start, what happens after a few years when things get difficult?"*. VC4 also pointed out the importance of wanting to work together. The relationship should therefore from the foundation start as something positive, where the chemistry matches and people want to get involved with each other, not as a last resort where one or both parties are forced to work with each other.

The topic regarding networks was not as straightforward as the team criterion. Even if most of the VC firms did mention that the networks of a startup do matter, they were also aware that younger startup teams are less likely to have a sufficient network. They also mentioned that the network is something that the VC firms will be able to provide and that an already existing network can therefore be thought more as an asset, not a necessity.

VC	The impact of networks
VC1	<i>"We rather want to look at their abilities, brisk mentality and social skills and that they are not scared of picking up the phone and that they get things done. The ability to handle these things is much more important than inherited networks."</i>
VC2	<i>"It matters in some way, since if they do not have a network, they are also unlikely to have performed too well in their business. A network also brings a sort of confidence or trust to the team."</i>
VC3	<i>"Networks do have an impact, since it will show if the startup has been able to build some kind of advisor board which can help. It will also indicate how international the founders are and what kind of network they are able to build."</i>
VC4	<i>"Of course networks matter, and especially if someone has good access to a certain market or a good track record. It is a part of what makes a good team."</i>
VC5	<i>"If the network is relevant it matters. Of course if they already have investors, it will count as an asset. But usually, since we are in the early stage investments and the entrepreneurs are young, they usually have very limited networks."</i>
FO6	<i>"Networks do matter, quite a lot I would say. At least for emotional investors where a sort of flock mentality is common."</i>

Table 5 Impact of Networks

From the interviews I therefore concluded that the network is only an asset if they are relevant for the business. To be relevant for the business means that the network will be of assistance regarding the success of the startup. More important than the current network that a startup has at the moment is therefore the ability to create and expand their network. The reason for this to be of importance is that the business for startups can expand and change directions quickly, meaning that the needs will change over time. VC1 explained it in a quite simple way, where there are passive and active parts. The passive being your network relating to your degree, previous work tasks, family and so on, while the active are the way you seek new opportunities and your ability to get things done. The active part was according to the interviewees the more important part.

It seems reasonable to divide the investment criteria in two different parts, the qualitative and quantitative part. The first part is the quantitative, which was already introduced when the VC firms make their first assessment regarding the pitch deck. At the first meeting, the same things are considered as in the pitch deck, but with the possibility to go further in to details and where the VC firms are also able to ask questions. The purpose of the questions is receive a clearer view of things such as their idea, what technology they have

and the founders experience. VC1 and VC2 were the ones that had most emphasis on the financial side, meaning that there were some specific details that had to reach a certain level. Out of all VC firms, VC2 is the one investing in the latest stage startups, which is one of the reasons for their criteria regarding reaching certain milestones regarding revenue, burnout rate etc. VC1 also mentioned that they had a bit of a different approach than the typical VC because they were not looking for the next big thing but instead focused on obtaining faster and more reliable exits, which explains the importance of some qualitative details. The second part, being the qualitative assessment is more complex and harder to explain. The reason for this is that each of the VC firms have different experiences, and since this assessment is more subjective and more prone to be influenced by things related to each parties' experiences, mindset and overall feeling. Related to this, VC2 emphasized importance of the experience of the VC firms. The reason he mentioned the experience was that the interviewee believes it helps to analyze the startups better, since they can think back to what kind personalities and people have been good to have in a startup in the past and maybe more importantly, how to spot these people.

5.5. VC firms' view on language

The fourth topic that I was interested in was the VC firms' own views on language capabilities within startup teams. This topic enabled the interviewees to freely comment on the topic, including obtaining their first thoughts and opinions of the importance of languages. The point here was mainly to obtain their first thoughts and see in what sense they focus on the topic. My results are therefore more about their feelings regarding the languages and the qualitative way of looking at the topic instead of the quantitative measurement of the importance.

The most occurring thing to come up in this topic was that English is the language that is needed the most. As VC3 mentioned, English is the lingua franca in the startup world and VC4 who said "*the expectation is that if you are seeking VC financing, you are aiming for international markets, which means that you need to be able to speak English*". Another reoccurring reason was that materials of any kind, such as pitch decks, shareholder's

agreements and the protocols from meetings need to be in English in order to be able to attract VC firms. Half of the interviewed VC firms mentioned that if the company language and thus the materials are not all in English, it raises questions and warning signs start to surface. VC2 mentioned that when everything is in English it is also more efficient, since then there is no need to put extra time and effort to translate things into different languages, if everything is made in English from the start. This will result in the startup having more time to focus on other things and reduce their costs, which is of crucial importance for startups.

VC4 mentioned that it is quite visible on what level the startups' English capabilities are from the pitch deck and other material that they send to them. Because the image and first impressions are so important in these things, VC5 mentions that it leaves a bad impression if either the material or presentations are done with poor English.

When it comes to languages other than English, the comments were also quite similar among many of the respondents. Four of interviewees mentioned that it is of course a nice thing to have other languages in the team, but it is not something that will exclude you if you do not have. It was also mentioned that in order for the language to be a benefit, it needs to be a language that is relevant for the startup, e.g. the language of one of their target markets. VC3 said *“Always if you are able to serve your customers in their native language, it is a plus, even if the language of the documentation is always English”*. Half of the interviewees mentioned that having sufficient language capabilities for another market is nice but will most likely not be enough when it is time to enter the market. For this phase, the startup will still need someone local who knows the market better. VC1 mentioned that language capabilities will therefore help you on the road, but at some point, you will still most likely need to recruit specialists to finish the job. Other languages than English that were mentioned to be relevant from a Finnish perspective by both VC2 and FO6 were German, Spanish and Chinese. The reason for this was the large and relevant markets that these languages enable and that these countries often lack sufficient English-speaking skills.

Five of the interviewees said that they communicate in Finnish with the startups if the people in the startup are native Finnish speakers, which is a large majority of the cases

that they end up having discussions with. Most VC firms also mentioned that even the discussions at official meetings, such as the first face to face meeting are held in Finnish if all participants speak Finnish. The parts which are done in English is often the actual presentation/pitch and the materials provided by the startup. The reasons mentioned for them speaking Finnish was that it usually feels more natural and that it is unnecessary to force everyone to speak a certain language if it is not their native language. It was also mentioned by VC1 and VC2 that there will be some buzzwords or parts of the vocabulary which will be in English even if the discussion is in Finnish, but that is because there is not always good translations to all the industry specific words in Finnish and part of the culture. Even though it is not uncommon to have international people in the startups from an early stage, it is still a minority of the startups. It is not until a bit later in the process where all the meetings and discussions with the VC firms go in English, since then there are most likely also foreign investors and people sitting on the board of directors who do not speak Finnish.

