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Why Won't Professional Investors Sign NDAs and Should I Care?

Almost no professional investors will sign non-disclosure agreements (NDAs). In fact, in almost nine years as a venture capital executive, I was only asked to sign an NDA a handful of times, all by first-time, inexperienced entrepreneurs.

It's certainly easy to understand the desire of entrepreneurs to have investors sign NDAs. Your venture and technology have incredible value – far more to you than to anyone who will see your pitch deck. You want to take whatever steps necessary to protect your concept and intellectual property.

However, there are practical and legal reasons why a professional investor will not sign an NDA:

Practical: Professional investors receive hundreds or thousands of pitch decks and speak with numerous entrepreneurs. Imagine each of these conversations required an NDA. The time it would take to negotiate NDAs before these conversations would create incredible inefficiencies – not to mention expense. After all, someone has to review and negotiate all these NDAs.

Also, investors are in the business of investing – not starting new companies. While they are often former successful entrepreneurs, they are not really interested in creating a company based on what you tell them.

Finally, the investor is investing in more than your concept – they are investing in you and your team and the value you bring to the table – your vision and ability to execute. If your idea is easily replicated by anyone who hears it, you may want to reconsider whether this is an idea worth pursuing.

Legal: Professional investors talk to hundreds or thousands of entrepreneurs. While each entrepreneur may bring their own unique perspective to a concept, there is often overlap between ideas. If investors pass on one company and choose to invest in another company with a similar concept, they can be opening themselves up to exposure by signing an NDA.

Also, it would result in investors being far more selective about with whom they speak. This is not good for entrepreneurs who may find fewer investors willing to speak with them.

What steps can you take to mitigate your risk?

- Limit the amount of sensitive information you provide at the initial meetings. Don't give away the "secret sauce" too early. Get progressively deeper as the likelihood of an investment becomes more apparent.
- Pitch to reputable investors – either someone you know or have been referred to by someone you know.
- Trust your gut. Don't answer questions you're not comfortable answering. For example, it should raise a red flag if a potential investor is asking for a copy of your source code.

And in closing, there's the quote attributed to author, speaker and evangelist, Guy Kawasaki, on asking a venture capitalist to sign an NDA:

"If you even ask them to sign one, you might as well tattoo "I'm clueless!" on your forehead."

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