FLIPPING THE POWER DYNAMICS

Can entrepreneurs make successful investment decisions?

January 2019

VillageCapital

with support from MacArthur Foundation

Authors:

Allie Burns, CEO, Village Capital

Robert Tashima, Director, VilCap Innovations

Heather Strachan Matranga, Senior Manager, VilCap Innovations

Research Team:

Dr. Peter W. Roberts, Academic Director, Social Enterprise @ Goizueta, Emory University

Amisha Miller, PhD Student, Questrom School of Business, Boston University

Key Contributors:

Ross Baird, Dahler Battle, Victoria Fram, Alex Horner, Lewam Kefela, Alex Quarles Arrivillaga, Angela Rastegar, Ben Wrobel

TABLE *of* CONTENTS

ACKNOWLEDGEMENTS

The John D. and Catherine T. MacArthur Foundation

The John D. and Catherine T. MacArthur Foundation supports creative people, effective institutions, and influential networks building a more just, verdant, and peaceful world. MacArthur is placing a few big bets that truly significant progress is possible on some of the world's most pressing social challenges, including over-incarceration, global climate change, nuclear risk, and significantly increasing financial capital for the social sector. In addition to the MacArthur Fellows Program, the Foundation continues its historic commitments to the role of journalism in a responsible and responsive democracy, as well as the strength and vitality of our headquarters city, Chicago.

MacArthur is one of the nation's largest independent foundations. Organizations supported by the Foundation work in about 50 countries. In addition to Chicago, MacArthur has offices in India, Mexico, and Nigeria.

RESEARCH PARTNERS

The Global Accelerator Learning Initiative

Since 2011, hundreds of accelerators have launched around the world. Despite this interest, rigorous research on the effectiveness of acceleration methods has not kept pace. We currently know little about their effectiveness or how differences across programs and models influence entrepreneur performance. To address this gap, Social Enterprise @ Goizueta at Emory University and the Aspen Network of Development Entrepreneurs launched the Global Accelerator Learning Initiative (GALI). GALI builds on the work of the Entrepreneurship Database Program at Emory, which has been working with accelerator programs around the world to collect and analyze data describing the many entrepreneurs that they attract and support.

GALI has been made possible by its co-creators and founding sponsors, including the US Global Development Lab at the US Agency for International Development, Omidyar Network, The Lemelson Foundation, and the Argidius Foundation. Additional support for GALI has been provided by the Australian government, the Kauffman Foundation, and Stichting DOEN.

Social Enterprise @ Goizueta

Believing that business schools are well positioned and obligated to focus on increasing prosperity and reducing poverty in places where markets are currently ineffective, Social Enterprise @ Goizueta (SE@G) is a research center within the Emory University business school that aims to generate positive societal impacts by making markets work for more people, in more places, and in more ways through academic research, fieldwork programs, and student engagement. SE@G's activities uncover what works in accelerating entrepreneurs based in developing countries, boost neighborhood vitality in Atlanta through microbusiness development, increase transparency in specialty coffee markets, strengthen women coffee-grower communities, and develop the next generation of principled social enterprise leaders.

LETTER *from* *the* FOUNDERS

Nearly a decade ago, we launched Village Capital as an experiment: what if we flipped the power dynamics of venture investing?

We had both spent time investing at the early stage (Ross at a VC firm, Victoria at a major foundation). We had seen, and believed in, the unique role of venture capital as a way to make big, risky bets on entrepreneurs with truly world-changing ideas.

We had also seen fundamental cracks in the decision-making process.

> *What if, instead of relying on investors to "pick winners" among groups of entrepreneurs, we chose to rely on entrepreneurs*

A typical venture capital firm will invest in about a dozen companies for every thousand pitch decks they receive. Very smart investors are often under intense pressure to sort through startups at the "top of the funnel" — so they rely on mental shortcuts and patterns to separate the signal from the noise. We believed, and still believe, that this reliance on "pattern recognition" helps explain why female-founded or cofounded ventures receive only 15% of venture capital, and black and Latinx entrepreneurs receive less than 2%.

So we decided to test a hypothesis: What if, instead of relying on investors to "pick winners", we chose to rely on entrepreneurs themselves?

That hypothesis led to the creation of Village Capital's "peer-selected investment" process, a collaborative due-diligence model that takes a bottom-up approach to investing. It was a way to shift decision-making power away from investors sitting in an office building or watching a "pitch competition" and, instead, give that power to entrepreneurs to identify which solutions and ventures are most promising.

After nearly a decade, the process has helped us achieve a diverse, high-performing portfolio. We have facilitated more than 100 seed-stage investments using peer-selected investment, and have seen early success, including 14 exits, and a portfolio that is more broadly inclusive of entrepreneurship talent, with 44% of ventures female-founded or cofounded and 26% of ventures with founders of color.

We're excited to share this rigorous assessment to see if this new way of selecting ideas actually works. Does it lead to better outcomes for investors? For entrepreneurs? For society?

For all the time and money we as a society spend deciding what new ideas to back, we spend very little effort examining how we select new ideas, and whether it works. We hope to answer some of these questions with this report, and welcome reactions and thoughts.

Ross Baird
Co-Founder, Village Capital

Victoria Fram
Co-Founder, Village Capital
Managing Director, VilCap Investments

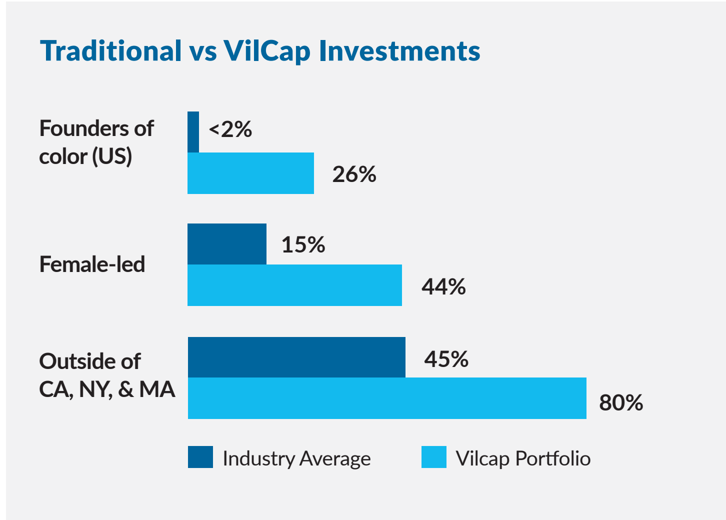
Executive Summary

EXECTUTIVE SUMMARY

The current system of supporting entrepreneurs has significant blind spots, particularly when resources and capital are concentrated to support only a handful of places, people, and problems.

Village Capital started in late 2009 to help address the challenges that exist within this system through what was at the time a radically new model. “Peer-selected investment” is a collaborative due-diligence model that takes a bottom-up approach to investing. It was created as a way to “democratize entrepreneurship” — to shift decision-making power away from investors and give that power to entrepreneurs, to identify which solutions and ventures are most promising.

Village Capital has spent nearly a decade designing, building, and implementing a peer-selected investment methodology. We’ve conducted more than 70 programs using peer-selected investment, resulting in more than 100 seed-stage investments. Investments made through the process are notably more diverse — geographically and demographically — than the traditional venture capital portfolio.



The objective of this study — produced with the generous support of the John D. and Catherine T. MacArthur Foundation — is to take a comprehensive look at how this model has worked, with the objective of sharing learnings with other investors.

We partnered with external researchers from the Entrepreneurship Database Program at Emory University to answer two primary questions:

- ***Are entrepreneurs effective at discerning the future revenue growth or capital attractiveness of their peers?***
- ***Can entrepreneurs do so in a way that mitigates the bias that pervades traditional venture capital?***

The short answer to both questions is yes, a group of entrepreneurs can provide an effective and reliable means of evaluating early-stage ventures and do so in a way that mitigates bias.

Using quantitative and qualitative analysis, and pulling from both internal and external databases and surveys, we spent the past 10 months studying the processes and outcomes of 39 Village Capital programs from 2013-17 in the US, India, sub-Saharan Africa and Latin America. The dataset comprised a group of more than 1200 entrepreneurs in total, including alumni of Village Capital peer selection programs and control groups of applicants who did not participate in the programs.

KEY INSIGHTS

Though there are still many aspects of peer selection that require further research, the data we analyzed provided three key insights:

1. **Entrepreneurs accurately evaluate the future commercial success of their peers.**

   A focus of this study was to evaluate whether through peer-selected investment, entrepreneurs are able to discern the potential commercial performance of early-stage ventures. We found that peer groups of entrepreneurs are able to do this accurately – and quickly. When looking at the performance of alumni in both the first and second years following a sector-specific program, the final peer-selected rank accurately reflected the subsequent ability of ventures to raise capital and, to a lesser extent, generate revenue. In short, the higher-ranked ventures were able to raise more capital than lower-ranked ventures. Equally notable, entrepreneurs were able to identify potential factors for success relatively quickly – in as short a period as four days.

2. **Peer selection mitigates gender bias.**

   One key trait we wanted to better understand revolved around the role that peer-selected investment might play in reducing implicit bias in making investment decisions. Despite the fact that women face significant bias in the venture capital process, outcomes appear to suggest that peer selection is less exclusionary. What we found suggested that during peer-selected investment process, female-founded or co-founded ventures see representation in the ranking process in line with their commercial performance. In other words, the gender bias that commonly occurs within traditional venture capital is mitigated during the peer review process - rather than women getting "crowded out" they are evaluated by their peers based on the merits of their company. The mitigation effect holds true regardless of the proportion of men and women in the cohort.

3. **Peer-selected investment could be more effective at identifying future revenue performance, particularly for female-led companies.**

   In conducting this study, we wanted to better understand how entrepreneurs evaluated the potential for their peers to generate revenue - in addition to their ability to raise commercial capital. The data suggested that while subsequent capital performance aligns with the results of the peer ranking, the relationship – while still present – is less clear between ranking results and revenue potential. This also revealed a gender component: alumni revenue generation post-program suggested highly-ranked companies that were founded by women saw stronger revenue performance than companies with male founders that were ranked above them. This trend is also true for ventures that were peer-selected and subsequently received investment.

While we are excited about the study's early implications, it also raises a number of new questions that we intend to explore. For example, how can we improve the process' effectiveness at identifying the future revenue performance of strong female-founded companies? What impact does peer-selected investment have on reducing racial bias in the investment decision-making process?

We look forward to continuing to share what we learn, to help other investors who want to identify opportunities to level the playing field in their own decision-making processes.

PART 1:

A New Way to Allocate Capital

INTRODUCTION

Venture Capital's Blind Spots

Early-stage venture capital investors are a key gatekeeper for high-growth startups.

For an early-stage startup, finding the right investor, with the right check size, valuation and timing, can make the difference between surviving and folding.

Seed or Series A funding can give a founding team time to reach proof of concept and advance to later-stage investment. For example, roughly 70% of unicorns — companies valued at over $1 billion — received venture capital when they were raising their seed or Series A round.[1]

Therefore, early-stage venture capital serves as a critical first step in the journey of turning an idea into a business. The early-stage investment decisions of today influence the innovation economy of tomorrow.