VC3 and VC5 mentioned that in practice, the language capabilities are not measured in any way in their criteria. VC2 and FO6 said that since the team is so important in the startup world, they are also aware of the benefits that diverse team brings, where also languages partly come in to play. FO6 also pointed out that even though this is important, it is next to impossible to figure out how large impact the languages have in the investment decision. Startups therefore need to have sufficient capabilities in English to come across as professionals and present their business convincingly, while languages other than English can only be considered as assets in certain situations and are rarely consciously evaluated.

5.6. Open topic

In the last section, I wanted to let the interviewees have an opportunity to mention anything that they thought was relevant regarding my topic which I had not yet asked about. The reason for this was to obtain their own views on what they thought is most

important for my research, but also to see if there were certain things that I should focus more on.

The final thoughts that they had were quite different from each other. Going through them one by one, VC1 mostly went through the main points to what we had already discussed during our interview. First, he said that if a startup is lacking in their English capabilities, it is a problem. Regarding other languages, the interviewee mentioned they are always nice to have, but that he is a bit unsure to whether they bring any clear advantages to the table. English is therefore what rules and according to VC1 more crucial to know than Finnish, even in the Finnish market. VC1 ended the language topic by saying that nowadays English is spoken so commonly that it is rare to find people who would not speak it sufficiently enough. After this he mentioned that the mentality of the people in the team is more important than the specific languages someone speaks. It does not therefore matter what education or background the startup has, as long as they have the right mentality and are able to present themselves as trustworthy and hard working.

VC2 wanted to point out that the world we live in today is different than what it was when he started in the field. Back then it was about frameworks such as the Uppsala model, where companies were supposed to gradually expand to the markets that are geographically or culturally closest to you. Nowadays however, the startups are in a situation where they are expanding through digital distribution models and internationalize in a speed never seen before. The interviewee also mentioned that the people in the startup world are a whole other breed, since they have from a young age been exposed to the international atmosphere, seen different parts of the world and been able to network in a way that simply was not possible before and are therefore better prepared.

VC3 started off this topic by saying that VC financing might be a bit more of an art than it is a science. The reason for this is that the VC firms need to create a comprehensive picture on all the startups they meet. The interviewee emphasized the importance of experience from the VC firms' side because this enables them to see certain things that could be warning signs, which the VC then can bring up to discussion in one of their meetings. Finally, VC3 said that the founders have to be prepared to move where the

startup takes them, meaning they have to be quite flexible. The real revenue is usually made abroad, meaning the startups have to be ready for anything.

VC4 wanted to mention the team diversity factor. Diversity for the interviewee did not only mean languages, but also what kind of personalities, nationalities and gender that the team has. This is something that is discussed about quite substantially currently, both when it comes to functioning teams, but also in the board of directors. The challenge with diversity is still to receive as many different views as possible while at the same time try to overcome the obstacle of people not getting along with each other.

VC5 mentioned that he does not fully understand what my conclusions will be regarding the language capabilities in startups, because in his mind it all revolves around English. The only language a startup needs is in his opinion English and having additional relevant languages in the team can only be considered small benefits but will not make or break an investment decision.

The last interviewee, FO6 mentioned similar things as VC4, being the diversity aspect. It was pointed out that the cultural diversity may be of importance, but only accounting for the languages will probably not get you too far. It is about the whole package, not just one small detail.

6. Data analysis

My purpose was to study the effect languages within startup teams have on the VC firms' decision-making within their investment process. Specifically, I tried to uncover if languages were consciously considered or if they had an unconscious effect on the VC firms' decision-making process and if so, how. Things that this analysis include are the various parts of the investment process, the communication between VC and startup, the resources available in the startup, the team dynamic aspect and how the post-investment phase of the investment decision should be considered. I will therefore analyze the data that I collected and theorize why some parts should consciously be taken into consideration within the investment process to have a better chance of succeeding later.

6.1. Importance of English

English seems to be the most important language in the startup world and has a direct impact on the decision-making, which was mentioned by every interviewed VC. Even from Finnish VC firms' perspectives, this was the opinion and mindset of all interviewees. Therefore, without sufficient English capabilities within the startup's deciding members, it is unlikely to obtain VC financing. The reasons for this were many, with many of the same matters mentioned by the different interviewed VC firms. An aspect worth mentioning is that Finland is such a small market that internationalizing in the early stages to be able to grow sufficiently is a necessity, meaning there need to be people able to communicate in English. Another aspect was that international VC firms tend to be involved with investors quite early, who will demand all material and other aspects such as meetings to be held in English for them to understand. As mentioned in the chapter on VC financing, the largest amount of financing (61% of the total investments) into Finnish startups comes from foreign investments, emphasizing the importance of English even further. English as a requirement could, therefore, be added to the VC firms' criteria list, even if it is not something they specifically mention when asked about their criteria. Since the interviewees mentioned that in today's business world everyone can speak English,

this might be the reason VCs refrain from mentioning this specific criterion. It is more of a given assumption that the startup team is proficient in English if they are seeking VC financing, which was mentioned by some of the interviewees.

The level of English capabilities needed for the startups is something that is harder to pinpoint, as it is not possible to specifically determine how well “sufficient” is. My conclusions of the answers are that “sufficient” means that the startups have to be able to explain what their business is about in a convincing manner, be able to answer hard industry specific questions and maybe most importantly, mediate an image of the team as being capable, trustworthy and hardworking. The reason I draw these conclusions is that the interviewees stressed the importance of how convincing the startups’ communication is and that the feeling the VC firms obtain is very important. In this context the pronunciation does not seem to matter, because the main point is that the startup is understood, and the communication is effective. If the startup team doesn’t have English capabilities that would be considered sufficient, it does raise questions and warning signs for the VC firms, meaning they will most likely be eliminated from the process because the risk of investing in the startup is exponentially higher.

6.2. Language as a resource

Regarding other languages, they are mostly considered as bonuses. As one of the interviewees said, “*other languages are nice to have, but not a must have*”. Even in the case where they are nice to have, the extra languages that a startup team possess are only considered as something of slight value if it is relevant for the business. A case where a language becomes relevant is if the startup is considering internationalizing to a country where they speak a language which someone from the startup team possess. Even in these cases, the extra added value was either said to be minimal or non-existent. Therefore, even if VC firms are considered to be resource based and looking at aspects regarding what the startup team possesses, language capabilities seem to be an aspect that is somewhat neglected. From a business perspective, e.g. regarding cost-efficiency, it would make sense to value a startup with good relevant language capabilities, because it will not only

decrease the costs when hiring personnel, but would also allow them to communicate and gather information regarding various markets. As was mentioned in the pilot interview and semi-structured interviews, a direct benefit from knowing a target market's language is to be able to communicate with potential customers in their native language.

