FROM FUNDING TO FOUNDING - THE CHANGING ROLE OF INVESTORS: AN EMPIRICAL STUDY IN THE GERMAN INTERNET SECTOR (SUMMARY)

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FROM FUNDING TO FOUNDING – THE CHANGING ROLE OF INVESTORS: AN EMPIRICAL STUDY IN THE GERMAN INTERNET SECTOR

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Principal Topic
Entrepreneurs discover and execute opportunities while investors specialize in evaluating and funding these opportunities. As those startups funded by investors (venture capitalists or business angels and the like) subsequently perceive higher survival rates and better performance, this task partitioning seems to create a win-win situation for both parties. Nevertheless, investors recently started to change their role by partially substituting their funding role with a founding role: investors recognize business opportunities themselves, exploit them by hiring a selected management team and finance them as seed investors. In this paper we therefore address the following research question: why are some investors capable of playing this new role, while others are not.

Method
Qualitative pre-study as well as a database of 216 investors who invested in 841 German Internet Startups between 2005 and 2009.

Results and Implications
We find a positive relationship between both, depth and breadth of prior knowledge and the propensity of investors to create their own startups. According to our data, a superior network position has a positive influence on the founding behavior of investors. Finally, the status of investors positively moderates these effects, as investors with a high status are able to create their own new ventures without eroding trust and jeopardizing deal flow. From a theoretical point of view this study broadens entrepreneurship theory, which has been mainly focused on private individuals and not investment companies as actors which start own companies. Second, the clear cut boundaries between investors who evaluate and invest and individual private entrepreneurs, who identify and exploit opportunities, become increasingly blurred. The practical implications of this study apply to three different groups, namely investors, private individual entrepreneurs, and policy makers.

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