Investors may resort to pattern recognition to identify proxies for success. This may result in implicit bias that leads investors to miss out on high-potential startups

Yet, venture investing has limitations and blind spots.

Venture capital investors operate in an extremely challenging space. Early-stage investors, and the limited partners who put up money for venture capital funds, regularly take risks on founders with limited traction and unproven ideas. Early-stage companies lack a robust track record of revenue and customers, and may face significant obstacles to scaling down the road – all of which increases the difficulty of evaluating their investability. It's a risky business.

These investors face cognitive overload. On average, venture capital investors sift through 1200 companies a year, to make just 10 investments.

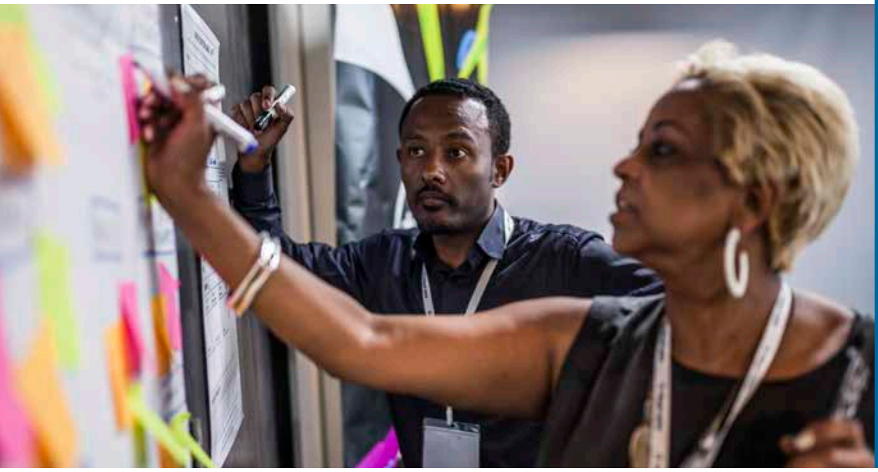
To help inform their decisions, investors often resort to pattern recognition to identify proxies for success. This may result in implicit bias that leads investors to miss out on high-potential startups *(see **Book Excerpt** for more information).*

One example of this is the tendency for investors to invest in companies within their existing networks, driven by the belief that these networks will provide a greater degree of reliable information.[2] To illustrate how this impacts the way in which investors distribute capital, in a 2017 study Village Capital found that more than 90% of funding for East African startups went to companies with at least one expatriate founder, and that 80% of disclosed investors in East Africa are expatriates themselves.[3]

Another example of implicit bias is how it unfolds within gender dynamics. A recent study found that men were 60% more likely to raise funding than women when pitching the same business.[4] Another study found that men and women were asked entirely different questions by investors. While investors asked men generally positive questions about "opportunity", they asked women generally negative questions about "risk".[5]

The result is that many high-potential entrepreneurs are left on the sidelines. Less than 2% of venture capital funding in the US goes to black or Latinx founders in an industry where 70% of venture investors are white. Less than 15% of venture capital funding goes to female-founded or cofounded companies ('female-led"), in an industry where 82% of venture investors are men. Nearly 50% of US investments made from 1980 to 2009 were located within 233 miles of venture capital funds — which tend to be clustered in a few "alpha" cities (e.g. Silicon Valley, Boston, New York City).[6]

These biases can have a significant impact on the subsequent ability of companies to scale but it can also mean missed opportunities for investors.



Book Excerpt: How cognitive overload leads to innovation blind spots

From *The Innovation Blind Spot*, by Ross Baird (2017)

Most venture capital firms I know hear about *a thousand* new ideas a year.

Out of those thousand ideas, a firm will invest in a dozen at most. According to a recent Harvard Business School study, the average firm spends a total of three minutes and 44 seconds evaluating each pitch deck.

Humans are genetically predisposed, when we're facing information overload, to save time by making rules. This has been in our DNA from the beginning: animals with big teeth are bad; water is good. Gerd Gigerenzer of the Max Planck Institute in Berlin calls decision-making rules "fast and frugal" heuristics: we can't possibly analyze all the information in front of us, so we develop shortcuts.

But these shortcuts exclude many of our best ideas.

Why does almost 80% of startup investment go to three US states? Because that's where the money lives. Only four of the top 25 most active venture capital firms in the country were headquartered outside New York City, Boston, and San Francisco. Why does the majority of startup investment go to founders who are white, male, and from connected networks? Because that's who investors know from their networks and their personal lives.

We all have biases that affect our decision-making, but as psychologist Khatera Sahibzada puts it, "Because of the pressure and uncertainties investors face in making decisions, any bias factor can be amplified and become detrimental." **(Read more)**

PEER-SELECTED INVESTMENT

Peer-selected investment flips the power dynamics

Village Capital developed peer-selected investment in 2009 as an alternative way to identify strong investments while also mitigating bias in the final stages of diligence. Fundamentally, it is a way to flip the power dynamics of early-stage venture investing, to help investors avoid missing out on high-potential companies.

The process was inspired by the “village banking” model commonly used in microfinance. Instead of traditional top-down lending, where a bank decides who is credit-worthy, village banks empowered groups of entrepreneurs to self-organize to make investment decisions.

Similarly, peer-selected investment gives groups of early-stage, high-growth entrepreneurs the power to make a collective decision on who should receive investment. It involves an intensive sourcing process before the program begins, but much of the traditional business due diligence is performed during peer-to-peer evaluations, where entrepreneurs learn to assess their peers — and their own companies — through the eyes of an investor *(see **The Process: How Peer-Selected Investment Works** for full explanation).*

The idea of peer-selected investment was — and remains — a paradigm shift in the venture capital industry. With this study, we are evaluating whether it is an effective alternative means of conducting due diligence.

Early-stage investors often see themselves as investing in people: founders who define the potential of a young company. Can peer-selected investment's systematic approach of evaluation incorporate a range of informed perspectives and add rigor to that process? Are women and black and Latinx founders served by a more democratic process?

Determining the answer to these questions involved digging through five years and several hundred datasets worth of company and program information, and answering a lot of questions around process, methodology, and outcomes.

Having spent 10 months doing just that, there are many questions that we believe still need answering but we have found a number of interesting lessons worth sharing. In Part 3, we cover the three most thought-provoking.

The Process: How Peer-Selected Investment works

What is Peer-Selected Investment?
Peer-selected investment essentially serves as a collaborative way to perform due diligence. Village Capital's peer selection process involves a group of entrepreneurs evaluating and providing feedback on one another, eventually making a collective decision on who should receive investment, using a framework for evaluation — Village Capital's VIRAL Pathway (see **Appendix 2**) — to identify venture maturity and development.

Village Capital's affiliated investment fund, VilCap Investments, has traditionally precommitted investment to the outcome of the program, and participants know that the top two peer-selected ventures will receive an investment offer. As a result, companies have a fiduciary responsibility to make the best possible investment decision.

What does peer selection look like?
Village Capital uses peer-selected investment as the anchor component of a three-month non-residential investment-readiness program. Each cohort consists of 10-12 high-growth early-stage ventures operating in a specific geography and sector (such as clean energy in India or education technology in the US). The entrepreneurs convene over three four-day workshops to participate in a variety of tailored curriculum modules, meet potential investors, customers and strategic partners, and get to know each other's businesses inside and out.

On the final day of the program, the cohort of "peer entrepreneurs" fill out an extensive "peer rank" matrix, based on criteria in Village Capital's VIRAL Pathway (i.e. value proposition, strength of team), assessing one another as if they were an investor. The ventures that emerge with the highest rankings, generally the top two in the rank, then receive offers of investment (typically $50,000-$100,000) from a venture fund that has precommitted capital.

Throughout the course of the program, entrepreneurs run through three "trial ranks" (one during each workshop) before the final, official ranking. Following each trial rank, the entrepreneurs must defend the scores they gave to their peers in detail — and in person.

WORKSHOP 1: Trial Rank
Are you solving the right problem?

WORKSHOP 2: Trial Rank
Do you have the right people & partners?

WORKSHOP 3: Final Rank
Are you ready for investment & scale?

A Peer-Selected Investment Journey: Piggybank.ng

Odun Eweniyi needed $150,000 - fast.
Piggybank.ng, the app she had launched a few months earlier with her friends Somto and Joshua, was taking off. The app had launched in April 2016. Within two days they had 300 sign-ups. Now they were pushing 2,000, mostly thanks to word-of-mouth.

Piggybank.ng is a savings tool that helps Nigerians — mostly millennials — put aside money they would normally be tempted to spend. They were operating on a shoestring budget, with no employees and a tiny office. Now, with their user count steadily growing, they needed a license from the government to operate as a microfinance business. The license would cost $150,000.

In short, Odun and her team were seeking investment. As a female cofounded venture based in Lagos, Nigeria, Odun and her cofounders needed to tap into a network of investors. Odun participated in Village Capital's Fintech Africa 2017 program and was ultimately peer-selected for investment.

JANUARY 2017

Accra, Ghana

Odun flies to Ghana and meets the other peers in the cohort, who were also focused on improving access to financial services. After four intense days, the group participates in a dry run of the peer-selection process.

"After every ranking, each person has to justify their choices in front of their peers. Sitting there, listening to that honest feedback, really helped us evaluate our business."

FEBRUARY 2017

Nairobi, Kenya

The cohort reconvenes a month later to focus on setting milestones and meeting potential strategic partners. The workshop ends with another trial rank.

"The month-long break was important, because you were able to internalize the feedback you got from the previous round. We were able to really see whether the other entrepreneurs made progress."