Other areas where different languages might come in play is when considering the heterogeneity. Heterogeneity has been researched, with implications to suggest that it improves innovation. Innovation is important in startups context, as they constantly need to innovate to improve and grow their business. Even if heterogeneity is of importance in various fields, this aspect was quite non-existent in the thought process of the VC firms. It was only a couple of the interviewees that mentioned that languages could be connected to being multi-cultured. It was said to be considered a benefit, but not valued high, which I interpreted as not important enough to make a direct impact on their decision. Therefore, I would have expected VC firms to value language capabilities more. The reason I say this is because different languages is often associated with cultural diversity. Today, the focus on heterogeneity within board of directors is quite important, where they try to acquire people from different nationalities, genders, backgrounds etc. to be part of the deciding members. This is also why I thought VC firms would be considering this aspect more than they let me believe in the interviews. In fact, the data from the interviews lead me to believe that the situation is opposite. By opposite, I mean that the VC firms tend to look for certain types of people and startup teams, which are similar to themselves or that are associated with success. Hence, instead of being resource based and considering language or cultural diversity as an asset, VC firms consider other aspects that contradict the resource-based thinking.

6.3. Team analysis:

The impact of the team was discussed the most in the interviews made for this study. Even if the VC firms mentioned to not value languages other than English in a direct way, I believe it has a considerable impact on their decision. The reason I say this is because everyone mentioned the team as an important aspect to consider, where most VC firms

even considered it to be the most pressing thing to analyze. The interviewees also mentioned to consider how well the cooperation between the VC and startup would be, since they will be working together for a long time.

All the above-mentioned aspects points to the team, team dynamics and relationship between the two parties to be of crucial importance. As many of the interviewees also mentioned, the feeling they obtain from the startup and how well they are able to communicate will make an impact on how the team is analyzed. I therefore argue, that if the VC firm and startup team can speak their own native language in their meetings, the startup's chances of receiving funding will increase. The reason I say this is that when they speak their own native languages, they will have a better opportunity to connect with each other, explain in better detail and come across as more confident. As was also mentioned by Hallen (2008), companies tend to choose the option which poses the least amount of uncertainty. In this context, I therefore argue that by speaking the same native language, you will feel more certain about the startup, because it feels familiar and safe.

Even if VC firms tend to base their decisions on rational aspects, I argue that the second phase, which includes the team analysis in the face-to-face meetings are mostly based on things that do not count as rational. Therefore, even if the VC firms have fiduciary duties which more or less forces them to make rational decisions to maximize profit, this is mostly done in the first phase where the pitch decks are analyzed. After this stage, where the team becomes the most important aspect, it is more difficult to do decisions based on only rational things. This leads to a situation where the VC firms need to make decisions based on their own experiences and the feeling they obtain from the startup teams. This feeling can be connected to what Feld & Mendelson (2016) mentioned, that to receive an investment from VC firms, they must like you.

The feeling the VC firms receive from the startup teams can therefore be thought to be very crucial for the outcome of the investment decisions, which was visible in many of the interviews in quotes such as "*it is the chemistry and dynamics with the team that is the most important*". Another descriptive quote on the importance of the subjective aspects of the investment decision is "*we also think about what kind of team we want to work together with*". I interpreted this as a preference to work with startups that they like and

can connect with the best. This seems very logical, since the better you connect with a team, the better your cooperation will be. The languages can be thought to have an impact regarding this, since the easier it is to communicate, the better you will be able to connect, thus, if the two parties have the same native language, they will be able to relate to each other more. The reasoning behind choosing specific teams to invest in can therefore be hard to explain, which was present in the conducted interviews. As one of the interviewees said, *“the team is in the center, but of course there is no absolute indicator... It is partly intuition based on years of experience”*.

The feeling about the team is therefore quite subjective. My own view on what they look for, is startup teams they can relate to, see themselves working together with and/or which they connect to a previous successful case they have worked on. All reasons being based on their own perceptions and experiences on what type of teams they are able to have a successful cooperation with. None of these things can be easily measured in such short periods of time that investment processes usually are, meaning they have to make rash decisions based on their gut feelings and past experiences. This on the other hand might make the startups within the VC firms' portfolio more homogenous, since they are looking for the same indicators on what kind of teams have succeeded in the past. As one of the interviewees mentioned *“We do not insert money into a company and then just passively sit and wait for returns, we actively cooperate with the startup, and then it is important that the chemistry between the people works”*, which indicates that it is important that they will be able to cooperate efficiently.

The charisma, as mentioned in the theory also seemed to be rather important when analyzing the team according to the interviews. In the team charisma, I would say the way the startup communicates is of importance. The way a startup communicates, including the oral but also the written communication, will therefore be important. Thus, depending on how well they master certain languages and their ability to communicate, they will be more or less likely to receive VC funding. The charisma can therefore be thought as the confidence the startup is communicating their story and business to the VC firms, which will be affected by how comfortable they are speaking a certain language.

6.4. Social capital and networks

The startups' network does not seem to have a direct impact on the VC firms. One of the main reasons for startups to seek VC financing is to acquire a broader and better network, which is pointed out in various studies and mentioned by the interviewees in my study. The lack of network was something that the interviewed VC firms acknowledge and therefore also accept to quite a large extent. VC firms generally do not seem to directly look at the network of the startups, because they realize the startups are in a beginner's stage, hence, they cannot require the startups to already have a sufficient network. The network seems to have a larger impact in non-professional equity investors, such as angel investors and family offices, where the social connections have a larger direct impact. The reason for this impact can be explained by social capital, where groups with a shared language and/or identity, such as Swedish speaking Finns feel more connected to each other, making them more susceptible to invest if the startup is part of the same group. This aspect was specifically mentioned to make an impact by FO6, while this aspect was completely lacking in the interviews with the VC firms. VC firms therefore do not directly consider this aspect, as they want to be regarded as rational investors, meaning the social connections should not be of importance.

As the interviews also revealed, a startup is more likely to go further in the investment process if the VC firms reaches out to the startup, which in most cases happens because someone from their own network had heard of the startup. This can be brought back to bridging social capital, since the startup has been able to reach the VC firms through other means than contacting them themselves. Therefore, I do think the network, or social capital, has quite an important role when acquiring VC financing, although not in a direct or conscious way. Something to note regarding the discussions on networks with the VC firms is that there were quite strong opinions on networks gained through e.g. family relations, where they were far from positive towards them. The reason for this might be that entrepreneurship is considered hard work, where there is a spirit of doing things and a trial by error mentality, which directly goes against using family relations to succeed.

