PRE, DURING AND POST INVESTMENT AGENCY AND PRINCIPAL STRATEGIES IN INNOVATIVE STARTUPS (SUMMARY)

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Principal Topic

This study aims at contributing to the small stream of research investigating startup financing from the perspective of demand. We particularly explore entrepreneurial behavior from an agency perspective pre, during and post investment, how are contracts developed, negotiated, decided and controlled. Our overall research question is what actions are taken in order to decrease information asymmetry and increase control pre, during and post investments in early stage innovative startups.

Data and Method

Due to a scarcity of research, an inductive explorative research design in the form of a multiple-case study was called for. The case-study approach is considered appropriate when addressing the ‘whys and hows’ (Yin 2003) and facilitates analyzing when patterns are sought for (Patton 2002). Accordingly, in-depth interviews with eight founders of innovative Swedish firms were carried out with the purpose to reveal the subtleties of the financing process. The interview process can be described as ‘qualitative interviewing’ (Rubin and Rubin 1995) or active interviewing (Holstein and Gubrium 1995).

Results

This qualitative study has provided new insights about how founders of innovative startup firms view and approach funding. Experienced entrepreneurs in general have a more strategic and long-term approach to funding and to a limited extent deviate from their pre-set plans. These entrepreneurs seem to be more concerned about getting early customer payments. Furthermore, in general they are keener to keep control of their ventures. The other group of entrepreneurs, here referred to as ad hoc entrepreneurs, did not have any specific funding plans, and were constantly searching for funding. To some extent, this group was trapped into a situation where the effort and time spent on financing issues tended to have negative effects on the development of their ventures. Thus, entrepreneurs should plan their funding strategy. Policy makers should focus on fewer “soft money” or other programs since the transaction cost seems to be high for both entrepreneurs and policy makers.

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