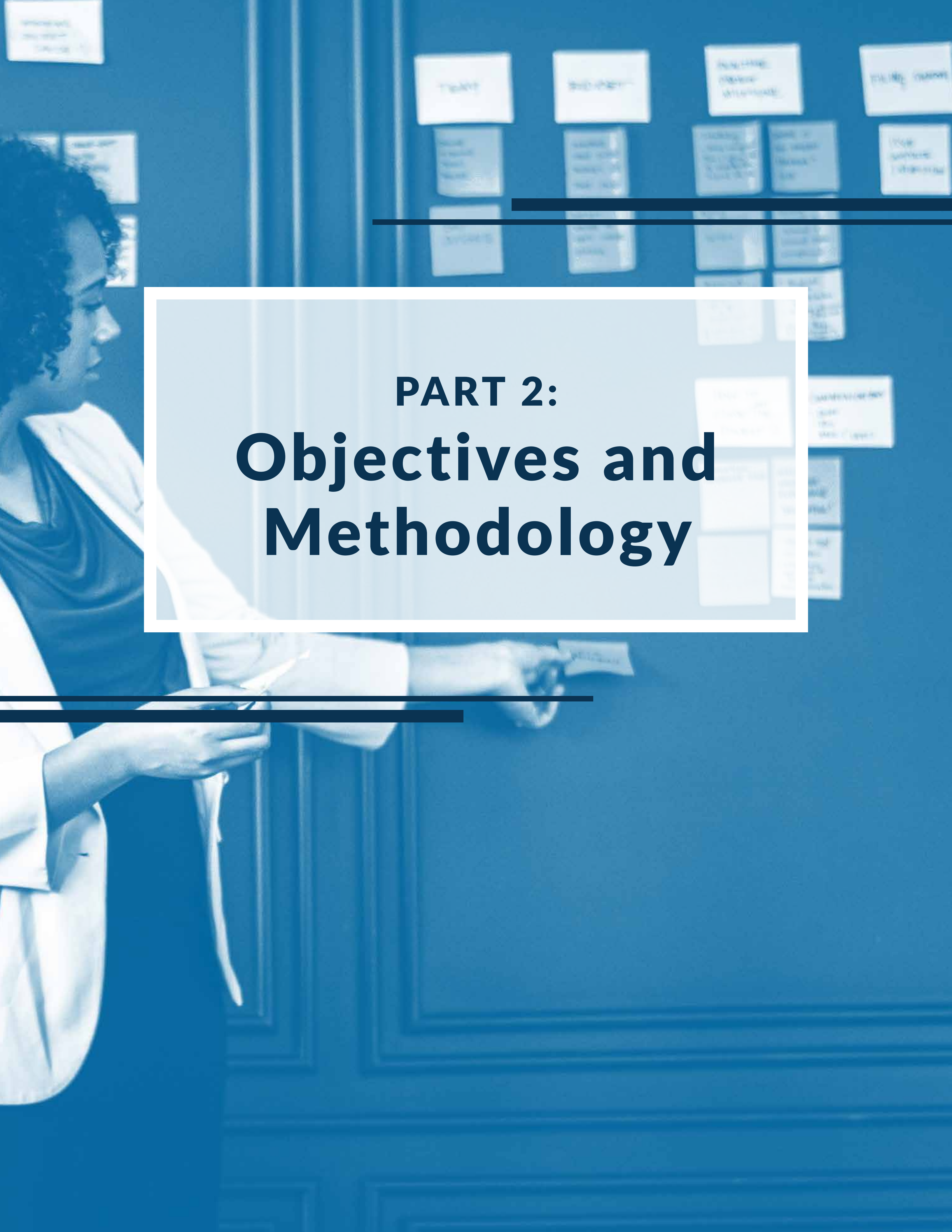
MARCH 2017

Lagos, Nigeria

The final workshop is held in Lagos, Odun's hometown. The entrepreneurs gather for a final session called "The Hot Seat", where they pepper each other with last-minute questions.

Piggybank.ng comes out on top in the final ranking, and receives an offer of investment.

A few months after the program, Piggybank.ng raised $1.1 million seed funding. They were able to obtain that government license and to develop their product further. The company now has 185,000 users and has helped Nigerians save $14 million.



PART 2:
Objectives and Methodology

Objectives

OBJECTIVES AND METHODOLOGY

Why Evaluate Peer-Selected Investment?

The objective of this study is to examine whether a group of entrepreneurs can provide an effective and reliable means of evaluating early-stage ventures and do so in a way that removes bias.[7]

Village Capital has conducted more than 70 programs since late 2009 using the peer review process. The overall track record of alumni companies (those that have participated in a Village Capital program) and the performance of Village Capital's portfolio (those that have received investment) suggests that the peer-selected investment programs lead to improved performance for program graduates, and that the methodology works well in identifying prospects for venture growth and investment returns.

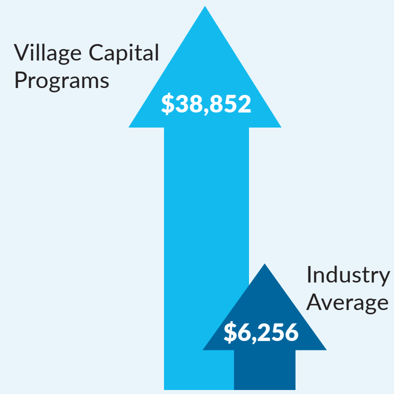
While the initial performance of the portfolio and alumni have been promising, there are several questions that we are still trying to answer about whether and how the peer-selected investment methodology is contributing to these outcomes, which this research is intended to partially address:

- *How effective are entrepreneurs at discerning future revenue growth or capital attractiveness?*
- *How exactly does peer-selected investment impact gender or racial diversity?*
- *What aspects of the process are contributing to these outcomes?*
- *How can other investors leverage these learnings to improve their portfolio outcomes?*

Alumni

According to a separate research initiative conducted as part of GALI, ventures that have participated in Village Capital's peer selection programs raise on average 2.7x more capital and generate 1.3x more revenue one year following the program than a control group.

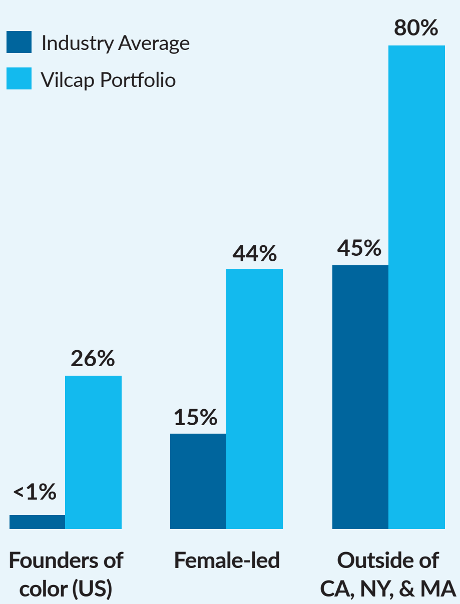
In addition, ventures that participate in a Village Capital program raise, on average, 6x more commercial capital than an industry average for ventures that participate in any accelerator program.[8]



Average Capital Raised In the Two Years Following a Program

Our portfolio is also more diverse – geographically and demographically – than the traditional venture capital portfolio.

Traditional vs VilCap Investments



Portfolio

Village Capital's portfolio, which comprises solely peer-selected ventures, has performed well, particularly when compared against peer funds of the same vintage year. Among the 102 investments made since 2009, 14 have provided exits with positive returns. Furthermore, approximately 90% of Village Capital's investments are still in operation midway through the fund's life.

VilCap Investments' portfolio is also more diverse – geographically and demographically – than the traditional venture capital portfolio. For example: 44% of our portfolio is composed of female-founded or co-founded ventures and 26% have founders of color. More than four-fifths of the portfolio companies are based outside of California, New York and Massachusetts – the three states that account for roughly half of all venture capital activity worldwide. Furthermore, approximately 86% of Village Capital's investments are still in operation midway through the fund's life.

Methodology

What follows in the next section are some of the key insights we gleaned from a review of more than 1200 companies over five years, supported by data collected by the Entrepreneurship Database Program out of Emory University's Goizueta Business School, along with external fundraising databases, secondary sources, and our own internal metrics.

We partnered with external researchers, Dr. Peter W. Roberts, academic director of the Entrepreneurship Database Program at Emory University, and Amisha Miller, PhD Student at Questrom School of Business at Boston University, to conduct a quantitative and qualitative analysis of our programs.

The qualitative analysis comprised interviews with current and former Village Capital staff, Village Capital board members, program mentors, and current and alumni ventures, as well as objective real-time observation of one of Village Capital's programs.

The quantitative analysis comprised evaluating performance data on a subset of ventures that applied to Village Capital's programs, based on their data at the time of application, as well as two follow-up surveys: one year after the program, and two years after the program.

Available Data

This report focuses on a review of 39 programs that had an application period in a five-year span between 2013 and 2017 (although Village Capital has conducted more than 70 programs, the scope of review was limited due to scarce data from earlier programs).

We refined this dataset by focusing the majority of our analysis on companies that were designated as "semi-finalists" — the roughly 35-50% of all applicants that were most qualified for our programs, and from which we would eventually select the final cohort.

Collecting data was a challenge, and may in part reflect participation bias given the reliance on surveys of companies for their post-program performance. Response rates to follow-up surveys in the second year declined, for example, which means the statistical relationships for second-year performance are less robust. From the complete dataset, we also excluded companies without first-year follow up data.(see **Appendix 1** for more information on the dataset).

Variables

In conducting the analysis, we primarily focused on the commercial performance indicators of debt and equity capital raised, including a combined variable commercial capital raised, amount of revenue generated and revenue growth, and number of employees. To the extent possible, we also evaluated demographic data, such as gender, sector, and geography.[9] While we had hoped to analyze the impact of peer-selected investment on race and ethnicity, we did not have a large enough sample size to do so in a statistically meaningful way.

Comparison Groups

To better identify and highlight trends within the programs, we grouped companies into four mutually exclusive categories, based on their peer ranking:

- ***Peer-Selected Investees:*** Ventures that completed a Village Capital program and ultimately received a peer-selected investment (generally, those that were ranked one and two by their peers in the program, although in a few cases they did not accept investment — those companies were treated in the category below).

- ***Top Five Ranked Non-Portfolio Alumni:*** Ventures that completed a Village Capital program and were ranked in the top five by their peers but did not ultimately receive a peer-selected investment, either because they were ranked between three and five, or because they ultimately did not accept the terms of investment (this occurred only a few times in this sample).

- ***Six to Ten Ranked Alumni:*** Ventures that completed a Village Capital program and were ranked between six and 10 by their peers in the program.

- ***Lowest-Ranking Alumni:*** Ventures that completed a Village Capital program and were ranked 11 or below by their peers in the program.

PART 3:
Key Insights

INSIGHT 1:

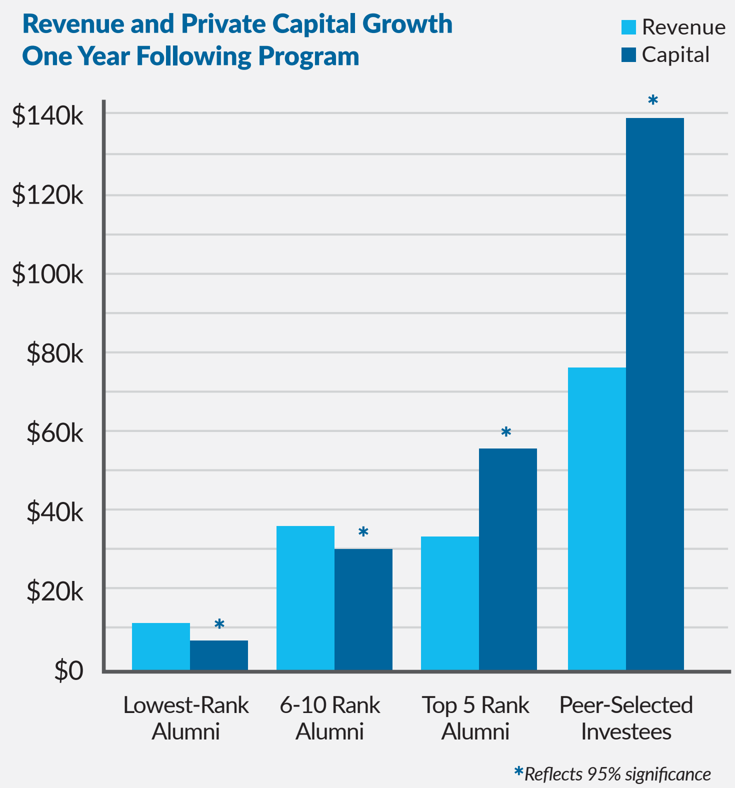
Entrepreneurs accurately evaluate future commercial success of their peers.