According to the interviews, depending on who makes the first contact, the probability of going further is different. If it is the VC firms reaching out to the startup, the chances for the startup to move on to the next stage and granted a meeting with the VC firms is higher. Sorenson & Stuart (2001) mentioned that companies tend to avoid uncertainty by partnering with already known companies with direct ties, which can be thought to be the case in the previously mentioned situation. The VC firms therefore tend to look for specific types of people who they get along with and can co-operate with, but also teams that they know or has a connection to. The reason I think this is worth mentioning is that this will result in the portfolio companies being more homogenous and making it ever more important for startups to have relevant networks. Because the VC firms makes the first contact, they have already come across the startup in some way before, either in the form of making research, being notified about the startup through connections or meeting them at some kind of event. The reason this is important to mention is because the chances of this happening depends on the connections of the startup. If a startup do not have any connections, it is also very unlikely that VC firms would hear about them in any way, thus, if a startup's network is relevant, it will mean that it has better chances of being contacted by VC firms.

Social capital can therefore be applied here in both the sense of bridging and bonding social capital. Bridging social capital is in this aspect more important, as this will grant them opportunities to go beyond their own group of people which are closest to the startup, expanding the width of their connections. Bonding social capital is more visible in accelerators, incubators and other events organized specifically for startups, since this is where likeminded people within similar groups expand their network. I.e. both bonding and bridging social capital is important regarding the probability of being contacted by VC firms. Finland being a relatively small market, with a limited number of active VC firms to choose from, which also means that it is possible to use their bonding social capital to bridge to other groups more easily. The reason I say this is that all VC firms seem to be aware of each other and they also help each other by recommending startups that might suit other VC firms better than their own. This leads to a situation where if you have contacts to a few of the VC firms, you might be introduced to other ones through them and in this way be more likely to proceed in the investment process.

Bridging social capital is therefore quite an important part of the networking within startups. The importance of languages can also be highlighted here. If you have been in contact with VC firms in their native language, it will also mean you most likely have a closer connection to them. This situation can lead to the VC firms being more prone to introduce you further, because the connection is stronger, and it is thus easier to connect you further, which is linked to the relational dimension of social capital. The relational dimension can also be thought to decrease the uncertainty, which according to Hallen (2008) is an important factor as also mentioned earlier.

Another relevant thing to mention regarding the network is that if a startup is already backed up by known VC firms, it does bring credibility to the startup for other VC firms. This is something that a few of the interviewees mentioned, and which can be connected to the relational dimension of social capital which increases the levels of trust and credibility between each other, making it easier to connect. Using the same logic as Alexy, Block, Sandner & Ter Wal (2012) did regarding the correlation between a VC firms' social capital and the likelihood of finding the most prominent startups, I concluded that the same should work the other way around. Thus, the more social capital a startup has, the better chances they have of finding and receiving VC financing, which is also my conclusion from the interviews made in this study. The reason for this conclusion is because many of the interviewees mentioned the ability to create more connections to be of importance. Therefore, networks, and the ability to expand your network are things that will give the startup an advantage and help when seeking VC financing.

As mentioned in the data presentation, the active part of networks is more important to consider within the aspects of startups. The reason for this is, as also mentioned by the interviewees, that startups evolve quickly, meaning it is difficult to predict or know what the startup will need in the future. It is also important to constantly seek new help because the startup will constantly be developing. The reason I argue that languages are important for this aspect, is that it will allow more opportunities to network, if a startup possesses more languages. Social capital can also be connected to this with the increase of access to information, reputation building and availability of opportunities (Alexy, Block, Sandner,

& Ter Wal, 2012; Hsu, 2004). As Lim & Cu (2012) also mentioned, the more social ties two parties have, the more they will help each other.

I therefore claim that the more social ties a startup has together with the VC firms, the more help they will receive and the fewer disagreements they will have, resulting in them having a better post-investment relationship. This aspect is also visible in the interviews, where it was said “*they need to be able to work together with the startup*” and “*we also think about what kind of team we want to work together with*”, pointing out the importance of a good relationship. The information flow and increased level of trust between parties, mentioned by Lim & Cu (2012) is therefore visible in this study, as even if the interviewees do not realize it, they base their decision on who they trust and want to cooperate with.

7. Results

In this chapter, I will discuss the results I made regarding my topic, the implications that my findings have, suggestions for further research and the critical review of my study.

7.1. Discussion

VC firms' investment decision is quite complex, with both quantitative and qualitative measures used within the process. Languages seem to have no direct impact on the investment decision of the VC firms. With direct impact, I mean that VC firms do not consciously consider languages as one of their criteria for choosing startups. Furthermore, the quantitative measures are mostly highlighted during the first phase, where VC firms evaluate the pitch deck. At this stage, the language aspect is quite irrelevant, as almost all pitch decks are written in proficient English. The only way language might become a factor is if the pitch deck is written in poor English, which would result in the VC firm testing the language capabilities of the startup if they proceed to the face-to-face meeting. Regarding the qualitative analysis, there are more aspects to consider with unconscious and indirect effects influencing the investment decision.

English is the most important language within the startup scene. Thus, without being proficient in English, a startup will not receive VC financing. Sufficient in this context means that the startup can explain their business clearly and answer specific questions relating to their business. Other factors that are important to consider are communicating convincingly, coming across as trustworthy and being confident.

The most important indirect impact that languages have on the VC firms' decision-making is the feeling regarding the startup team. When the VC firms and startups have their face-to-face meetings, the main focus VC firms have is on the startup team. The VC firms choose to invest in startups that they want to work with and with whom they think they can achieve a good relationship. The feeling regarding the team is highly influenced by how well they fare with each other. The more social ties and other aspects they have in

common, including the language, the more they will trust each other. Because the trust and certainty the VC firms feel towards startups are important factors to consider regarding their decision-making, languages also become important. Hence, if the VC firms can communicate in their own native language with the startup, they will be more likely to relate to and trust them, making the investment decision more plausible. Thus, teams that do not speak Finnish fluently will have a disadvantage compared to those who do to receive VC financing from Finnish VC firms. The reason for this is that startups without fluent Finnish-speakers are not able to obtain the same kind of connection to the VC firms.

Factors that influence the post-investment situation should, in my opinion, be taken into consideration more extensively already in the pre-investment phase. Because the VC firms will be working together with the startup for a long time, it is crucial for the relationship to work from the beginning. It can also be thought to be most important to have a good relationship in the beginning, since the startup will need plenty of help in the early stages. As was mentioned by Lim & Cu (2012), the more direct social ties VC firms have with the startup, the more they will help. As social capital theory also dictates, it is easier to make connections and advance with people from similar groups, where people feel confident and trust one another. One aspect of having this trust and confidence is the cognitive dimension, which both language and the culture is part of. I therefore argue that the more characteristics people have in common, e.g. nationality, language, and values, the better they will be able to cooperate and trust one another. The trust in this case is crucial, as one of the main issues that arise within these relationships is the information asymmetry and different points of interest regarding the startups' business dealings.

