THE EQUITY STRUCTURE OF NEW VENTURES: HOW FOUNDERS DECIDE WHETHER AND HOW TO SHARE OWNERSHIP (SUMMARY)

Juan Quiroga

INSEAD, juan.quiroga@insead.edu

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SUMMARY

THE EQUITY STRUCTURE OF NEW VENTURES: HOW FOUNDERS DECIDE WHETHER AND HOW TO SHARE OWNERSHIP

Juan Quiroga, INSEAD, France

Principal Topic

Whether to share the ownership of a new venture and how to structure that shared property are decisions commonly faced by founders that have important consequences for start-ups. Yet, how founders make these decisions remains somewhat unattended to in the literature. Through an in depth exploratory study, this paper contributes a textured understanding of how founders deal with the aforementioned decisions. More specifically, this study places its research focus on the behavior of founders to build theory to contribute an answer to the following questions: After having an idea and seizing an opportunity, how do founders decide whether to share the property of their ventures and how to structure it? What guiding criteria orient them? How do these decisions evolve over time? How do founders, in making these decisions, come to embrace their role as owners of a nascent firm?

Method

To do so, I use a qualitative research design, as it is recommended for investigating subtle and/or poorly understood phenomena, and build on methodological localism, which is appropriate to better understand individuals making decisions in the context of structured circumstances of choice. Through techniques of grounded theorizing and of set-theoretic QCA, I analyze data collected from two waves of interviews with the founder-CEOs and relevant stakeholders of 40 firms as well as from documentary evidence.

Results and Implications

Overall, results provide a deeper understanding of how the resourcefulness of the founding team, the strategic orientation of the start-up, and founders’ social identity combine to shape how founders structure the equity of their ventures. Building on recent studies on the social identity of founders, this study extends knowledge on how founders, while in the process of forging their role as owners, enact their conceptions of firm ownership, and thus contributes to opening up some of the mechanisms that underlie founders’ imprinting. Methodologically, this paper contributes to research in entrepreneurship an illustration of how set-theoretic methods can complement inductive analyses in building empirically grounded middle range theory. By doing so, this paper offers insights into the complex and multitiered nature of the way in which founders decide about the equity structure of their ventures, a decision of significant consequences for both start-ups and their founders.

CONTACT: Juan Quiroga; juan.quiroga@insead.edu; (T): +33-7-7038-8407; Boulevard de Constance (77305) Fontainebleau, France.