Summary:

A focus of this study was to evaluate whether entrepreneurs in a peer-selection process are able to discern the potential commercial performance of early-stage ventures. We found that they are able to do this accurately — and quickly.

When looking at company performance in the two years following a sector-specific program, the final peer-selected rank accurately reflected the subsequent ability of ventures to raise capital and, to a lesser extent, generate revenue. In short, the higher-ranked ventures were able to raise more capital than lower-ranked ventures. Equally notable, entrepreneurs were able to identify potential factors for success relatively quickly — in as short a period as four days.

Revenue and Private Capital Growth One Year Following Program



Venture capital investors faced cognitive overload at the "top of the funnel". On average, investors sift through 1200 companies a year to make 10 investments.[10] To help inform their decisions, investors often rely on their existing networks to help evaluate companies, which may lead them to miss out on high-potential startups.[11] Given these challenges, we evaluated whether a group of early-stage entrepreneurs are a viable means to discern the future commercial success of early-stage ventures.

Entrepreneurs Evaluate Peer Commercial Performance Accurately.

On average, entrepreneurs accurately identify which of their peers will be more successful in raising commercial capital — defined as commercial debt or equity — compared to the other ventures in the program. We saw a clear and consistent positive correlation between the average amount of capital that entrepreneurs raised in the two years following the program and their performance in the peer rank.

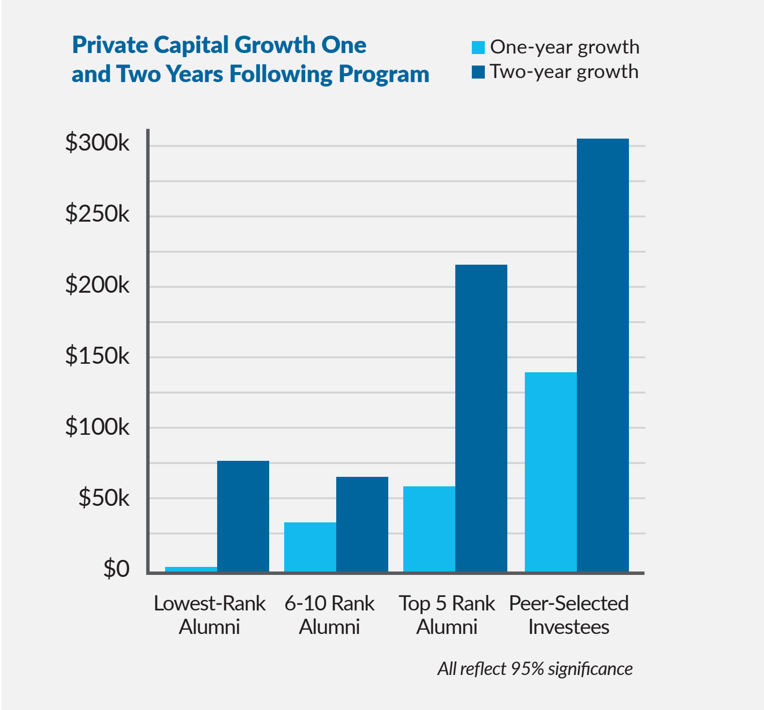
Furthermore, the difference in the amount of capital raised is statistically significant across each of the peer rank groups, which means that entrepreneurs are also able to identify which of their peers will face challenges raising capital. The lowest-ranked companies consistently show smaller performance improvements than their peers in the two years following the program.

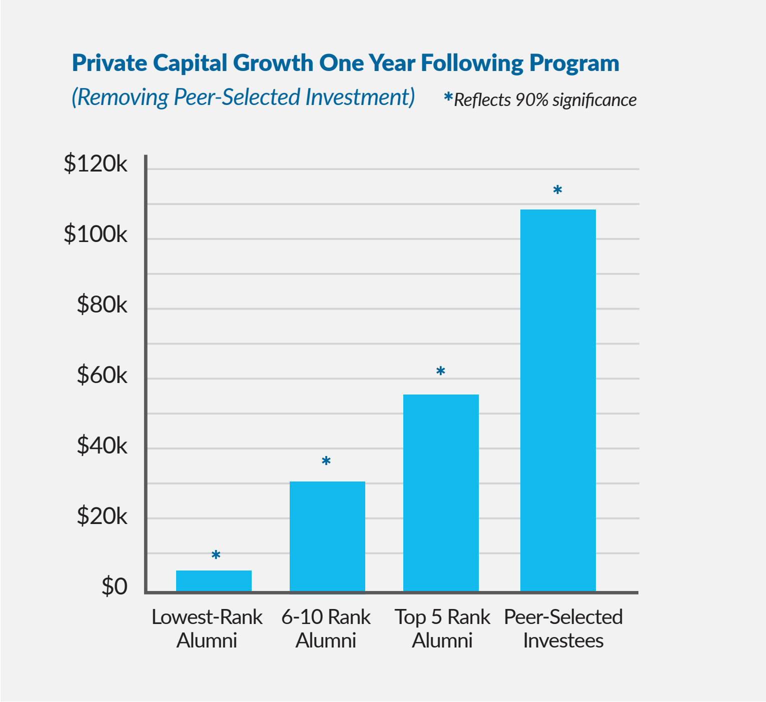
Although the trend is most definite in the first year, it is sustained in the second year, despite the reduction in sample size due to a drop in data reporting.[12]

Further, we found that peer-selected companies — the subset of companies that are ranked highest and receive offers of investment — show the most notable increases in capital raised and revenue generated. This trend remained consistent even when we accounted for the investment they received for being peer-selected (which typically ranges from $25,000 to $100,000 per venture, depending on geography and sector).

It is worth noting that removing the dollar amount of the investment is not the same as controlling for the effect of the investment. There is a strong possibility that the peer-selected investment from Village Capital's affiliated fund, VilCap Investments — particularly in situations where it constitutes the first institutional capital for a company — leads to a market signalling effect; indeed, in certain circumstances co-investors joined following our investments.[13]

Finally, although we saw a positive correlation between peer rank and improved revenue generation in the two years following a program, it is not statistically significant (see ***Insight 3*** below).





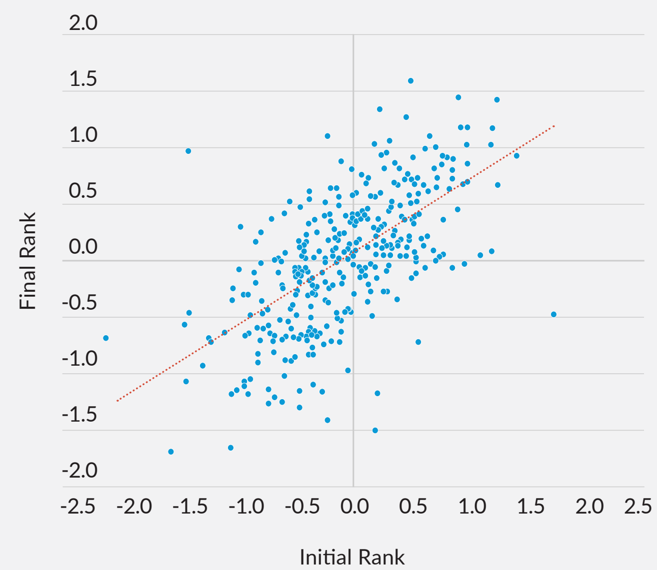
Entrepreneurs are accurately evaluating their peers early in the process.

In addition to evaluating the future commercial success of their peers accurately, entrepreneurs are also able to do so quickly. Peer entrepreneurs have the opportunity to rank each other up to four times over the course of a Village Capital program. The results of the first ranking (which occurs after just four days) and the final ranking (which occurs after 12 days) are strongly correlated. This suggests that entrepreneurs are not only identifying the future commercial performance of their peers; they are doing it with a notable degree of accuracy within the first few days of meeting each other.

That being said, the final ranking — which takes place three months after the first and is the only ranking that results in an investment offer — does evolve from the initial ranking and is ultimately the most accurate in terms of identifying future commercial performance. This means that although entrepreneurs are accurately evaluating their peers within the first few days, their evaluation only gets better the more time they spend together (in this case, 12 days over the course of three workshops).

It is worth noting that the strong correlation between the first and final rankings could partially be the result of anchoring, which makes it much more difficult to change an entrepreneur's initial impression of their peers. This means that a peer's first ranking of a venture (their "first impression") defines how they view that venture for future rankings. The anchoring effect has been prevalent in other reputation-based ratings systems such as university academic rankings and online review systems like Yelp.[14]

Correlation Between Initial and Final Peer Ranks [15]



Entrepreneurs evaluate their peers differently than the initial Selection Committee.

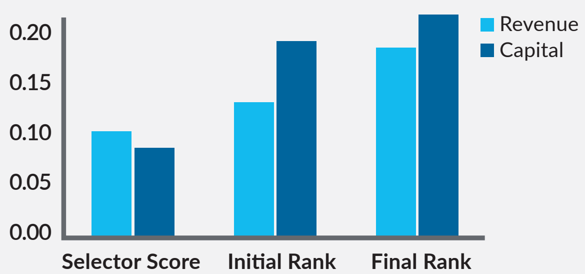
A cohort of entrepreneurs appear to be slightly more accurate than an external selection committee at identifying the potential of their peers to raise capital in the future (and, to a lesser extent, the potential of their peers to generate future revenue).

Before a Village Capital program begins, Village Capital staff will work with a selection committee to select the 10-12 cohort members from dozens, or sometimes hundreds, of applications. This committee typically includes Village Capital staff, VilCap Investments staff (Village Capital's affiliated fund), venture capital investors and industry experts.

When we compare the commercial performance of ventures (capital raised and revenue generated) following the program with cohort evaluations (cohort initial and final rankings of the ventures) and selection committee evaluations (selection committee scores), we observe a higher correlation between the cohort rankings and venture performance.

Selection Committee Scores VS Peer Rank

Correlated with revenue and capital one year after program



This finding does not necessarily indicate that peer entrepreneurs are better than the selection committee at evaluating entrepreneurs. Notably, the selection committee is not scoring ventures based on the same basket of factors as the cohort, nor do they spend time with each entrepreneur in person. While the entrepreneurs are focused on evaluating one another based on potential and return on investment with the objective of allocating investment, the selection committee will generally consider additional factors, such as the extent to which ventures would benefit from program participation.

Selection: How Village Capital Selects Each Cohort

Village Capital cohorts typically comprise 10-12 ventures. Before a program, Village Capital staff will work with a selection committee to select these ventures from dozens (or sometimes hundreds) of applications.

Selecting Semi-Finalists

The screening process begins with an initial review of applicants by Village Capital staff to select a subset of applicants, known as semi-finalists, that qualify for a program based on location, sector, or stage. This on average eliminates 50-65% of all applicants.

Selecting Cohort Members

The list of 30-35 semi-finalists is then sent to the selection committee. Each committee is unique to the program and comprises a mix of representatives with expertise in the relevant sector and geography. This includes Village Capital staff, VilCap Investments staff, local venture capital investors and local industry experts (e.g. agriculture, energy, financial services, etc).