Regarding the networks of startups, it does not seem to have a direct effect on the VC firms' decision. Instead of the actual networks to be of importance, the VC firms rate the ability to acquire new networks as something crucial. Therefore, with more languages present in a startup, they should also be more able to expand their network more sufficiently. This was lacking in the mindset of the VC firms, where the main point was to have personalities they think will be hard-working, ambitious and a spirit of making things happen. Social capital and the network of startups can also lead startups to contact VC firms, thus also increasing their chances by receiving more exposure. As mentioned

in the market related information, the startup scene in Finland is very developed. The local connections between founders, investors and experts is already on a good level, which implies that the network of the startups is already on a proficient level.

My conclusions regarding VC firms and the resource-based view is that the things the interviewees claim and what has been studied to have impact is rather conflicting. Even if the VC firms realize that there are benefits to having various languages and heterogeneity within teams, they do not seem to value it high enough to have a direct impact on their decision. Thus, languages apart from the VC firms' native language and English do not seem to be factors that are consciously considered nor affect the investment decision. Even if the VC firms were able to mention specific benefits of having multi-cultured teams, it did not seem to make a conscious impact. Instead of the multi-cultural aspect of heterogeneity, VC firms seem to consciously rate the skillsets, educational background, and work experience.

7.2. Implications

The impact of spoken language can be considered complex and difficult to measure. This study investigated the impact languages have on VC firms' investment decisions, with implications that point out the importance of qualitative aspects. One of the most important qualitative aspects to consider is the connection that is built between the VC firm and startup, which is a crucial in both the pre- and post-investment phase. During the pre-investment phase, the VC firms are influenced by the spoken language of the startups. If the VC can speak their own native language together with the startups, the level of uncertainty will decrease, increasing the chances of a positive investment decision. An implication due to this is that the startups that receive VC financing will be more homogenous because they will resemble a certain type. The startups receiving VC financing is also less likely to contain foreign team members.

Because this study argues that VC firms tend to prefer teams where they can speak their native language, it means that it would be good for VC firms to be aware of this effect. A

good cooperation is important, which is easier to achieve between parties that can communicate freely because of the shared native language. The cooperation can therefore be thought to be very important, because it will influence the success of the startup. While the cooperation is very important, some focus should be drawn to having people from different cultures and/or countries. The reason I point this out is because of the increased amount of resources available in multi-cultural teams, including more views and opinions, resources such as languages and networks that might reach beyond Finland. Another reason is the ability to actively create new networks, which was mentioned in the interviews to be more important than their current networks. With a more multi-cultural team, they should be able to expand their network internationally more efficiently than only having one nationality in the startup, since they will be able to connect to people in their native language. Also, sooner or later, the startup will most likely gain foreign investors, board members and/or employees, meaning that the spoken language will become both the official and unofficial language of the company. The implication for VC firms is, therefore, that they should be aware of the effect that the feeling can have connected to languages in the investment phase and consider how different nationalities can in some cases be more crucial to the success of the startups than the spoken language. Thus, the VC firms should consider multi-cultural and diversified teams in the very early stages more, because of the possibility to gain resources and minimize costs. The importance of this is highlighted in the Pre-Seed and Seed stages.

Because of the fundamental mindset that high growth startups from Finland must expand and internationalize in an early stage, a direct implication can be drawn that startups must speak English from the beginning. Not only do they have to speak English, they also must implement English as the official language of the startup, where all official documents and memos are written in English. This will make the startups seem more professional and save their time and resources, since there will be no need to translate things in a later stage.

7.3. Suggestions for further research

The focus in this study was how languages affect the VC firms' pre-investment decisions. Because my results also had implications for the post-investment phase, it would be interesting to study how the relationship between VC firms and startups differ depending on the spoken languages of the involved parties. Whether or not the success of a startup can be traced back to the language used between VC firms and startups would be useful for the area of VC financing. Aspects related to the post-investment phase are how well the VC firms and startups can create value and form synergies.

Another interesting aspect within the area of VC financing and languages is whether the increase of foreign VC financing and foreign employees working for domestic VC firms will decrease the importance of languages other than English even further.

7.4. Limitations

The sample of the study was quite limited, with one pilot interview together with 2 interviewees and six semi-structured interviews. The results are affected by the interviewees, where a different set of respondents might have provided other results. One of the respondents for the semi-structured interviews were not working for a professional VC firm, which meant the answers differed from the rest. This was taken into consideration, as the focus was on professional VC financing.

The purpose of this thesis was to analyze in what ways languages may be important, and thus, was a qualitative study. In my interviews, I therefore tried to gather their thoughts on various subjects without mentioning the link to languages, making the data more open for interpretation. When contacting the interviewees regarding their possible participation, I did mention my thesis subject is related to the language capabilities of startups and how this might affect VC firms' investment decision. This means, that even though most of my questions were not directly connected to languages, the fact that they knew my thesis topic might have influenced the data.

8. Swedish summary – Svensk sammanfattning

Anskaffandet av riskkapital: Betydelsen av språkkunskaper inom startupteam

Introduktion

Startupföretag är en viktig del av dagens samhälle. Ett problem som startupföretag har är tillgången till finansiellt kapital. Företag behöver finansiellt kapital för att klara sig och kunna växa. I ett tidigt skede brukar startupföretagare vända sig till sina vänner och familj för att få åtkomst till kapital. Efter detta brukar de vända sig till finansiering där de ger upp en del av sin andel i företaget, dvs. riskkapital. Detta kapital kan komma från affärsänglar, gräsrotsfinansiering eller venturekapitalföretag. Många av de mest inflytelserika företag i dagens samhälle har blivit finansierade av venturekapitalföretag, t.ex. Google, Microsoft och Cisco, vilket understryker nödvändigheten av venturefinansieringen.

Venturefinansiering handlar inte bara om det finansiella kapitalet som startupföretag får åtkomst till, utan även den hjälp de får av venturekapitalföretagens ledning. Vissa har nämnt att ledningens hjälp har varit viktigare för startupföretags framgång än det finansiella kapitalet. Denna aspekt poängterar betydelsen av att åstadkomma en välfungerande relation mellan venturekapitalföretag och startupföretag. Tidigare studier har visat att relationen mellan venturekapitalföretag och startupföretag har betydlig asymmetri i den tillgängliga informationen och i förtroendet mellan de två parterna. Informationsasymmetrin och bristen på förtroende mellan de två parterna antyder att det finns saker att förbättra, och en minskad asymmetri och ökat förtroende borde leda till bättre samarbete och större chans för startupföretag att bli framgångsrika.

