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INNOVATION ACCOUNTING: A HOLISTIC VIEW ON THE CONCEPT'S APPLICATION IN PRACTICE AND IMPLICATIONS FOR SCHOLARLY DISCIPLINE (INTERACTIVE PAPER)

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INTERACTIVE PAPER

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Principal Topic

Startup ecosystems around the world are maturing and it seems that there has never been a more favorable climate to start a company. However, according to Forbes 90% of startups are actually being discontinued leaving startup founders devastated and causing underperformance of venture capital funds. But who should actually be held accountable? Can some of the startup failures be predicted beforehand or at all avoided? Are there early signals that startup founders and their financiers overlooked or miscalculated?

Research suggests that accounting practices can help to mitigate agency problems between investors and investees (Gompers, 1995; Mitchell, Reid & Terry, 1995; Cassar, 2009). Scholars also argue that accounting can increase startups survival (Achleitner & Bassen, 2003; Davila & Foster, 2005). However, for startups accounting often means a trade-off between benefits and the costs of producing accounting reports.

In the recent years, traditional accounting practice for startups was challenged by Ries (2011) and Croll & Yoskovitz (2013). Although based on the anecdotal evidence, these authors are promoting the concept of Innovation Accounting via a build-measure-learn cycle and validated learning. In contrast to traditional accounting aimed at controlling past performance and costs, Innovation Accounting is future oriented and focused on identifying and understanding consumer needs in the diverse stages of a product development process.

Method

In our research we address a current paradigm shift in orientation about startup progress and success: That is, the change from break-even related orientation towards scaling and progress oriented evaluation. We base our investigation on multiple case studies with German-based investor-investee pairs that are separately addressed in semi-structured interviews (80 interviews). We observe that Innovation Accounting is being increasingly practiced by startups, especially in the early stages. However, investors' understanding and practice of such accounting is still rather limited and ranges greatly dependent on the investor type. These discrepancies pose risk to startup ecosystems, because as showed by previous research, requirements by investors are the major reason why startups engage in reporting (Davila, Foster & Jia, 2010).

Results and Implications

With our study we hope to contribute to both, academic discussion on the growth and survival of firms as well as practical implications for investors and large corporations utilizing the worldwide growing startup trend.

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