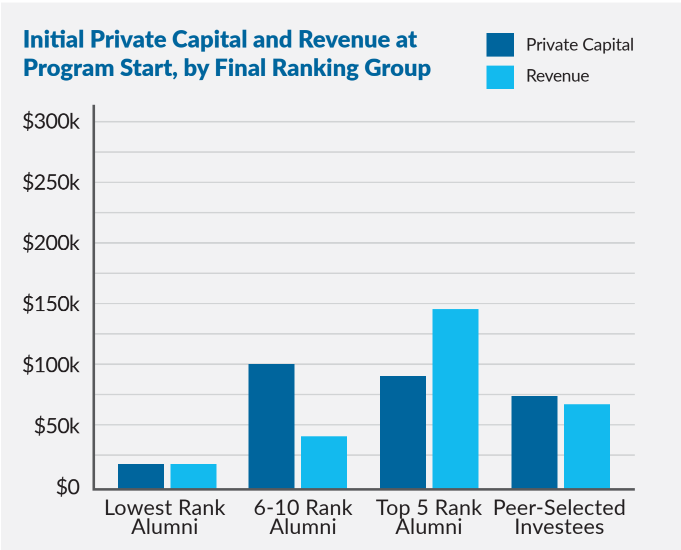
The committee's role is to agree on the 10-12 ventures that will be selected to participate in the program, evaluating for several factors, including two primary variables: investability and potential to scale. The committee's review is based on an evaluation of the nine components of a company's business that mirror Village Capital's VIRAL Pathways, such as team, value proposition, business model and scaling strategy **(see Appendix 2).**

However, the selection committee also looks at the fit of ventures within the broader cohort, and thus screens for potential competitors within the cohort, and seeks to ensure a diverse mix of founders.

Rather, the finding indicates that there may be something within the peer-selected investment process that improves the ability of entrepreneurs to evaluate their peers. As indicated previously, the entrepreneurs are likely benefiting from the amount of time they spend with one another over the course of the program.

Entrepreneurs are evaluating more than initial “traction”.

Early-stage venture capital investors will often look at “traction” — which can be defined as a venture’s record to date of generating revenue and commercial capital — as a way to evaluate future performance. However, in our review we found that this metric had no correlation with a venture’s final ranking.



Initial traction has no correlation with a venture's final ranking.

This appears to suggest that entrepreneurs in the peer-selected investment process rely on more than purely commercial metrics to make their decision in line with the approach of many other early-stage investors. Ethnographic observations and interviews with entrepreneurs during the peer-selected investment process of one program further indicate that a number of factors beside traction play strong roles.

Throughout the course of the program, participants have the opportunity to get to know their peers, as one entrepreneur put it, “as individuals, entrepreneurs, and teams”.

The participants can observe:

1. *how the founders communicate their businesses with different audiences*
2. *how they engage as a team and with stakeholders such as mentors*
3. *how they receive and respond to critical feedback over the course of several months.*

The strength of the team was one of the most prominently cited factors: companies with multiple cofounders were often viewed more favorably, particularly in terms of how they were able to communicate their business model in different ways. For example, one entrepreneur in a recent cohort noted: “[COMPANY] is good but it’s only one guy. The business model is strong but it would [be easier to communicate] with a more charismatic team.” In addition, progress during the program is one potential factor, based on more positive reviews of companies that have expanded into new markets or hired new team members over the course of the program.

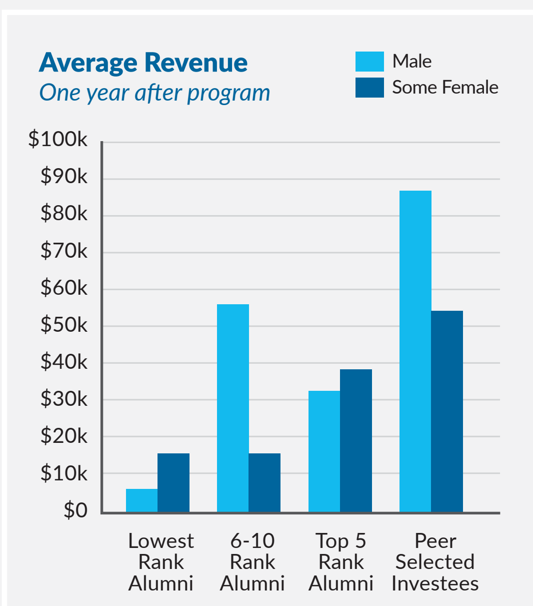
KEY INSIGHT 2

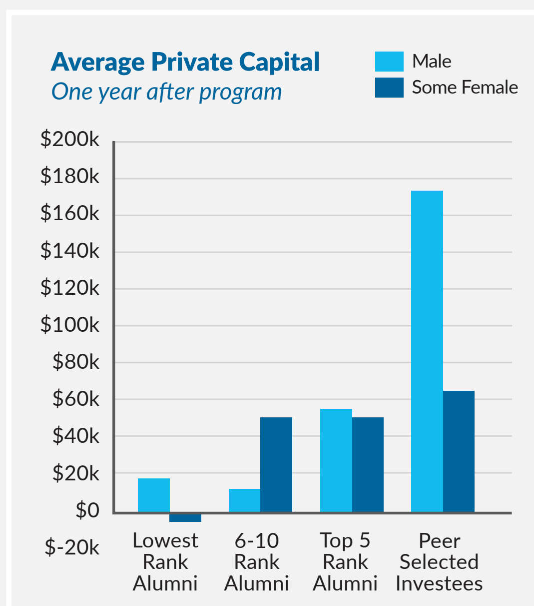
INSIGHT 2:

Peer review mitigates negative gender bias.

Summary:

One key trait we wanted to better understand revolved around the role that peer-selected investment might play in reducing implicit bias in making investment decisions. Despite the fact that women face significant bias in the venture capital process, outcomes appear to suggest that peer selection is less exclusionary. What we found suggested that during a peer-selection program, female-founded or cofounded ventures see representation in the ranking process in line with their commercial performance. In other words, the gender bias that commonly occurs within traditional venture capital is mitigated during the peer-review process — female entrepreneurs are evaluated by their peers based on the merits of their company.

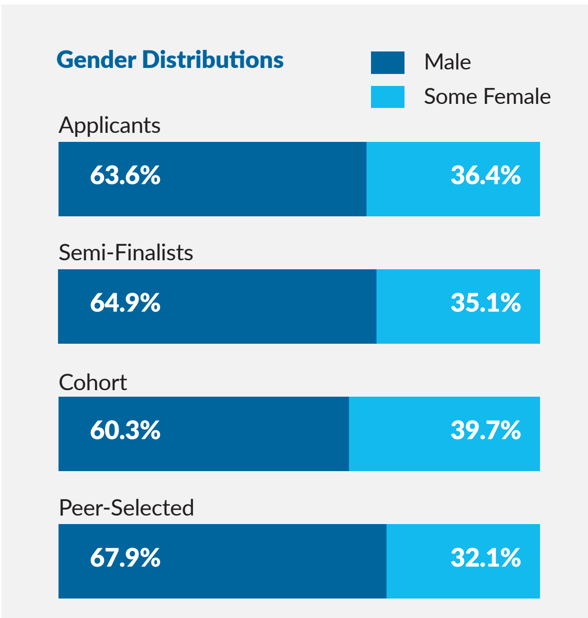


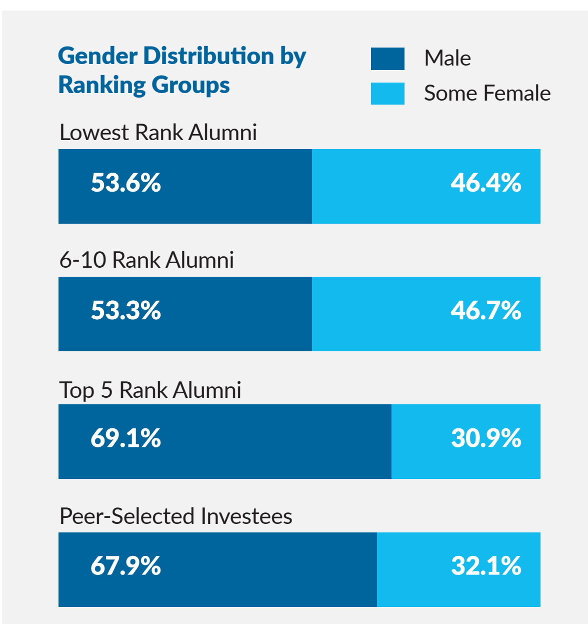


Female-founded firms now represent nearly 40% of privately held companies, but only 2% of venture capital financing is allocated to female founders (15% is allocated to startups with female cofounders).[16] A host of academic research implies that investors — both male and female — bring implicit bias to their investment decisions in a way that hurts women and causes a “crowding out effect”.

With this study, we evaluated: do groups of peer entrepreneurs exhibit patterns of implicit bias against female entrepreneurs? If this turned out to be the case, we would expect women to be consistently ranked low in a peer selection program, regardless of the strength of their company or their future commercial performance.

Based on this study, that is not the case. Peer groups of entrepreneurs, when ranking female-founded ventures, appropriately evaluate their future commercial performance (as measured by capital raised and revenue generated two years following a Village Capital program).





It is worth noting that this is not a measure of the impact that a peer-selection process has on *diversity*. The gender makeup of a given cohort is a reflection of Village Capital’s recruitment strategy, which intentionally emphasizes diversity, including by gender, and thus results in a high proportion of female entrepreneurs. As a result, the peer-selection process *does not* have an impact on the number of women in a cohort, nor does it necessarily reflect the high percentage of female-founded or cofounded companies in Village Capital’s affiliated fund, VilCap Investments, which also likely reflects the sourcing process.

What peer selection does have an effect on is how women are evaluated by fellow entrepreneurs, no matter how numerous they are within the cohort.

The bias mitigation effect holds true *regardless of the gender makeup of a given cohort*. A selection committee can select a cohort that is two-thirds men or two-thirds women; the bias mitigation effect remains.

Peer groups of entrepreneurs, when ranking female-founded ventures, appropriately evaluate their future commercial performance

KEY INSIGHT 3

INSIGHT 3:

Peer-selected investment could be more effective at identifying future revenue performance, particularly for female-led companies.

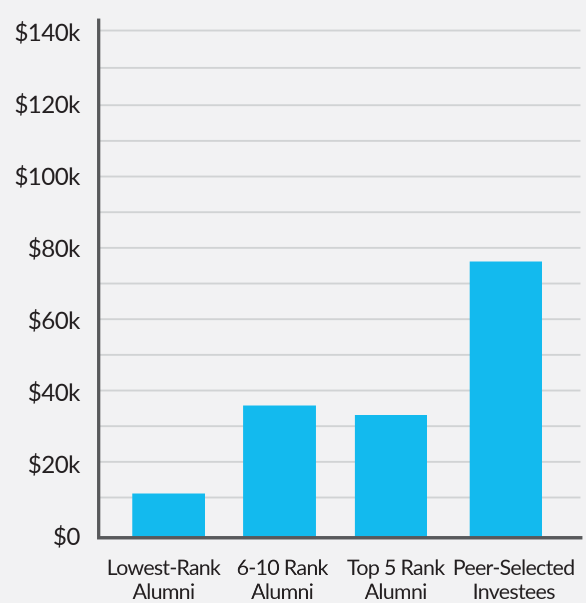
Summary:

In conducting this study, we wanted to better understand how entrepreneurs evaluated the potential for their peers to generate revenue — in addition to their ability to raise commercial capital. The data suggested that while subsequent capital performance aligns with the results of the peer ranking, the relationship — while still present — is not quite as strong when linking ranking results to revenue potential.

