

URL: <https://ecorner.stanford.edu/clips/identifying-good-investors/>

Huggy Rao, Stanford professor of organizational behavior and co-author of "The Friction Project," advises founders to recruit angel investors and venture capitalists instead of taking money from anybody who offers it.



Transcript

Audience Member In the early stages, 00:00:05,490 like one of the main advantages, I know as a startup, you're more nimble than, let's say, like a bigger corporation.. But at the same time, most early-stage startups kind of need funding.. And I've heard from a lot of sources that.... And I've also heard from like a lot of sources that this happens more with angels than VCs, but when you take on funding early on, you're kind of beholden to certain expectations, and then you lose some of that nimbleness.. You have to answer to investors, they have certain expectations, milestones they want you to hit, things like that.. So like sort of what's your opinion on that? Like be nimble for as long as you can be and don't take that investment or just take the investment earlier on? - So that's a good question.. 00:00:54,510 My quick response would be.... I assume you're talking about the angel stage.. I wouldn't take any money from anybody who just offers it just like that.. You really want to recruit an angel, and you want to think carefully about what kinds of angels you don't want money from and what kind of angels you want money from..

So I would not like to take money from a first-time angel.. They're gonna micromanage you and put all of this pressure that you just sort of alluded to.. Or for that matter, a first-time VC.. They'd be all over you in no time.. So that's one.. The second thing is, there is evidence that if you're a startup and if you have a lot of money, you actually tend to make a lot of mistakes.. You hire too many senior people, you give away equity easily.. And it actually meshes well with the research on creativity.. You guys should actually look at some of this research.. It's very amusing..

In one experiment, they found that if you put people in a dark room as opposed to a bright room, people in the dark room actually came up with more creative ideas as opposed to a brightly-lit room.. Just to give you an example.. So you just kind of wanna make sure.... Putting and creating constraints and obstacles is the key to leadership.. And you wanna think about, "What obstacles do I need to get rid of so we can do things quickly?" "What obstacles do I need to sort of put in?" And so you want to be very mindful about recruiting angels, VCs, and the like...