Vikten av att internationalisera ökar pressen på startupföretag eftersom behovet av kompetenser och kunskap då också ökar. Internationaliseringen av startupföretag är avgörande i Finland på grund av den begränsade storleken på den inhemska marknaden. Inom venturefinansiering är det mycket viktigt att de startupföretag som får finansiering har potential att växa exponentiellt på grund av den risk som investeringarna medför.

Syfte och forskningsfrågor

Syftet med denna avhandling är att förstå hur det talade språket inom startupteam påverkar venturekapitalföretags beslut i investeringsfasen. Med andra ord kommer denna avhandling undersöka venturekapitalföretags investeringsbeslutsprocess och generera en förståelse av hur det talade språket inom startupteam övervägs och vilken typ av effekt de har på venturekapitalföretagens beslut.

Forskningsfrågorna denna avhandling har för avsikt att besvara är följande:

1. Vilka områden i ett venturekapitalföretags investeringsbeslut tyder forskning på att språkkunskaper påverkar?
2. Påverkar startupteamets språk venturekapitalföretags investeringsbeslut, och i så fall hur?
3. Hur borde venturekapitalföretag beakta språkkunskaperna inom startupteam med tanke på fasen som kommer efter investeringsbeslutet?

Avgränsning och metod

Denna avhandling kommer endast behandla venturefinansiering, dvs. kommer inte crowdfunding, affärsänglar eller banker tas i beaktande. Avhandlingens fokus ligger på Finland, eftersom datamaterialet som samlats in med hjälp av intervjuerna är mest relevant för den finländska marknaden. Alla intervjuobjekt hade finska som modersmål och var mest aktiva på den finländska marknaden.

På grund av att syftet med avhandlingen var att erhålla en djupare förståelse av handlingar och åsikter som gäller språkanvändning, var en kvalitativ undersökning som undersökningsmetod den mest lämpliga. Primärdata som samlats in i intervjuerna analyserades sedan tillsammans med sekundärdata såsom vetenskapliga artiklar, teorier och annan allmänt tillgänglig information på webben. Det relevanta området för studien

involverar språkeffekter inom beslutsfattande men även förhållandet mellan venturekapitalföretag och startupföretag. Intervjuerna genomfördes via en onlinetjänst, så att de kunde spelas in med video och ljud.

Venturefinansiering

Den teoretiska referensramen börjar med aspekter gällande venturekapitalföretags relation till startupföretag. Venturefinansiering räknas som en form av riskkapital. Denna finansiering är en viktig del för att skapa startupföretag och innovation inom företag. Förutom det finansiella kapitalet kan venturekapitalföretag även hjälpa till på andra sätt. Forskning visar att en betydande del av mervärdet som venturekapitalföretag medför är icke-finansiellt. Exempel på sådant mervärde är sociala kontakter, erfarenhet och kunskap som venturekapitalföretagen har.

Totalt finns det cirka 35 venturekapitalföretag i Finland. Den genomsnittliga investeringen per startupföretag som görs av finländska venturekapitalföretag har ökat från 600 000 till 740 000 euro från 2017 till 2019. Helsingfors har dessutom rankats som nummer 1 i världen när det gäller den lokala kopplingen mellan grundare av startupföretag, investerare och experter (Business Finland, 2020). Det finländska näringslivet stöder därmed entreprenörskap och har en Silicon Valley-inspirerad kultur. Detta, i kombination med ett av världens största startupevenemang, Slush, stöder faktumet att Finland har rankats bland de bästa platserna i världen för startupföretag. Varje år börjar cirka 4 000 startupföretag sin verksamhet i Finland. Av de startupföretag som börjar sin verksamhet årligen har cirka 300-400 haft en avsevärd tillväxt inom tre år efter starten.

Ett sätt att beskriva förhållandet mellan venturekapitalföretag och startupföretag är genom att använda teorin av Jensen och Meckling (1976) som kallas agentteorin (eng. agency theory). Denna teori används mer gällande förhållandet mellan styrelser i företag och intressenter av företag men är också väl lämpad för förhållandet mellan venturekapitalföretag och startupföretag. Agentteorin bygger på tre antaganden; 1) att det finns ett principal-agent-förhållande, 2) att dessa två parter har olika intressen och 3) att informationsasymmetri existerar.

Venturekapitalföretag och startupföretag har vanligtvis olika intressen. Venturekapitalföretag har förvaltningsuppgifter gentemot sina intressenter där deras finansiärer är de viktigaste. Detta innebär att även om ett startupföretag har ett bra förhållande till ett venturekapitalföretag, bör intressenternas inverkan påverka venturekapitalföretagen så att de tar rationella beslut. Dock nämner Feld och Mendelson (2016) att om ett venturekapitalföretag inte tycker om en startupföretagare, kommer de sannolikt inte att investera i den personens företag, vilket betyder att startupföretag inte bara behöver vara en rationellt bra investering, utan investerarna måste även känna någon sorts koppling till dem. En annan relevant aspekt gällande venturekapitalföretagets och startupteamets förhållande är resursberoendeteorin (eng. Resource Dependency Theory) introducerad av Pfeffer och Salancik (1978). Denna teori används mer i samband med organisationers externa kontroll, men kan även användas i samband med venturekapitalföretag och startupföretag. RDP-teorin handlar om att ha tillräckligt specifika men även breda resurser när det gäller t.ex. arbetstagarnas bakgrund, kunskap, nationalitet och språk.

Investeringsprocessen kan anses vara ganska standardiserad, och de flesta venturekapitalföretag följer samma mönster. Investeringsprocessen börjar med att gå igenom startupföretagens fysiska material, och företagen fattar sina första beslut baserat på detta. Detta skede kan tänkas basera sig enbart på kvantifierbara uppgifter, och flest startupföretag blir eliminerade i det här skedet av processen. Efter detta skede kommer venturekapitalföretaget och startupföretaget ha möten, där kvalitativa mätningar görs. Till slut tar venturekapitalföretaget ett beslut baserat på materialet de fått och mötena de haft med startupföretagen.

Socialt kapital

Kapitlet gällande socialt kapital kopplar språkkunskaper till venturekapitalföretagens beslutsfattande och språkkunskapernas inverkan på relationen mellan venturekapitalföretag och startupföretag. Ett företag kan t.ex. ha finansiellt kapital, socialt kapital och humankapital. Ju mer komplex en resurs är, desto mer har den potential att ge

värde och utvecklas till något mer. En komplex resurs är något som är immateriellt och kunskapsbaserat, och jag hävdar att språk passar mycket bra in i den kategorin.