Curiously, this also revealed a gender component: alumni revenue generation post-program suggested that highly ranked companies that were led by women saw stronger revenue performance than companies with male founders that were ranked above them. This trend is also true even when female-founded companies were compared to male-founded ventures that were peer-selected and subsequently received investment.

Revenue Growth One Year Following Program

Differences in ranking groups is not statistically significant



Our first insight showed us that groups of entrepreneurs can accurately identify which of their peers will be more successful in raising commercial debt or equity compared to the other ventures in the program. We also studied their ability to identify future revenue.

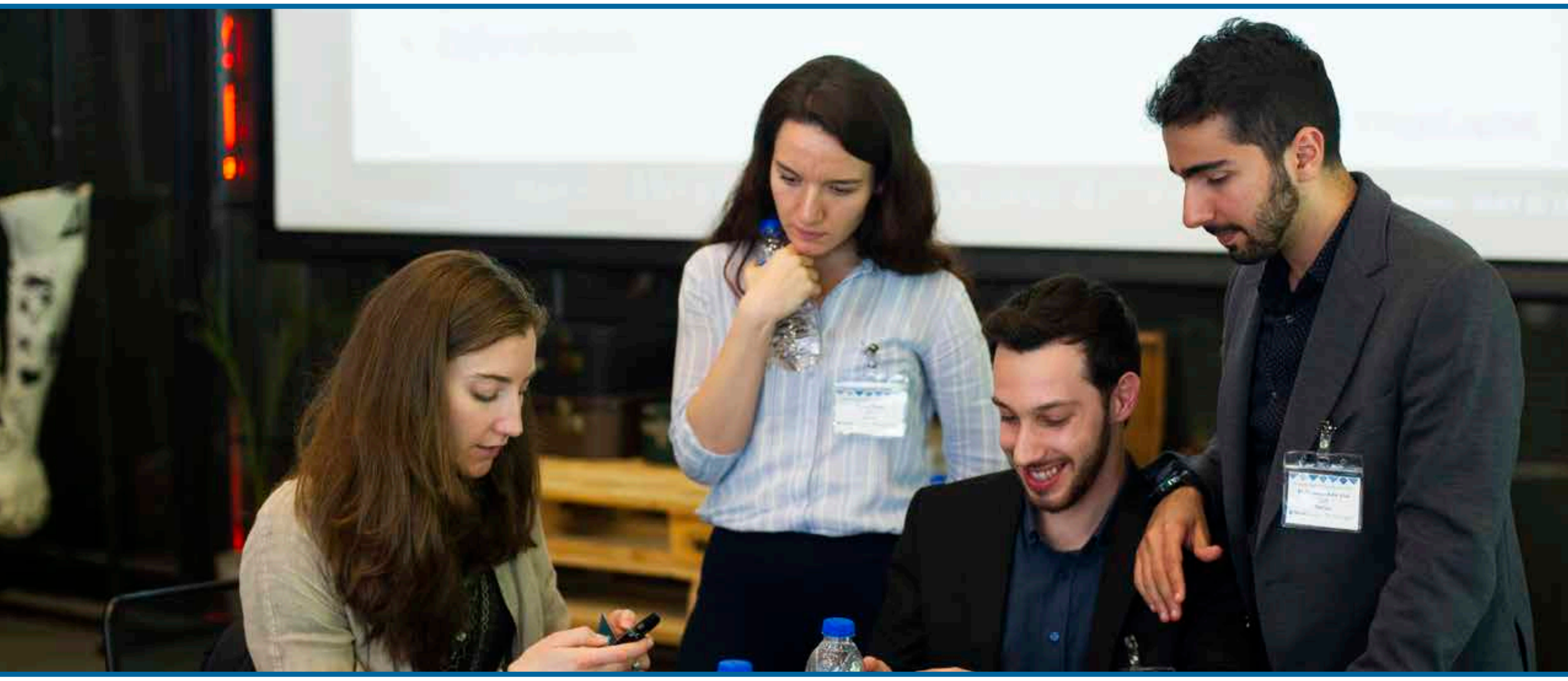
We found that entrepreneurs are not as good at forecasting the potential for their peers to generate revenue as they are at forecasting future commercial capital raised. While higher-ranked ventures do generally generate more revenue, the trend is not statistically significant — unlike with capital raised — and shows far less distinction between comparison groups. In short, this indicates that entrepreneurs only very broadly accurately evaluate revenue performance.

There could be a few different reasons for this.

First, the companies within a given Village Capital cohort often employ a wide variety of business models. For example, a single cohort could include a mix of companies targeting business customers and retail customers, or hardware solutions and software solutions. This means that the ventures may be at very different stages in their focus on generating revenue, and have different go-to market strategies.

Second, this finding suggests that evaluating the core components of a business model at the early stage of a company is more challenging than identifying the potential ability to raise capital. For example, evaluating the market size and possible exit for an investment is a simpler task than understanding the eventual positive unit economics for a product.

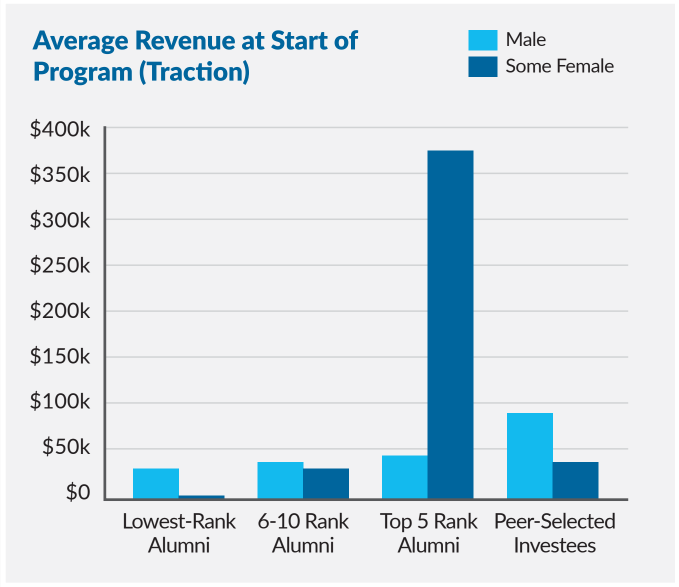
The difference in performance may also reflect the emphasis — both in the industry at large and within Village Capital's curriculum — on raising capital. Capital, specifically equity-based financing, has long been seen as a measure of success for early-stage companies and as broader market validation among customers, talent, and other potential investors. Village Capital's curriculum, which plays a key role in guiding and promoting the peer-selected investment process, also maps business maturity and growth to outside capital, which underscores investment as a focal point for the participating entrepreneurs. Ultimately, this suggests that entrepreneurs may be discounting current and future revenue performance as a measure of potential commercial success during the peer selection process.

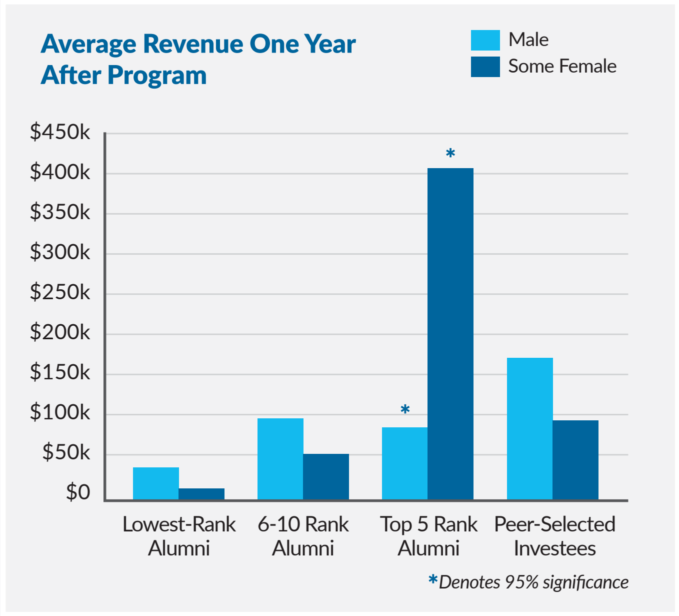


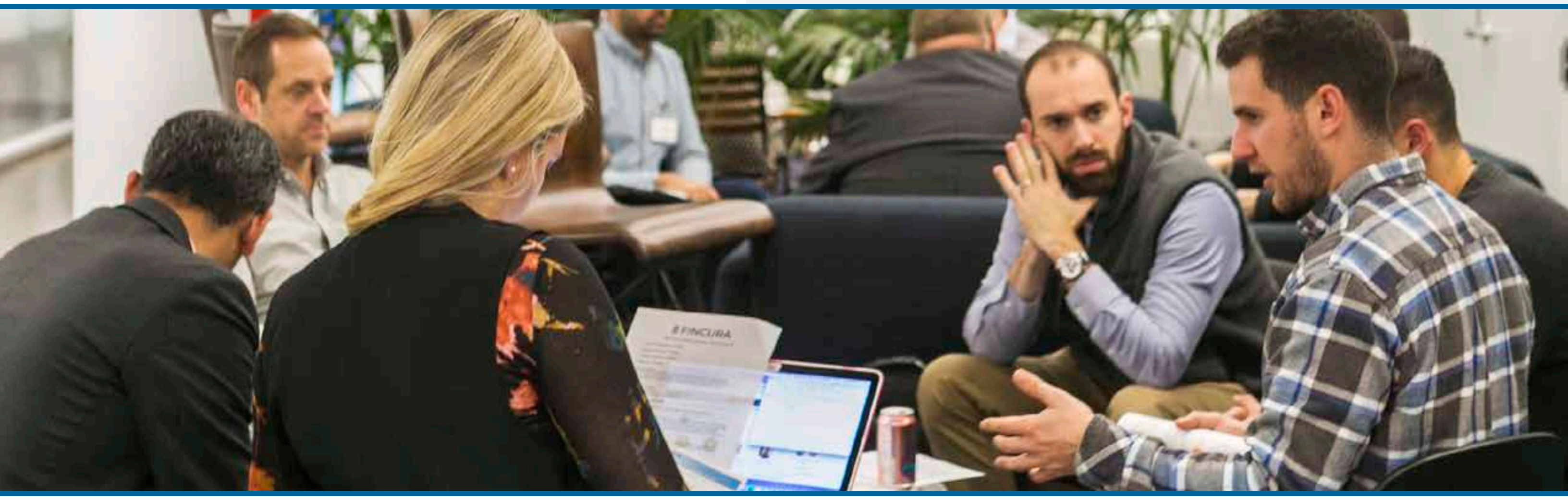
What makes this point particularly noteworthy is the data on revenue performance of the comparison groups after the program — particularly when broken down by gender.

