How to Evaluate a Start-up Jockey. By David Friedman, Member TechCoastAngels

Bet on the jockey, not the horse! That is sage advice from investors in the start-up world because "things" change and the jockey needs to course correct during the long race to success. In fact, the most successful investors at TechCoastAngels spend an inordinate amount of time looking at the CEO and his/her team to determine if the investment makes sense. Even if the business plan is strong, if the jockey and the team is weak, angel investors (and presumably VCs) will not invest.

In the spirit of trying to get a handle on the ideal characteristics of a jockey of a start-up, I did an unscientific study of the characteristics of start-up jockey. I asked several of my TechCoastAngels colleagues to get their view and integrated those comments with my own. Participating in this small sample included: Richard Sudek (UCI Applied Innovation), Nick Sachdeva, Paul Voois, Sergio Gurrieri, Andy Firoved, Grant Van Cleve, Marc Bomet, Steve Pfrengzinger, and Ron Silverton. All are esteemed TCA members and very successful angel investors. This blog should help entrepreneurs look at their own characteristics to position themselves best in front of investors. And it will give investors another perspective on how their colleagues evaluate a start-up jockey.

As you would imagine, the list is very long and there were many differences in what investors look for and there are lots of ways to catalog the results. What I choose is to look at characteristics in light of three categories: Necessary but not sufficient characteristics; Market and technical intelligence (the sufficiency considerations; and Other factors. Here is my list based on the input I received and my views.

Necessary but not sufficient. CEOs must have these characteristics or traits as a minimum. They are necessary as a starting point for consideration but not sufficient for a CEO to be successful.

1. Passion. The entrepreneur life is tough and without passion you may give up. Passion and enthusiasm are contagious.
2. Leadership: The ability to get the team focused and to perform. Execution is the key.
3. Vision: the long view is needed to make sure the course is plotted. There are many ways to get to the end point.
4. Integrity. The CEO must be honest and forthright and we want to invest with someone we trust.
5. Coachability. Will the CEO listen to the investors and understand the value the angels bring to the table as well as their experience. The CEO should be receptive to input from advisors.
6. Realism. The CEO understands the problem and the environment in which he/she will operate, the milestones necessary to achieve results and the risks of the business.
7. Commitment. Is this a full time endeavor or just a pastime?
8. Wisdom. Did the CEO learn from past mistakes? And does he/she know when to be fearless, compassionate, and tolerant.
9. Confidence. Add to this a little blend of humility but not hubris.

10. Persistence/Resilience. We know things go bump in the night. The CEO must be dogged in pursuit of a successful venture and have the emotional intelligence to persevere. This includes a focus on winning without the necessity of always being right.
11. Adaptability: The CEO must objectively listen/learn/assess to figure out what is working and what is not, and then be ready to change course and pivot if necessary.

Technical and market intelligence. These are the characteristics that define performance and the ability to execute the plan.

1. Professional and educational background. We are looking for people with high intellect. Intellectual and business intelligence is a predecessor for success in start-ups.
2. Operating skills. The CEO should have the background, experience and abilities to bring to the table the right mix of operational skills and even have a unique technical skill in one or more areas.
3. Domain expertise. The CEO of a start-up must have the experience to manage the business plan in the context of the market to be served. The CEO must understand the KPIs for the industry and how the business plan affects the KPIs
4. Prior investors. Real relationships with prior investors, partners, and suppliers are critical. If prior credible investors invest, that is a positive and gives us confidence that there is substance to the deal and the CEO.
5. Track record. This track record should be in a business that is similarly situated or complementary to the one being led.

Other factors: For completeness and in no particular order, other factors are taken into consideration when we look at the leader of a start-up.

1. Austerity and use of funds. We want to make sure the CEO knows how to use funds and not squander them.
2. Sharing materials on a timely basis. We don't like surprises.
3. Risk management. It is important to know the landmines and how to deal with them before they occur.
4. Charisma. This can also be a warning sign if not used correctly.
5. Emotional Intelligence. Can they keep their cool in the heat of the battle?

As a final list, let's look at the warning signs of a weak CEO and/or founder. Not having the characteristics above is perceived weaknesses in their own right, but here are some other warning signs.

1. Lack of integrity and not telling the truth either by commission or omission.
2. Unrealistic assessment of competitive advantage and believing there is no competition. There is ALWAYS something competing for a customer's dollars.
3. Unrealistic financial projections. Coming in with a five year projection of $1 billion in revenue is highly doubtful although we would love that to be true.
4. Unrealistic assessment of timing.
5. Evasiveness in not answering questions directly and deferring too many questions to others.

6. Lack of a track record.
7. Uncoachability. I know I covered this in necessary but not sufficient attributes above. Yet, if an entrepreneur does not take value in what we, the investors offer in terms of our experiences, they will most likely fail and therefore it is a clear warning sign.

I recognize there are many characteristics and they might seem overwhelming at first. Some investors highlight the fact they want to see persistence and resilience as the main characteristic. Others are focused on passion. Many believe the most important characteristic is the ability to get prior investors to invest while still others believe that the ability to build a team and a supportive culture are most critical. Here are my top five (in no specific order): integrity, passion, resilience, coachability, and intellectual horsepower (professional and educational background). That said, in the end, if you are a smart, honest and hardworking entrepreneur you'll go far with investors,

Now, the question to the reader and to the budding entrepreneur is simple: Do you have what it -takes to be a successful jockey of a start-up? Come to our Celebration of Entrepreneurship on March 8 at the Segerstrom to meet others who we, TechCoastAngels, believe have the right stuff.