Huvudaspekterna gällande socialt kapital kan tänkas vara ökat förtroende, förbättrat samarbete samt en ökning av kollektiva handlingar. Socialt kapital ger individer nytta o ger dem möjligheter att skapa lösningar på problem med hjälp av sociala nätverk. Socialt kapital indelas i två typer. Den första fokuserar på att skapa ett nätverk med de människor som delar en gemensam identitet, medan den andra har fokus på individer som är utanför den kretsen som har en gemensam identitet. För startupföretag verkar den andra gruppen vara viktigare på grund av möjligheten att påverka individer, direkt dela information och nå en mer heterogen uppsättning av människor.

Språk har redan länge ansetts vara en typ av resurs. Till exempel inkluderas språk inom kulturellt kapital. Clark (2006) argumenterar att alla typer av kommunikationssystem som uppstår mellan människor kan betraktas som socialt kapital, medan Nahapiet och Ghoshal (1998) specifikt nämner språk inom den kognitiva dimensionen av socialt kapital.

Kopplingen mellan socialt kapital och företag är lätt att se. När människor inom ett företag och människorna som omger dem arbetar bra tillsammans, klarar sig även företaget bättre. Förtroendet ökar, kunskapen mellan olika delar av organisationen rör sig snabbare och arbetsgrupper är mer produktiva. Detta är bara några av anledningarna till att det är viktigt för förmän och ledande personal att fokusera på det sociala kapitalet i sina företag. Entreprenörer med goda nätverk har också bevisats vara de som skapar mest möjligheter inom sina startupföretag, vilket innebär att nätverk är en viktig del av startupföretags framgång. Många forskare är även överens om att nätverk borde belysas på grund av deras betydelse för att grunda startupföretag. Brüderl och Preisendörfer (1998) nämner även att sannolikheten för startupföretag att bli framgångsrika ökar då de får stöd av nätverk.

Tidigare forskning har även indikerat att direkta kopplingar minskar osäkerheten mellan parter, vilket är en viktig aspekt att beakta eftersom det är en stor faktor när det gäller venturekapitalföretagens investeringsbeslut som baserar sig på tillförlitligheten och säkerheten de får av startupföretagen. Studier visar att företag tenderar att arbeta med direkta kopplingar, t.ex. bekanta affärspartners för att undvika osäkerhet. Hallen (2008) nämner att när man väljer mellan företag med liknande resurser, är det troligt att man

väljer det med minst osäkerhet. Komplexa resurser är vanligtvis svåra att utvärdera på kort tid, vilket gör det ännu viktigare att minska osäkerheten.

För att sammanfatta vikten av socialt kapital och förhållandet mellan venturekapitalföretag och startupföretag, baseras det mest på förtroende och säkerhet mellan de två parterna. I likhet med agentteorin, handlar det om att minska osäkerheten. Socialt kapital bör därför betraktas som en av de mekanismer som används för att göra relationen mellan venturekapitalföretag och startupföretag mer framgångsrik.

Metod

Studier kan antingen vara deduktiva eller induktiva. Enkelt uttryckt testar en deduktiv metod en teori, medan en induktiv metod handlar om att skapa en ny teori. En induktiv metod görs mer sannolikt med hjälp av en kvalitativ studie. Eftersom de data jag samlat in och analyserat är kvalitativa och skapar ny förståelse av ett ämne, är min studie induktiv. Samplets storlek tenderar att vara mindre i kvalitativa studier än i kvantitativa. Resultat av kvalitativa studier presenteras oftast i ord, som i denna studie.

Eftersom syftet i denna studie är att få en bättre förståelse gällande venturekapitalföretagens beslutsfattande var det lämpligt att föra fördjupade diskussioner med personer inom detta område. Att göra intervjuer med personer gällande åsikter och erfarenheter hör till den kvalitativa metoden.

Totalt genomfördes en pilotintervju med två intervjuobjekt och sex semistrukturerade intervjuer för denna avhandling. Pilotintervjun hölls på svenska, medan alla semistrukturerade intervjuer genomfördes på finska. Alla semistrukturerade intervjuer genomfördes via onlinetjänsten Zoom, där fem intervjuobjekt hade både mikrofon och video och ett intervjuobjekt bara mikrofon. Anledningen till att intervjuerna ordnades online var både det långa avståndet mellan intervjuobjekt och intervjuare, och myndigheternas rekommendationer gällande COVID-19-begränsningarna. Syftet med de semistrukturerade intervjuerna var att få en djupgående förståelse av venturekapitalföretagens perspektiv gällande deras investeringsfas. Intervjuernas fokus

låg på investeringsprocessen, kriterierna de baserar sina beslut på och kommunikationen mellan venturekapitalföretag och startupföretag.

Presentation av datamaterialet:

Denna del går igenom datan jag samlat in från intervjuerna som hölls för denna studie. Jag började med en pilotintervju och använde sedan informationen från denna intervju till att skapa en mera lämplig intervjuhandbok för mitt specifika ämne. I de semistrukturerade intervjuerna hade jag fem teman för att lättare kunna analysera och dra slutsatser av de data jag samlat in.

Pilotintervjun indikerade att engelska har en avgörande betydelse inom startup-världen, medan andra språk kan vara tillgångar om det är relevant för företaget i ett affärsperspektiv. Även om betydelsen av nätverk inte diskuterades i pilotintervjun, drog jag slutsatsen att eftersom möten tillsammans med venturekapitalföretag och startupföretag sannolikt hålls på finska om alla deltagare pratar finska, finns det en fördel med att skapa förtroende och bekvämlighet mellan de två parterna. Vikten av att bekanta sig med varandra vid det första mötet framhäver även vikten av att skapa en kontakt. Möjligheten för ett venturekapitalföretag att skapa en kontakt till ett startupföretag påverkas således av det talade språket och kommer att påverka förhållandet framöver. Engelska kan därmed anses ha en mer direkt inverkan, medan de andra språken som talas mer informellt kan anses ha en mer indirekt påverkan.

Samtliga semistrukturerade intervjuer började med frågor gällande respondenternas bakgrund och företaget de arbetar för. Alla förutom en arbetade på ett professionellt venturekapitalföretag. Denna person arbetade för ett familjeföretag där de investerade sina egna pengar. Alla respondenter hade kontakt med startupföretag och var med i investeringsbesluten från början till slut.

