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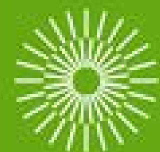

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Not Just About the Money: How Investors Evaluate Startup Risks

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MOTTO: New Horizons in Economics and Business

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Not Just About the Money: How Investors Evaluate Startup Risks

Abstract

Startups are exciting but risky business. Today´s investors look at more than just financial numbers when deciding where to put their money. This paper explores how both financial and non-financial risks affect and how startups are valued. The goal is to understand what kinds of risks matter most to investors and how these risks each other interact. To answer this, we reviewed ten peer-reviewed articles published between 2018 and 2024. These studies focus on topics such as cash flow, capital structure, ESG performance, team dynamics, and innovation. The findings show that investors are used to take a broad view. Weak cash flow can limit innovation, while issues with ESG or team quality can reduce a startup's chances of getting more funding and gaining real business progress. The paper also highlights how risk is seen differently in various parts of Europe, depending on local funding patterns. Startups that manage both types of risk effectively tend to grow faster and attract more stable investments. Financial indicators still matter, but soft factors like adaptability and leadership play a growing role in investor decisions as well. This paper suggests that founders should treat risk management as a strategic tool, not just a financial safeguard. By combining both perspectives, investors and entrepreneurs can mutually make more informed, long-term decisions about the future of a startup.

Key Words: Startup Valuation, Financial and Non-Financial Risk, ESG, R&D

JEL Classification: **G32, M21**

Introduction

Startups are young companies with big ideas and strong ambitions but also they face many risks. Because usually they're new and often depend on outside funding, investors need to carefully assess what could go wrong. In the past, financial numbers like cash flow or revenue were the main focus. But recent studies show that things like how adaptable

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the company is, how strong the team works together, and whether the startup follows ESG (environmental, social, and governance) standards are becoming just as important (Gompers et al., 2016; Bernstein et al., 2016).

This change reflects what's happening in the real world. Startups that ignore or overlook new tech trends or fail to act responsibly often lose investor interest, no matter how strong their financials appear . On the other hand, strong teams and active support from investors can help startups grow faster and survive longer period (Bernstein et al., 2016; Eesley & Roberts, 2012). Many of these risks are connected. If a startup runs out of cash, it can't invest in new ideas, and if it has a weak team, it may not be able to properly react to changes in the market.

This paper looks at how both financial and non-financial risks affect how investors see startups. It also shows how these risks are perceived differently across Europe, where funding often comes from a mix of private investment, public grants, and newer tools like crowdfunding. By bringing together research and real-life insights, the goal is to better understand what really matters when investors decide whether or not to step in a startup.

1. Methods of Research

To select the reviewed articles, we searched databases such as Web of Science, Scopus, Google Scholar and open-access repositories using combinations of terms like "startup valuation," "financial and non-financial risk," "ESG performance" and "R&D." This search initially produced around 120 articles, then it was narrowed the selection by reading abstracts and applying the inclusion criteria described above, which resulted in ten articles chosen for detailed analysis between publishing years 2018 and 2024.. Preference was given to articles that are indexed in well-known academic databases such as Web of Science or Scopus, but inclusion was not limited to these only.

The goal was to include research that focuses on different types of startup risks, both financial and non-financial, as well as studies that explore related areas such as innovation, ESG performance, and investor decision-making. The reviewed articles cover different world regions with some offering of a global perspective. This allowed to make comparison between markets and investment environments.

Inclusion criteria:
- articles published between 2018 and 2024
- peer-reviewed academic publications
- focus on startup risk, valuation, or early-stage investment
- availability of full text
- relevance to financial or non-financial factors in investment decisions

Exclusion criteria:
- non-peer-reviewed articles
- publications older than 2018
- studies not related to startups or investment decision-making

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- articles not available in English

2. Results of the Research

The paper found that investors pay attention to two main types of risk when they look at startups. The first one is traditionally financial risk. This includes problems like poor cash flow, spending money too quickly, or relying too much on debt instruments. These risks are easier to measure and are still a big part of how investors decide whether a startup is worth supporting. Investors often check numbers like operating cash flow, the ratio between short-term assets and debts, and how many months the startup can survive without getting more funding. If these numbers are weak, the business may struggle to grow or survive, regardless of the strength of the idea.

