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THE ROLE OF CAPITAL TYPES FOR FIRM EVOLUTION IN NASCENT INDUSTRIES: EXAMINING ENTREPRENEUR-VC NEXUS AND PUBLIC POLICY INFLUENCE IN CLEANTECH (SUMMARY)

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THE ROLE OF CAPITAL TYPES FOR FIRM EVOLUTION IN NASCENT INDUSTRIES: EXAMINING ENTREPRENEUR-VC NEXUS AND PUBLIC POLICY INFLUENCE IN CLEANTECH

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Principal Topic

Prior research has analyzed the role of venture capital (VC) for innovative entrepreneurs. Determinants of VCs’ decision have been subject to extensive research. From the entrepreneurs’ perspective, scholars have identified factors influencing the choice of capital, including growth potential or relationship with creditors and financiers. Since choice of capital has repercussions on firm operations and growth and innovation, it is important to understand:

1) Which motivations drive entrepreneurs to search for different capital types? Are certain capital sources rationed during financing process?
2) How does supply of capital affect nascent investment categories? Specifically, what is the contribution of VC to firm evolution in nascent investment categories like Cleantech?
3) What is the impact of policy and regulation within the financing framework? Can governmental action provide a sustainable investment environment for nascent investment categories?

Method

We use a qualitative approach, conducting case studies in the US and Europe. Case study objects are identified using two complementary databases, Bloomberg New Energy Finance (BNEF) and the Global Cleantech Cluster Association. Using BNEF we incorporate information on VC funding rounds, grants received and relevant policy programs. We use cases covering sub-sectors or regions for which VC investments are not intuitively plausible or suitable, such as IT-related energy efficiency firms or ‘remote’, non-hub locations.

Implications

Our findings indicate not one but multiple valleys of death before companies reach a financially self-sustained stage. Investors usually active in early stages (angels and VCs) focus on later, less risky stages, especially less technology risk, resulting in a vicious cycle, where companies require capital to mitigate technology risk, yet capital is not deployed until this is mitigated. VCs themselves face increasingly challenging fundraising environments due to more risk averse limited partners attributable to tighter regulations and adverse investment performance in clean technology. Therefore, companies themselves have to engage in a due diligence process to identify VCs with “dry powder” to invest. Our indicative results shed light on the role of regional cluster managers and politicians/regulators and can serve as a starting point to identify appropriate financing mechanisms for corporations operating in the clean technology sector.

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