

Degree Program in Marketing

Major in Customer Engagement & Relationship
Management

Course of Entrepreneurship & Venture Capital

Startup funding:

why startups ultimately decide to look abroad
for funding.

Prof. Christian Lechner

Supervisor

Prof. Luca Romeo

Co-supervisor

Laura Fontanella

ID 743111

Candidate

Table of contents

Introduction

1. Chapter 1- Overview on the startup financing: how do startups get funds?

1.1 Definition of a startup

1.1.1 Startups lifecycle

1.2 Focus on funding

1.2.1 What is startup funding

1.3 Main funding typologies analysis

1.3.1 Bootstrap

1.3.2 Family, friends, and fools

1.3.3 Crowdfunding

1.3.4 Business angels

1.3.5 Family offices

1.3.6 Institutions

1.3.7 VC funds

1.3.8 Private equity

1.3.9 Alternative funding sources

2. Chapter 2- State of the art on startup financing

2.1 Geographic overview

2.1.1 Geopolitical frictions and regional hubs

2.1.2 Most prominent startup ecosystems

2.1.2.1 Silicon Valley

2.1.2.2 New York

2.1.2.3 London

2.1.2.4 Berlin

2.1.2.5 Tel Aviv

2.2 Market dimension

2.2.1 Analysis of the size and growth of the startup financing market

2.3 Development and future opportunities

3. Chapter 3 - Case study analysis

3.1 The Italian situation

3.2 Founders' interview

3.2.1 Methodology

3.2.2 Edvaldo Gjonikaj at Textyess

3.3 Data analysis

3.3.1 Coding analysis

3.3.2 Main findings and implications

3.4 Conclusion

Bibliography

Appendix

Introduction

The world of startups has experienced unprecedented growth in recent years, driven by innovative ideas and technological advancements. These young enterprises hold significant potential for economic growth, job creation, and disruption of traditional industries. However, a critical challenge that many startup founders face is securing adequate funding to turn their ideas into sustainable businesses.

This master's thesis aims to address a specific issue within the domain of startup financing: the phenomenon of startups seeking funds abroad instead of within their home country. The focus is on the Italian startup ecosystem and the reasons why Italian entrepreneurs choose to finance their ventures outside of Italy.

Chapter 1 provides an overview of startup financing, including the definition and life cycle of startups, as well as various funding typologies. It explores funding options such as bootstrap, family, friends, and fools, crowdfunding, business angels, family offices, institutions, venture capital funds, private equity, and alternative funding sources. Understanding these funding mechanisms is crucial for comprehending the complexities and challenges faced by startups in financing their operations.

Chapter 2 offers a comprehensive analysis of the state of startup financing, with a particular emphasis on geographical aspects. It examines geopolitical frictions and regional hubs that influence the choice of startups to seek funding abroad. Additionally, it explores prominent startup ecosystems worldwide, including Silicon Valley, New York, London, Berlin, and Tel Aviv. By studying the market dimension and the growth of the startup financing market, insights are gained into the current status and future opportunities in this field.

In Chapter 3, a case study analysis is conducted to investigate the Italian situation and understand why startup founders in Italy opt for overseas financing. Through in-depth interviews with founders and the analysis of their choices, the aim is to shed light on the factors influencing their decision-making process. The methodology includes coding analysis of the interview data to identify key themes and patterns, leading to the formation of main findings and implications.

This thesis seeks to contribute to the existing body of knowledge by highlighting the funding gap that exists within the Italian startup ecosystem. By exploring the reasons behind startups seeking

funds abroad, valuable insights are provided for policymakers, investors, and aspiring entrepreneurs in Italy. Ultimately, the aim is to foster a better understanding of the challenges faced by Italian startups in accessing adequate funding within their home country and propose possible solutions to bridge this gap.

The investigation of startups financing their ventures abroad is crucial for the economic growth and sustainability of startups in Italy. By understanding the motivations and experiences of startup founders, efforts can be made to create an ecosystem that better supports the funding needs of Italian startups, fostering innovation, and paving the way for a prosperous entrepreneurial landscape.

This master's thesis is organized as follows: Chapter 1 provides an overview of startup financing, Chapter 2 examines the state of the art on startup financing, and Chapter 3 presents the case study analysis. Finally, the thesis concludes with a summary of findings and implications.

Chapter 1

Overview on the startup financing: how do startups get funds?

1.1 Definition of a startup

The origins of startups can be traced back to the development of capitalism and industrialization in Europe and North America during the 18th and 19th centuries. During this time, the growth of new industries and the expansion of international trade created opportunities for entrepreneurs to create new businesses and products. However, the concept of a startup as we know it today really began to emerge in the mid-20th century, particularly in the United States. This was due to several factors, including:

- The post-World War II economic boom: following the end of World War II, the United States experienced a period of rapid economic growth and expansion. This created a favourable environment for entrepreneurs to start new businesses and take risks.
- The rise of venture capital: In the 1950s and 1960s, a group of investors began to provide funding to startups in exchange for equity stakes in the companies. This model, known as venture capital, allowed entrepreneurs to access much-needed funding to grow their businesses.
- The development of new technologies: The 20th century saw the development of many new technologies, such as computers, the internet, and biotechnology. These technologies created new opportunities for entrepreneurs to create innovative products and services.
- The influence of Silicon Valley: In the 1970s and 1980s, a group of startups in the technology industry began to emerge in the region surrounding San Francisco, known as Silicon Valley. These companies, such as Apple, Intel, and Microsoft, became some of the most successful and influential startups in history, and helped to popularize the concept of entrepreneurship and startup culture.