As mentioned previously, our data show a general, if somewhat uneven, trend between higher rankings and revenue performance. However, the top two companies — those that were ultimately selected to receive investment — do not on average show higher revenue performance than those ranked immediately below them.
The strongest post-program revenue performance is on average displayed by highly ranked female-led ventures that are not peer-selected for investment (although there remains a higher standard deviation, which suggests more research is needed into the impact of outliers). These companies are founded or cofounded by women, and are ranked in the top five of their cohort by their peers but are not selected for investment, yet they outperform the rest of the cohort in terms of revenue. In the two years following a Village Capital program, the average revenue performance of highly ranked female-founded companies that do not receive investment outpaces even that of top-ranked male-led ventures that do receive investment through peer selection.

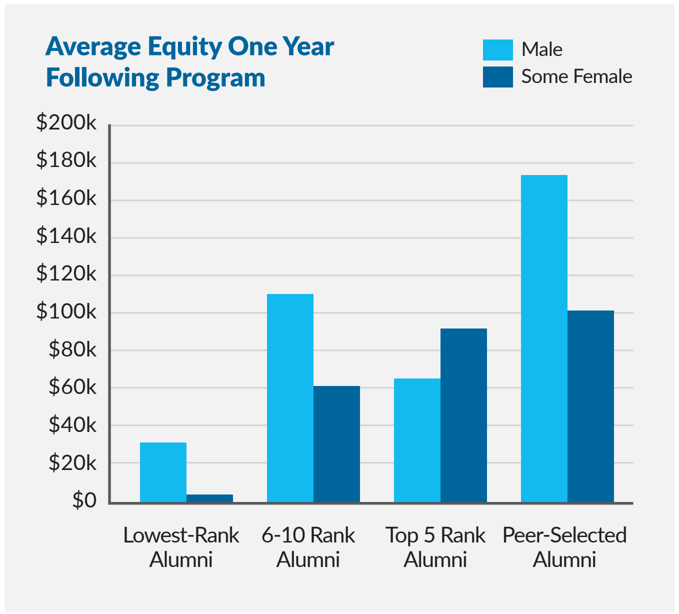
There is an important caveat, in that female-led ventures also have much higher revenues — or baseline traction — when they enter a program than male-led companies in the same rank category.

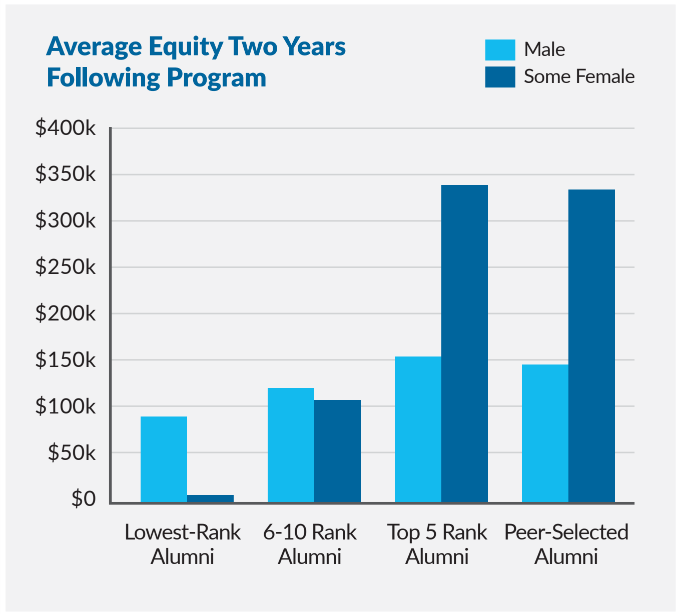






Yet peers are correctly gauging the ability of female-led companies to raise commercial capital. Although the top five female-led companies do show stronger revenue performance, their capital performance tends to be towards the lower end of their comparison group. Higher-ranked women perform lower in commercial capital raised in the first-year follow up, although initial trends suggest that this evens out during the second year.





Certainly, given the well-documented challenges female-led ventures face in raising commercial capital — challenges that the alumni of Village Capital programs must grapple with as well — this is not surprising. Capital raised is an indicator that depends on exogenous factors, in an industry where gender bias is well established, which means that female entrepreneurs are more likely to underperform.

The finding suggests that the emphasis on equity and debt as potential clues to future commercial success may have an outsized impact on female participants in peer selection. It also may indicate that peer-selected investment missed out on promising investment opportunities.

As a result, while Insight 3 brings up some thought-provoking points, additional study is required to understand what the implications are, both for investors and for the peer selection process.

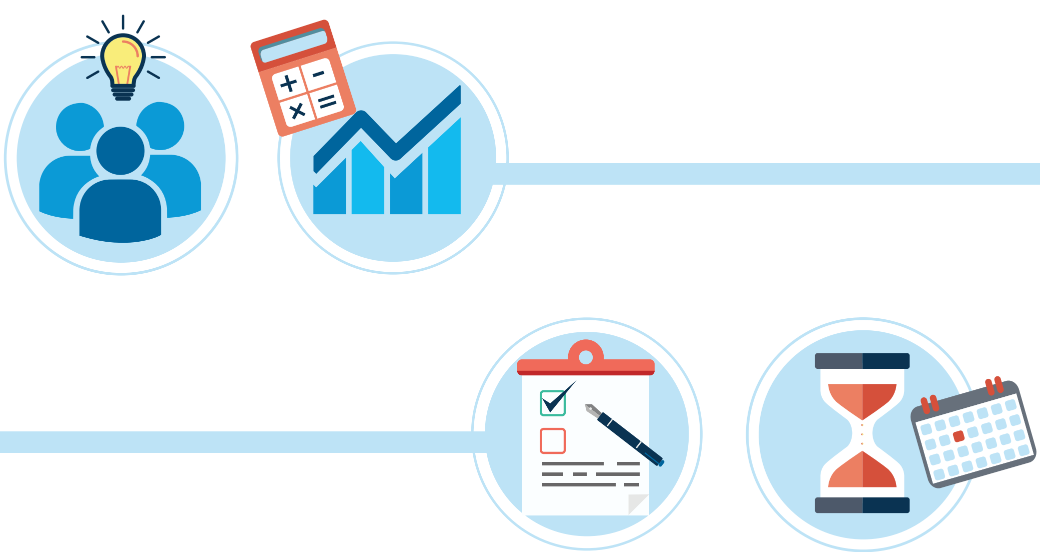
PART 4:

What Does This Mean for Investors?

What does this mean for investors?

Through this report, we were able to evaluate key components of peer-selected investment that work as a means of evaluating early-stage investment opportunities. A group of seed-stage entrepreneurs — even after just four days together — are able to accurately assess each other's respective abilities to raise capital or (to a lesser extent) generate revenue, and do so in a way that limits gender bias. In a field where determining the potential success of a venture can be challenging, and where female-led companies are often crowded out, that is no small accomplishment.

We do recognize that peer-selected investment is an unconventional approach to investment decision-making, and that the ability of other investors to adopt this approach may be limited. However, learnings from our evaluation of the peer-selection process could inform how to evaluate early-stage ventures for any potential investors. After reviewing the insights in collaboration with researchers from Emory University and Boston University, we have developed four recommendations.



Entrepreneur input: Including entrepreneurs on investment committees or advisory boards — as frequently happens already — can add value to the due diligence process. Entrepreneurs bring a deep familiarity with market factors, competition, and differentiation, and an intimate awareness of the relevant challenges and opportunities within a given industry. Entrepreneurs are able to dive into the key facets of a venture's business, from exit strategy to market sizing to value proposition, and assess how those might impact the ability to raise capital or generate revenue in the future. Additionally, entrepreneurs are ideal evaluators of an early team's capacity to lead a company to scale. Former entrepreneurs are already performing well as angel and venture capital investors, and it is evident from our research that their ability to assess their peers is present long before they have scaled and sold their own companies.

Alternative investment structures: Focusing too much on equity can mean missing out on potentially attractive investment opportunities. Equity raised is often considered to be a proxy for success for early-stage companies, but our research shows that it may not be the best indicator. We found that certain highly ranked companies outperform the rest of the cohort in terms of revenue, even if they are not outperforming on equity raised. Other investment structures, such as revenue share, might provide investors with positive indicators towards a larger (and more inclusive) pipeline of investable ventures.

Collective review: A key aspect of the peer-selection process is that the rankings comprise an average of multiple independently assessed scores: there is not simply a single peer-to-peer review, but anywhere between nine and 11 peers each providing individual reviews of a company. This suggests that bringing together a group of evaluators or perspectives will help to more accurately identify the potential of a venture to attract capital. The back-and-forth of the peer selection process and the ability of multiple peers to zero in on a variety of different components of a business offer a more comprehensive understanding of an early-stage company.

Time matters, sort of: The most unsurprising lesson from the peer selection data is that the amount of given time matters when it comes to evaluating opportunity. After only four days together, entrepreneurs — who operate in the same sector and the same market, and are tackling the same problem — are able to get a strong sense of which early-stage ventures offer investment potential. Additionally, that ability to identify success grows over the course of the three-month program. Given the challenges associated with evaluating early-stage companies, and the importance of understanding team dynamics, a review process that involves at least four days of intensive collective peer engagement could help support more accurate identification of likely successes.

CONCLUSION

What's next?

Of course, this report does not have all the answers as to why peer selection seems to work. There are still many aspects of peer-selected investment that we do not yet understand. Some of our findings pose new, fundamental questions. For example, how can we improve the process' effectiveness at identifying the future revenue performance of strong female-founded companies? Racial bias overwhelmingly concentrates capital in certain communities in the US: what impact does peer-selected investment have on reducing racial bias in the investment decision-making process?

The initial insights gleaned from this information are only a first step. This is why we are conducting more research to understand why peer-selected investment sees the outcomes it does — and explore how the process might be adapted to better reinforce the positive outcomes.

What is clear is that we need to continually evolve how we make investment decisions. This model shows that there are new ways of doing that that work, but there is still much to learn. Measuring and sharing results with each other offers us the best hope of identifying new solutions and alternative strategies.

As investors we are the stewards of capital and the gatekeepers to future innovation. As such, it is our responsibility to continually rethink how we shape the world of the future. This is an invitation to have an open evidence-based dialogue with the broader investment community to improve how we operate.

Appendix 1: Methodology

The Village Capital team partnered with external researchers, Dr. Peter W. Roberts, academic director of the Entrepreneurship Database Program at Emory University, and Amisha Miller, PhD Student at Questrom School of Business at Boston University, to conduct a quantitative and qualitative analysis of our programs.

The qualitative analysis comprised interviews with current and former Village Capital staff, Village Capital board members, program mentors, and current and alumni ventures, as well as objective real-time observation of one of Village Capital's programs.

The quantitative analysis comprised evaluating performance data on a subset of ventures that applied to Village Capital's programs, based on their data at the time of application, as well as two follow-up surveys: one year after the program, and two years after the program.

Available Data

This report focuses on a review of 39 programs that had an application period in a five-year span between 2013 and 2017 (although Village Capital has conducted more than 70 programs, the scope of review was limited due to scarce data from earlier programs).

Collecting data was a challenge. Response rates to follow-up surveys in the second year declined, for example, which means the statistical relationships for second-year performance are less robust. From the complete dataset, we also excluded companies without first-year follow up data.

