HIGH GROWTH ENTREPRENEURS: CHASING MONEY OR CHASING EXITS? (INTERACTIVE PAPER)

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Principal Topic

High tech start-ups are confronted with severe constraints to finance their growth ambitions. When start-ups are confronted with such financial constraints, they can broadly pursue two external financing strategies. They may seek to be acquired, in order to further develop within a large corporate or they raise external financing, of which venture capital (VC) is an important source. Unfortunately, VC financing is not equally abundant across the U.S. and VC's typically prefer to invest close to home. However, high tech entrepreneurs, as active agents, do not have to take their environment as given. We therefore examine whether high tech start-ups with financial constraints move their activities to a different state. In a second step, we study whether moving enables these firms to grow independently by attracting venture capital rather than being acquired.

Method

The data used to explore these questions is developed by the Edward Lowe Foundation's Institute for Exceptional Growth Companies. It combines information from the National Establishment Times Series (NETS), Dun & Bradstreet and PitchBook. Based on these information sources, we construct a panel dataset which consist of more than 140,000 U.S. high start-ups, founded between 1995-2010. For each of the start-ups, we are able to identify if and when they moved, raised external financing or were acquired. Moreover, we examine financial constraints by incorporating the Dun & Bradstreet PAYDEX Score, a widely adopted measure for creditworthiness.

Results and Implications

Findings show that high tech start-ups with financial constraints are substantially more likely to move their activities. In addition, moving facilitates independent growth as it increases the likelihood of VC finance and reduces the likelihood of an acquisition. Interestingly, the benefits of relocation are especially large for high tech start-ups who were confronted with substantial financial constraints prior to move. Our findings advance existing insights on the effect of the entrepreneurial environment, by examining how firms can alleviate the impact of the environment. Moreover, we address the knowledge gap on the differences between venture capital financing and acquisitions as growth strategies for high-tech start-ups.

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