Tab. 1: Summary of reviewed articles

Author	Country	Type of risk	Main findings	Limitation
Gompers et al. (2016)	USA / Global	financial & non-financial	investors consider team, adaptability, and potential, not just financials	study based on US-focused VC market
Bernstein et al. (2016)	USA	non-financial	investor involvement leads to faster revenue growth	limited to firms with investor oversight data
Maula et al. (2016)	Global	technological / Strategic	ignoring tech shifts reduces startup survival	applies mostly to high-tech sectors
Eesley & Roberts (2012)	USA	team-related	complementary skills and long-term collaboration matter	focused on team-level dynamics only
Lin (2021)	Europe / Global	ESG / Non-financial	ESG is increasingly central to investment criteria	european ESG focus may not generalize globally
Bertoni et al. (2014)	Europe	financial	financial decisions affect valuation and growth	concentrated on high-tech startups in EU
Chemmanur & Fulghieri (2014)	Global	mixed	innovation funding is shaped by risk profile	broad theoretical focus, lacks specific case data
Cassar (2004)	USA	financial	financial planning is key to early-stage survival	older data may not reflect current funding models
Harrison & Mason (2000)	Global	funding / access	geographic and cultural factors affect capital supply	exploratory, without quantitative analysis

Source: Authors

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The second type is non-financial risk. These are harder to measure but just as important to be considered. This includes things like how strong the team is, how well the company handles new technology, and how seriously it takes environmental and social responsibilities. Startups with an unstable or inexperienced team, or those that are not familiar with trends, are often seen as too risky to step in. One study by Gompers and his team in 2016 showed that investors care about trust and teamwork, not just the numbers.

The paper also showed that these risks are often connected. If a startup has money problems, it might not be able to invest in appropriate technology or build a strong experienced team. And if the team does not work well, the company might waste resources or miss big changes in the market. Because of this, investors prefer startups that are strong in both fields. A good financial base means stability, while strong leadership and positive approach to innovation mean future progress. Another finding is that risk is viewed differently depending on the concrete region. In Central and Eastern Europe, for example, startups often rely more on public money, personal savings, or loans. This makes them more vulnerable to changes in public policy or economic conditions. In Western Europe, on the other hand, there is usually more access to venture capital and more varied funding options. In short, the research shows that investors are no longer just looking at money. They want to see the whole picture, including how well a startup is prepared for future challenges and how responsibly it operates.

3. Discussion

The paper shows that financial and non-financial risks play a big role in how investors see and value startups. Financial risks like poor cash flow or high debt are still very important. If a startup runs out of money, it can’t survive or grow. But the paper also shows that investors are looking at much more than just numbers. Factors like team quality, ESG performance, and the ability to adapt to new technologies are becoming just as important. Several studies support this view. For example, Bernstein et al. (2016) found that startups with stronger investor involvement tend to grow faster. Lin (2021) explained how ESG is now a key part of investment decisions, especially in Europe. These non-financial risks are often harder to measure, but they can strongly influence whether a startup gets more funding or not.

One important insight is that many of these risks are interconnected. A startup that has weak cash flow may not be able to invest in R&D or attract the people with potential. A poor team may not react well to fast market changes, which can cause the business to fall behind. Ignoring ESG rules can limit access to public funding or discourage investors. In this way, financial and non-financial risks often work together and problems in one area can quickly overflow to trouble in another. This means that both investors and founders should think about risk from more perspectives. Instead of focusing on only one factor, they should look at how different risks interact and affect the long-term value of a startup. A well-assembled risk strategy that includes financial planning, strong leadership, tech readiness, and ESG awareness gives a much clearer view of a startup’s real potential.

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Conclusion

Startups that handle and manage both financial and non-financial risks are much more probably to grow, survive and attract solid long-term investment. Investors increasingly value qualitative factors like leadership quality, team cohesion, technological adaptability, and ESG responsibility, recognizing their crucial role in a startup's long-term success.The paper showed that challenges in one area often create challenges in others. That is why many investors now take a full-picture approach instead. They want to see financial strength, but also leadership, adaptability, and values that match with their long-term perception of success. The research also showed that broader context matters. In some parts of Europe, especially Central and Eastern regions, startups rely more on public grants or personal funding. This makes them more sensitive to policy changes and market turnovers. Founders in these areas should pay special attention to creating of investor trust and showing that they understand the bigger picture.

Overall, startups that plan ahead, stay flexible, and build strong, responsible, motivated teams are more probable to succeed. Investors invest not only in products or metrics, but in people and vision. The completer and more balanced that picture is, the better the chances for long-term growth exist.

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