Investeringsprocessen hos de intervjuade venturekapitalföretagen korrelerar med den process som beskrevs i teoridelen av denna avhandling. Anledningen till att venturekapitalföretagen först vill ha en kort skriftlig presentation av startupföretaget (eng. pitch deck) är för att snabbt kunna avgöra om de är kompatibla med varandra. De flesta

startupföretag elimineras redan i detta skede av olika anledningar, dvs. innan de får ett personligt möte med venturekapitalföretaget. Första fasen kan därmed tolkas som en kvantitativ metod att eliminera startupföretag från investeringsprocessen, eftersom denna baseras på den korta skriftliga presentationen som startupföretag skickar till venturekapitalföretagen i början.

I nästa del av investeringsfasen som är ett möte ansikte mot ansikte går de igenom ärenden mera utgående än i den korta skriftliga presentationen. Under dessa möten som hålls ansikte mot ansikte försöker venturekapitalföretaget därmed analysera startupföretagen, och analysen av startupteamet och dess dynamik ligger i fokus. De flesta av de intervjuade venturekapitalföretagen hade liknande fokus för det första mötet, och analysen av teamet var absolut viktigaste. Det nämndes också att mötena med startupföretagen egentligen handlar om att komma underfund med hurdana människor startupteamet är uppbyggt av och vad deras styrkor och svagheter är.

Nästa aspekt jag fokuserade på var deras investeringskriterier. Jag ville utreda var venturekapitalföretagens fokus ligger när de eliminerar startupföretag från deras process och hur det kan kopplas till språk. Alla sex intervjuobjekt nämnde teamet som ett av sina kriterier i sin intervju eller hade det som ett kriterium på sin webbplats. Även om de flesta venturekapitalföretag nämnde att nätverket hos ett startupföretag spelar en roll, var de även medvetna om att nya startupföretag mindre sannolikt har ett tillräckligt nätverk. De nämnde även att nätverket är något som venturekapitalföretagen kommer att kunna tillhandahålla och att ett redan existerande nätverk därför kan anses vara en tillgång, inte en nödvändighet. Den viktigare aspekten som venturekapitalföretag ser på är därmed möjligheten att skapa och utöka startupföretagets nätverk, inte hurdant startupföretagets nuvarande nätverk ser ut.

Mitt nästa tema var venturekapitalföretagens egna åsikter om språk inom startupteam. Den vanligaste kommentaren gällande detta ämne var att engelska är det språk som behövs mest. En annan återkommande åsikt var att allt material, såsom den korta skriftliga presentationen, aktieägaravtal och protokoll från möten måste vara på engelska för att kunna attrahera venturekapitalföretag. Fem av intervjupersonerna sa att de kommunicerar på finska med startupföretaget om personerna i detta startupteam är finsktalande. De flesta

venturekapitalföretag nämnde också att även diskussionerna vid officiella möten, som det första mötet ansikte mot ansikte, hålls på finska om alla deltagare talar finska.

Inom det sista ämnet hade respondenterna tillfälle att kommentera vad som helst de tyckte vore relevant för mitt ämne, ifall jag inte redan frågat det. Här nämndes en hel del olika saker. Allt viktigt hade dock redan kommit fram under intervjuens gång.

Analys och resultat

Den tydligaste slutsatsen är att engelska är det viktigaste språket inom startup-världen och även har en direkt inverkan på beslutsfattandet. När det gäller andra språk betraktas de mest som bonustillgångar, inte nödvändigheter. Språk utöver engelska betraktades därmed ha ett visst värde, men bara om det är relevant för verksamheten.

Som många av de intervjuade också nämnde påverkas teamets analys av känslan de får av startupföretagen och hur bra de kan kommunicera. Jag hävdar därför att om venturekapitalföretaget och startupteamet kan tala sitt eget modersmål under sina möten, kommer startupföretagets chanser att tillhandahålla finansiering öka. Anledningen till att jag drar denna slutsats är att när de talar sina egna modersmål, kommer de att ha bättre möjlighet att få en kontakt med varandra, förklara mer detaljerat och vara självsäkrare. Som också nämnts av Hallen (2008), tenderar företag att välja det alternativ som medför minst osäkerhet. I detta sammanhang hävdar jag därför att genom att tala samma modersmål kommer venturekapitalföretaget känna sig säkrare med sitt beslut, eftersom det gemensamma språket känns bekant.

När det gäller startupföretagens nätverk, verkar det inte ha någon direkt effekt på venturekapitalföretagens investeringsbeslut. Istället för startupföretagets nuvarande nätverk, bedömer venturekapitalföretagen möjligheten att skapa nya nätverk som något avgörande. Jag hävdar därmed att genom att tala fler språk borde startupföretagen kunna utvidga sitt nätverk bättre. Detta saknades i venturekapitalföretagens tankesätt, där fokuset istället var att ha olika sorters personligheter som de tror kommer arbeta hårt och vara amitiösa.

Avslutningsvis var venturekapitalföretag medvetna om hur språkkunskaper kan vara till nytta inom startupteam, men värdesatte inte detta tillräckligt mycket för att det skulle inverka på investeringsbeslutet. Inverkningarna av språkvalet är därmed mer indirekta, och användningen av språk på olika sätt kan ha en inverkan på känslan som venturekapitalföretag får av startupteamet.

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APPENDIX 1

Pilot interview guide:

1. Could you tell me about your experience, what you have been doing and what you are currently doing?
2. Which areas within the context of startups are affected by language?
3. Is a startup disadvantaged if they only speak English (not Finnish or Swedish)?
4. Is it possible to evaluate language capabilities, and if so, how?
5. How is knowledge transfer, scalability and internationalization affected by languages?

APPENDIX 2

Semi-structured interview guide:

1. Could you start by telling about yourself, your experience, and the company you work for?
 - a. Educational background, experience within the field
 - b. Current company, title at the company, tasks at the company, size of company
 - c. Size of investments, field of investments
2. Could you explain the process regarding how you invest in startup?
 - a. Who makes the initial contact
 - b. How the initial contact is made
 - c. How the person who makes the first contact finds the other party
3. Could you tell about the communication that happens between you and the startup?
 - a. Where/when the communication starts
 - b. When the first physical meeting happens
 - c. Where the focus is at the first meeting
 - d. What are the reasons to qualify to the next step
 - e. For how long/how many times do you meet with the startup before the investment decision is made
 - f. What language do you use within the different stages of the process
 - g. Are there certain areas where a specific language is used
4. What are your investment criteria?
 - a. Which are the most important parts
 - b. What do you look at regarding the criteria of the team
 - c. Which are the most important resources in startups that you consider
 - d. How does the network of a startup influence your decision
5. How do you as a venture capitalist consider the language capabilities of startups?
6. After everything we have discussed, do you have anything to comment or anything to say which you feel would be relevant for the topic?