

VCs need Operators and Finance Experts: it's a balance, not a choice

The debate on whether “ex-operators” make better or worse venture capital investors is tired and outdated. Instead, firms that recruit both types of candidates – those who have experience working in the tech and startup world (operators), and those from previous finance and investing backgrounds – can pull from a larger talent pool and build investment teams with a more varied set of skills. And as a bonus, that expanded talent pool itself is more diverse.

Temps de lecture : minute

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We've all seen the research that shows diverse teams make better decisions: they can consolidate their varied knowledge and draw on their different personal experiences to bring huge gains to a business. The debate needs to shift from the question of 'who is better' to how an optimal mix of backgrounds can achieve the best results and support startups navigating the narrow path to global success.

The skills behind the debate

As with every clichéd debate, common arguments come up on both sides.

Former operators are said to have more empathy and connect better with founders. An edge to win competitive deals. A deeper understanding of the sector they're investing in and better company selection. Access to a better network. A stronger ability to help a startup on its growth journey.

Coming from that ex-operator background mould myself, of course I see how there's truth in some of those statements. Having an operational area of startup and scaling expertise - be it marketing, product, or technology - obviously makes it easier to quickly dive in and be additive on a founder's journey. Knowing how companies are built from the inside out makes it easier to see beyond the fundraising materials or board decks, and see the company's development as a result of how well or not a team of people is able to work together.

Yet, despite the advantages brought in by an operational background, VC firms cannot rely on teams built on operational expertise alone. There's a deeper level of financial fluency that few operators have - that VC firms need on their teams - however, there's nothing to say that every team member needs to possess the exact same skills set. Operators might not yet have experience of writing an investment memo or foreseeing all the possible ways a company might develop, but they contribute with so many other valuable qualities.

Regardless, the data doesn't strongly support either side of the debate.

Why VC teams made up of diverse backgrounds matter

Data does support a different clear case: diverse teams make better decisions. Research suggests it's because they're better insulated from groupthink. They pay closer attention to facts, process information carefully and don't have a default consensus view to fall back on. All desirable qualities in a venture capital firm. The difference in perspective can play out in different ways: but ultimately the constructive debates often result in more well-rounded decisions and actions.

On the flip side, that type of interrogation also suggests diverse teams process information more slowly, and venture capital is often a game of

speed. Yet even among investors with diverse professional backgrounds, there's often a common pattern of driven, curious and intelligent people steeped in the tech ecosystem.

Building a team with culture and training

Several VC firms have already received the memo. More and more firms in Europe are broadening their search criteria and hiring former startup operators. The challenge then shifts from hiring a great team, to running a great team. Comparatively speaking, this is easy when you hire ten people who think and work in the same way - it's much harder for multicultural, multi-background teams.

Generalising startup culture risks stereotyping, but former startup leaders tend to be good at taking initiative, comfortable with ambiguity, collaborative in ways of working, and ready to champion methods that bring the best ideas to the fore. Some of these traits are common to typical venture capital firm culture, but others are not - so the initial culture shock that happens for many operators-turned-investors shouldn't be underestimated. Firms that embrace hiring operators will succeed better in retaining their employees by consciously designing their culture so it blends the best aspects of its team members' backgrounds.

Training is a second aspect. Specifically, when firms hire people from more varied professional backgrounds, each individual's initial competencies are likely to be more varied. Investment experience is less likely to be acquired along a similar step-by-step path. So if it was previously a reasonable assumption that training could be designed along standardised lines, that is no longer the case. Each firm will need to tailor training to the individual's particular background.

Solving the diversity challenge

There's a parallel push among European venture capital firms to increase the gender and ethnic diversity of their teams. Ultimately, this diversity is a numbers game. In a sector as small as venture capital, there's a limited pool of candidates with significant investment experience who can help firms meet their targets. In this case, learning to draw from the larger talent pool that startup operators represent is a double win for the industry.

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