You’re Not Mispricing Markets. You’re Mispricing Behaviour.

The investment committee had no major objections. The TAM was credible. The technology defensible. The founder articulate. The early traction promising. The deal closed.

Twelve months later, the business had not collapsed — but it had stalled. Burn had increased. The investment committee–founder relationship was strained. Execution had slowed. Talent was leaving. The strategy had not fundamentally changed. The behaviour had.

This is where return variance begins. And it is why, in startup selection and portfolio management, investors are often not mispricing markets. They are mispricing behaviour.

What Startup Selection Assumes — And What It Misses

Investors pride themselves on pattern recognition:

- Market size
- Market need
- Timing
- Founder–market fit
- Technology defensibility
- Capital efficiency

These lenses matter. But they share a hidden assumption: execution outcomes flow primarily from strategy.

Yet research across venture failure and corporate innovation suggests otherwise. Startup failure is more often rooted in execution breakdown than in idea invalidity (Ghosh, 2012). Corporate venturing research similarly shows that most collaborative innovation initiatives encounter significant friction — largely organisational rather than technical.

In other words: the idea is rarely the first thing to break. The behavioural system is.

I Learned This Before I Had Language for It

Since 1983 I’ve built and backed ventures across sectors and geographies — from a professional services firm to hospitality businesses in London’s West End to early digital ventures backed by international investors; from scaling and acquiring companies in Gulf markets to building internal ventures inside global firms.

The “scars of failure and tattoos of success” I carry — earned through real wins and real setbacks — have taught me something most founders learn the hard way. Over time, one lesson is unavoidable: **Innovation isn’t primarily an ideas game. It’s a behaviour game.**

Different industries. Different capital structures. Different governance environments. Same pattern. Projects rarely stalled because the idea lacked merit. They stalled because:

- Governance tightened too early
- Authority became contested
- Speed accelerated at the wrong moment
- Political caution replaced experimentation
- Tribal resentment from other business units

I learnt that markets test ideas, but investors test behaviour.

For years I treated that as experience-based instinct. Then I encountered the work of behavioural scientist Dr Ian Stewart, whose forthcoming book - *Hidden Patterns of Leadership (Routledge in press)* - reframes innovation as behavioural performance under pressure -

His central insight: when pressure rises, people do not invent new responses. They revert to learned ones.

The Missing Variable in Startup Selection

Stewart’s work draws on schema theory — the idea that individuals rely on deeply learned cognitive and behavioural schemas when navigating uncertainty (see also Kahneman, 2011). These schemas shape how leaders/founder and founder teams interpret:

- Risk
- Authority
- Speed
- Accountability
- Responsibility
- Challenge

Under normal conditions, schemas remain flexible. Under pressure — capital scrutiny, board oversight, market exposure — they intensify. And startup environments are pressure amplifiers. When investors fund a startup, they are not just backing a product. They are activating a behavioural system — and introducing stress.

Eight Predictable Innovation Schemas

Across founder and corporate environments, recurring behavioural schemas appear.

Among startup founders:

- **Originators –** visionary reframers who see what does not yet exist
- **Accelerators** – urgency creators who drive rapid experimentation
- **Builder-Founders –** system architects who stabilise growth
- **Mission Carriers –** purpose-driven leaders who anchor meaning

Inside corporate or venture-backed contexts:

- **Navigators –** stakeholder managers who align boards and sponsors
- **Pathbreakers –** challengers of institutional inertia
- **Internal Builders –** execution drivers who make ideas tangible
- **Culture Shapers –** norm-setters who embed behavioural change

Each schema creates value. Each carries predictable risks when activated under pressure.

- Originators may resist pivoting when feedback contradicts vision
- Accelerators may burn capital to signal momentum
- Builder-Founders may over-structure too early
- Navigators may dilute innovation through compromise

From a financial lens, these look like execution issues. From a behavioural lens, they are schema activation under pressure.

Why This Matters in Startup Selection

In early-stage selection, founders present at their best: vision-forward, strategically coherent, confident under questioning. But investment itself introduces:

- Scrutiny
- Authority tension
- Milestone pressure
- Public accountability

That pressure activates default schemas. Some founders over-accelerate to prove traction. Some narrow into control when challenged. Some become defensive under governance scrutiny. Some defer excessively to maintain alignment.

Long-term success depends on behavioural adaptability — the ability to shift how you act as conditions change (Eisenhardt & Martin, 2000). The critical variable in startup selection is not dominance of a single schema. It is the **behavioural range** of the founder/founder team when pressure rises.

Can this founder or team:

- Move fast without recklessness?
- Accept governance without defensiveness?
- Introduce structure without suffocating creativity?
- Adapt without losing conviction?

Those are selection questions.

Working With Startups: Governance as Behavioural Calibration

Corporate venture research shows that most failures stem from coordination breakdowns — misalignment, internal blockers, and poorly designed collaboration — not technical limitations (IESE Business School, 2026). The same applies to venture boards.

Governance is not neutral.

- Heavy early oversight can trigger defensive schemas in autonomy-driven founders
- Excessive freedom can allow drift in caution-driven teams

Oversight must be calibrated to behavioural schemas.

When investors understand a founder's dominant schemas, they can:

- Structure milestones proportionately
- Adjust investor cadence intelligently
- Anticipate schema-driven over-correction
- Intervene earlier and more precisely

Without that insight, escalation cycles become predictable.

The Real Selection Edge

Venture investing is a game of asymmetry. Small differences compound.

- One founder who can regulate under scrutiny.
- One team capable of shifting pace.
- One investor relationship that avoids defensive spirals.

These are not marginal gains. They are return multipliers.

Exploration–exploitation research (March 1991; Tushman & O'Reilly, 1996) shows organisations succeed when they balance innovation and discipline. At the founder level, that balance is behavioural. Technical excellence may secure portfolio entry. Behavioural agility determines whether value compounds.

The Real Pricing Error

Markets fluctuate. Technology evolves. Competitive landscapes shift. What repeats — predictably — is schema-driven behavioural narrowing under pressure. Investors who ignore this will continue to attribute failure to timing, market cycles, or execution gaps.

Those who incorporate schema thinking into selection gain something more durable: foresight into how a founder or team is likely to behave when capital, scrutiny, and uncertainty converge. Not how they perform in the pitch — but how they perform when the stakes escalate.

- Ideas are abundant
- Capital is competitive
- Behaviour under pressure is edge

You’re not mispricing markets. You’re mispricing behaviour. In venture investing, edge rarely comes from discovering what no one else can see. It comes from recognising what others overlook — and pricing it correctly.

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