Ventures in Sample:

Full Sample

1170	1278
Applicants	Semi-Finalists

Follow-Up Data

587	289
Year 1 Semi-Finalists*	Year 2 Semi-Finalists

*excluding ventures whose responses were deemed abnormally high

Dataset: 39 Village Capital Programs: 2013-17

US Boston Health IT
US Boulder & Houston Energy
US Louisville Agriculture
US DC & Chicago EdTech
US Water
US Louisville Agriculture & Cleantech
US Houston & Salt Lake City Health IT
US Salt Lake City & Bay Area FinTech *2014, 2015*
US Agriculture *2015, 2016*
US Energy *2016*
US Education *2016, 2017*
US Fintech *2016, 2017*
US Fintech *2016, 2017*
US Health *2015, 2016, 2018*

Amsterdam Impact

Ahmedabad Tech4Impact
Ahmedabad Last Mile
India Edupreneurs
India Education *2016, 2017*
India FinTech *2015, 2016, 2017*

Mexico Health
Mexico ShelterTech
Mexico FinTech *2014, 2015*
Latam Fintech

Nairobi Impact
Kenya Innovations for Agriculture
South Africa Edupreneurs
Africa Hardware
East Africa FinTech for Agriculture
Africa Fintech

Appendix 1: Methodology

Comparison Groups

Village Capital's screening process consists of an initial review to select only companies that qualify for a program based on location, sector, or stage. This on average eliminates 50-65% of all applicants.

Our dataset for this report comprises the remaining 35-50% of all applicants — or all the ventures that applied and were eligible for a program. Those ventures are known as semi-finalists, and are subsequently scored for admission into the program by a selection committee.

We used these semi-finalist scores to divide the ventures into seven different groups, including four groups that participated in the program (known as alumni) and three groups that did not (applicants).

COMPARISON GROUP	DESCRIPTION
Peer-Selected Investees	Ventures that completed a Village Capital program and ultimately received a peer-selected investment (generally, those that were ranked in the top 1-2 by their peers in the program).
Top 5-Ranked Non-Portfolio Alumni	Ventures that completed a Village Capital program and were ranked in the top five by their peers, but did not ultimately receive a peer-selected investment, either because they were not ranked high enough (generally ranked 3-5) or they ultimately did not accept the terms of investment (only a few cases represented in this sample).
6-10-Ranked Alumni	Ventures that completed a Village Capital program and were ranked between six and 10 by their peers in the program.
Lowest-Ranked Alumni	Ventures that completed a Village Capital program and were ranked 11 or below by their peers in the program.
Selected but did not Complete	Ventures that were accepted into the program but did not complete it, either because they began and decided not to complete the program or ultimately did not accept the offer of a place.
High-Scoring Rejected Semi-Finalists	Ventures that were not selected to participate in the Village Capital program but received scores from the selection committee that would have made them eligible for participation (defined as a score higher than the second-lowest scored participant in a cohort). These companies may not be ultimately selected if they are a direct competitor to a higher-ranked company, or due to other non-commercial considerations.
Low-Scoring Rejected Semi-Finalists	Ventures that were not selected to participate in the Village Capital program due to having scores that were too low to be eligible for participation.

Variables

In conducting the analysis, we primarily focused on the commercial performance indicators of debt and equity capital raised, including a combined variable commercial capital raised, amount of revenue generated and revenue growth, and number of employees. To the extent possible, we also evaluated demographic data, such as gender, sector, and geography.[17] Race and ethnicity was a variable we had hoped to analyze as part of this study, but the sample size was too small to provide a useful conclusion.

Appendix 2: VIRAL

VIRAL℠ Investment Readiness Benchmarking by VillageCapital

		Team	Problem and Vision	Value Proposition	Product	Market	Business Model	Scale	Investor Exit	Typical Funding
9	Exit in Sight	Our team is prepared to navigate a merger, acquisition, or IPO.	We're a global leader in solving this problem.	We're recognized as the top solution to this problem.	Our product is recognized as the top in the industry.	We have a clear line of sight to industry dominance.	Our revenue has met or exceeded investors' targets for multiple years.	Unit economics are strong for multiple markets or customer segments.	We're on the cusp of providing an exit for our investors.	Acquirers IPO
8	Scaling Up	Our team is recognized as market leaders in the industry.	We're beginning to have systems-level change in solving our problem.	Customers are renewing or repurchasing without much sales effort.	Our product is successfully handling dramatic growth.	We have hard-to-beat partnerships for distribution, marketing, growth.	We're rapidly growing each month and we've got a path to profitability	Growth in our customer base is accelerating month-on-month	We've turned down an acquisition offer already.	VC: Series C, D+
7	Product-Market Fit	We have an executive team that can lead the company through growth.	Our vision is proving attainable in a major market.	The majority of our sales in our initial market are inbound.	Our product is built for scale & new offerings are in progress.	Our sales cycle meets or beats the industry standard.	We've validated our business model. We have strong unit economics.	Our unit economics are positive in multiple markets.	We have strong relationships with multiple potential acquirers.	VC: Series B, C
6	Moving Beyond Early Adopters	Our management, product, & sales teams are ready for growth.	Our vision is being realized with early adopters and gaining ground.	We're selling beyond our initial target customers.	Our core product is complete, in the market, and gathering feedback.	Our suppliers & distributors see meaningful benefits from our success.	Our customer acquisition costs are going down & pricing is going up.	We've cleared regulatory challenges and have a clear IP strategy.	We've identified specific acquirers or other exit options.	VC: Series A Debt
5	Proving a Profitable Business Model	We have a clear strategy and understanding of sales.	We have evidence that we're solving our customers' problem	Our initial target customers love the product and keep using it.	Our product is almost ready for broad commercial distribution.	Large partners are talking with us about distribution, marketing, etc.	Our actual revenues & costs support future positive unit economics	Our unit economics are tipping to positive in at least two markets.	We're seeing inbound interest from large potential acquirers.	VC: Seed Angel
4	Validating an Investable Market	We understand how our market operates & have strong industry contacts.	We can explain how this solution will transform the industry.	Customer feedback shows that our solution is better than others.	Our team understands product management and associated costs.	We have evidence that our total addressable market is over $1B.	We have projected revenues and costs and have a strategy to hit them.	Customers in multiple markets find value in our solution.	Serious companies have made serious investments in our industry.	Angel Friends & Family
3	Solidifying the Value Proposition	Our team can build the product & understand the value chain.	We can articulate why our vision offers a superior value proposition.	We have evidence that customers will pay our target price.	We've built a working prototype and have a product roadmap.	Initial sales provide evidence that we can capture our target market.	We can articulate the cost structure & unit economics in our industry.	We have a clear strategy to scale to multiple markets.	Evidence suggests our value proposition is of interest to acquirers	Angel Friends & Family Personal Credit
2	Setting the Vision	Our team has personally experienced the problem.	We have a vision for how to solve the problem and can execute on it.	Potential customers validate that our solution will solve a key point.	We've built a low-fidelity prototype.	We understand applicable regulations & have a strategy for compliance.	Existing pricing and business models support our revenue model.	We have evidence that multiple markets experience this problem.	We have a vision of how to ultimately deliver liquidity to investors.	Friends & Family Personal Credit
1	Establishing the Founding Team	We have 2+ co-founders with differentiated skills sets.	We've identified a specific, important, and large problem.	We have a hypothesis for how we will solve this problem.	We have the ability to develop a low-fi prototype.	We know our total addressable market size and target market share.	We have an outline of a revenue model.	We've identified multiple possible markets or customer segments.	We know what an exit is and understand its importance to investors.	Friends & Family Personal Credit
		Team	Problem and Vision	Value Proposition	Product	Market	Business Model	Scale	Investor Exit	Typical Funding

ENDNOTES

1 “The Global Unicorn Club”, CB Insights, accessed January 31, 2019, https://www.cbinsights.com/research-unicorn-companies.

2 John Hall and Charles W. Hofer, "Venture Capitalists' Decision Criteria in New Venture Evaluation”, Journal of Business Venturing 8 (1): 25–42 (1993).

3 “Breaking the Pattern: Getting Digital Financial Services Entrepreneurs to Scale in East Africa and India”, Village Capital, accessed January 31, 2019, https://vilcap.com/2017/06/15/breaking-pattern-getting-digital-financial-services-entrepreneurs-scale-east-africa-india.

4 Alison Wood Brooks, Laura Huang, Sarah Wood Kearney, and Fiona E. Murray, “Investors prefer entrepreneurial ventures pitched by attractive men”, PNAS. 111 (12): 4427-4431 (March 25, 2014) https://doi.org/10.1073/pnas.1321202111.

5 Dana Kanze, Laura Huang, Mark A. Conley and E. Tory Higgins, “Male and Female Entrepreneurs Get Asked Different Questions by VCs — and It Affects How Much Funding They Get”, Harvard Business Review, June 27, 2017, https://hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs-and-it-affects-how-much-funding-they-get.

6 Rob Bueschen, “The Surprising Bias Of Venture Capital Decision-Making”, Tech Crunch, accessed January 31, 2019, https://techcrunch.com/2015/09/24/the-surprising-bias-of-venture-capital-decision-making

7 We focus specifically on early-stage investing - companies that are raising or have only just raised external funding for the first time. Peer-selected investment may not be as effective for later-stage venture capital and private equity, where traditional investors have years of evidence of a company’s performance.

8 The industry average represents the average across all of the 164 accelerators that participate in the GALI program, including Village Capital. Based on data from the 164 accelerator programs in Emory University’s Entrepreneurship Database Program (EDP) dataset.

9 The analysis of many of these variables is not represented here because of sample size constraints.

10 A 2015 Harvard Business School study found that the average firm spends an average of three minutes and 44 seconds evaluating each pitch deck they receive “What We Learned from 200 Startups Who Raised $360 Million”, DocSend and Tom Eisenmann, accessed January 31, 2019, https://docsend.com/view/p8jxsqr.

11 Hall and Hofer, "Venture Capitalists' Decision Criteria in New Venture Evaluation”, 25–42.

12 This two-year timeframe is notable because two years can be a long time in the life of a startup. A 2018 CB Insights study found that startups take an average of 20 months to raise capital, and about 70% of tech startups fail around 20 months after first financing. “Venture Capital Funnel Shows Odds Of Becoming A Unicorn Are About 1%”, CBInsights, accessed January 31, 2019, https://www.cbinsights.com/research/venture-capital-funnel-2.

13 Note: for many of the programs, the investor is VilCap Investments. However, in one of the programs in the dataset, the pre-committed capital came from First Light Ventures. In addition, in earlier programs before 2014, the investment capital came from a Donor-Advised Fund through Impact Assets, provided by Sorenson and select private investors.

14 Dario Bonaretti, Marcin Bartosiak, and Gabriele Piccoli, “Cognitive Anchoring of Color Cues on Online Review Ratings,” Twenty-third Americas Conference on Information Systems, Boston, 2017, https://pdfs.semanticscholar.org/b4a1/6be31ca59cb2b8bff77e6cba53dd83dedc75.pdf.

15 This scatter plot is visual representation of an average 0.65 correlation between initial and final ranks, with each dot representing an initial rank-final rank pairing

16 Dana Kanze, “Closing the Gender Gap in Startup Funding,” Columbia Business School, July 5, 2017, https://www8.gsb.columbia.edu/articles/lang-upload/closing-gender-gap-startup-funding.

17 The analysis of many of these variables is not represented here because of sample size constraints.