Given the multitude of definitions surrounding the phenomenon, grasping the fundamental nature of startups presents a complex challenge. Out of the various definitions, common characteristics that are repeatedly observed include small size, a high degree of risk, and the potential for rapid growth. According to Steve Blank “*Startups are temporary organizations in search of a scalable and repeatable business model*” (Blank,2013). This definition emphasizes the temporary nature of startups, as they are often created with the goal of either scaling up rapidly or failing quickly.

Additionally, the focus on developing a scalable and repeatable business model highlights the importance of finding a sustainable way to generate revenue and grow the business over time.

According to Saras Sarasvathy, a startup is an organization that is currently in the developmental stage of creating a new product or service, and is distinguished by the presence of uncertainty, experimentation, and a substantial level of risk (Sarasvathy, 2001). Similarly, William Bygrave and Andrew Zacharakis define a startup as a recently established business venture that endeavours to solve a problem in an innovative way or to create a fresh market opportunity (Bygrave & Zacharakis, 2011). Eric Ries, on the other hand, characterizes a startup as an entrepreneurial undertaking that focuses on the development of a new product or service, or on disrupting an existing market with an inventive solution. (Ries, 2011)

These varied definitions emphasize different aspects of what it means to be a startup, such as the significance of innovation, experimentation, risk-taking, and disruption. These concepts are at the core of a startup's identity as a dynamic and nimble organization that strives to create novel and valuable products or services.

1.1.1 Startup lifecycle

Numerous scholars and professionals have endeavoured to devise a comprehensive model for effectively classifying the various stages of a startup's lifecycle. However, the inherent complexity and constant evolution of the startup industry presents significant challenges for developing such a rigid model. Nevertheless, in order to achieve comprehensive and definite results, the sequence of startup evolution will be segregated into five distinctive stages: idea generation, testing, funding, expansion, and exit.

- *Idea generation*

The journey of a startup begins with an idea. The idea usually stems from identifying an unmet need in the market. The idea generation stage is the most critical stage of the startup lifecycle as it sets the foundation for the entire journey. It is here where one must decide the pain points the idea is solving and the target market. Entrepreneurs can increase their chance of success by generating more ideas and evaluating them critically (Dew, Read, Sarasvathy, & Wiltbank, 2011). The quality of the idea, the market potential, and the competitive environment are critical factors determining the success of the idea generation stage. The process of idea generation can be approached through various methodologies, each offering unique perspectives and techniques.

One popular approach is agile methodology, which emphasizes iterative and collaborative development. In a study conducted by Shore et al. (2019), the authors highlight the importance of

agile practices in fostering creativity and responsiveness during the idea generation phase, leading to enhanced innovation outcomes for startups.

Design thinking is another widely acclaimed methodology that has gained popularity among startups. It emphasizes empathy, experimentation, and prototyping to address complex problems. Brown and Wyatt (2010), in their paper, argue that design thinking enables holistic problem-solving and enhances the quality of ideas generated during the early stages of a startup.

Brainstorming, a well-known technique for idea generation, encourages participants to think freely and generate a large number of ideas without criticism. Such an approach enables the exploration of various possibilities and fosters creativity. Hennessey and Amabile (2010) conducted a comprehensive review of brainstorming literature and found that it is a valuable tool for generating diverse and novel ideas during the early stages of entrepreneurial endeavours.

The "problem-first" approach, proposed by Ries (2011), encourages entrepreneurs to identify a customer problem or need before developing a solution. In this framework, entrepreneurs engage in extensive customer interviews, surveys, and market research to identify pain points and unmet demands. Similarly, Mitchell et al. (2018) introduce the concept of "problem-centricity," which emphasizes understanding the core problem from the user's perspective. By empathizing with potential users and observing their experiences, startups can identify opportunities to develop unique and impactful solutions.

- *Testing stage*

The *testing stage* is where the entrepreneur tries to validate the idea's viability by testing it in the market. Testing the idea involves using various techniques such as market surveys, focus groups, prototyping, and customer feedback. Testing the idea confirms the entrepreneur's hypothesis and refines the idea for product creation. In this stage, the entrepreneur needs to develop a proof of concept that demonstrates the usefulness and viability of the business idea. The Lean Startup method, developed by Eric Ries, emphasizes the importance of testing the idea quickly and efficiently to avoid wasting resources (Ries, 2011). This has been embraced widely in the startup community, where entrepreneurs prototype the product and test it with potential customers before investing significantly in development. Testing the product before launching is crucial to reduce the risk of failure in the next stages of the startup lifecycle.

Market surveys are a commonly used technique during the testing phase. They involve collecting data from potential customers about their preferences, needs, and willingness to pay for the product or service. Market surveys provide valuable insights into the target market, customer behaviour, and potential market size. It helps entrepreneurs understand the viability and potential success of their idea in the market.

Focus groups are another methodology used in the testing phase. These involve gathering a small group of individuals who represent the target market and obtaining their feedback on the idea or prototype. Focus groups allow entrepreneurs to gauge initial reactions, gather opinions, and identify potential improvements or concerns. This qualitative approach provides valuable insights into customer preferences, user experience, and unmet needs.

Prototyping is a crucial component of testing the idea. Creating a physical or digital prototype helps entrepreneurs visualize and demonstrate the functionality, design, and features of the product or service. Prototypes allow for early user testing, feedback collection, and identification of potential design flaws or improvements. It is a low-cost method to validate the idea before investing significant resources in product development.

In the context of prototyping, an MVP, or Minimal Viable Product, is a prototype that represents the simplest version of a product that can be tested in the market (Ries, 2011). This approach allows entrepreneurs to validate customer demand, identify and rectify any bugs or design flaws, and test the viability of their product (Blank & Dorf, 2012). By launching an MVP, entrepreneurs can conserve resources and gather valuable feedback from early adopters (Chen, Feinberg, & Liang, 2014). The testing stage plays a crucial role in the MVP process, as it allows entrepreneurs to collect real-world data, evaluate the product's performance, and make informed decisions for further development. Research has shown that startups that adopt the MVP strategy have a higher success rate compared to those that do not (Chen et al., 2014). This clearly indicates that the development of an MVP is critical in reducing the risk of failure in the early stages of business development (Chen et al., 2014).

It can be defined as a streamlined version of a product that encompasses its core functionalities while omitting non-essential features, aiming to attain rapid customer feedback and minimize time and resource wastage (Ries, 2011; Blank & Dorf, 2012). Functionally, the primary purpose of an MVP is to validate product market fit, assess consumer demand, and refine the product based on user interactions and feedback (Eisenmann et al., 2012). By releasing a simplified version of the product, entrepreneurs embrace an iterative approach, enabling them to evaluate assumptions, refine their value proposition, and gather crucial data from early adopters (Blank & Dorf, 2012).

The working mechanism of an MVP lies in its iterative deployment strategy and the use of validated learning techniques (Osterwalder & Pigneur, 2010). At its core, an MVP functions as a hypothesis-testing tool that allows entrepreneurs to validate or invalidate their initial assumptions about the product's target market, value proposition, and market demand. The MVP approach typically involves a Build-Measure-Learn feedback loop (Ries, 2011), with each cycle enabling the refinement of the product through incremental improvements or pivots based on user feedback. Successful execution of an MVP requires an agile mindset, fast feedback loops, and a customer-centric focus to effectively capture and respond to market needs (Blank & Dorf, 2012).

For instance, consider the case of Uber. When the founders initially launched the service, they created a basic MVP that allowed users to request a ride through a simple app interface (Ries, 2011). This

MVP helped them test the demand and feasibility of their idea in the market. Based on user feedback and data collected from the initial testing phase, Uber improved and expanded its services to meet the evolving needs of its users (Chen et al., 2014). This iterative development process, facilitated by the MVP approach, enabled Uber to become a successful global company (Ries, 2011).

- *Funding stage*

The *funding stage* is the most critical stage of a startup lifecycle. It involves raising external capital from various sources to finance the startup's growth and operations. Research suggests that startups that receive funding have a higher probability of success than those that do not receive funding. However, the type of funding and how it is invested is crucial to the startup's success. A study by Stefano and Dunkelberg (2015) found that startups that received financing from venture capitalists tend to perform better than those that receive financing from angel investors. As such, entrepreneurs should be cautious with the source of their funds at this stage.

- *Expansion stage*

The *expansion stage* is a critical phase that represents the maturity of the startup. During this stage, the startup has achieved a certain level of success, gained traction in the market, and established a profitable business model. In order to continue growing, the startup needs to scale its operations by either entering new markets or developing new products. This expansion stage necessitates strong leadership, strategic planning, and the ability to navigate competitive markets.

One key aspect of the expansion stage is the diversification of revenue streams. Startups need to identify and pursue additional sources of income to reduce their reliance on a single product or market. By diversifying their revenue streams, startups can mitigate risks and enhance their long-term sustainability. Moreover, penetrating new geographical markets is an essential component of the expansion strategy. Startups often need to tailor their products or services to suit the needs and preferences of different geographic regions. This requires market research, localization efforts, and the ability to adapt to cultural differences.

Retaining existing customers is another crucial factor in the expansion stage. Customer acquisition costs are typically high, and it is more cost-effective to retain loyal customers than to acquire new ones. Therefore, startups must develop and implement measures to ensure customer satisfaction and loyalty. This can be achieved through personalized customer experiences, proactive customer support, and continuous improvement of products or services.

It is important for startups to time their expansion strategy correctly and choose markets wisely. Research by Autio, Headd, and Latham (2015) indicates that early expansion within the first three years of operation is associated with a higher probability of success. Conversely, expanding too late

can lead to missed opportunities and competitiveness challenges. Startups must carefully assess market conditions, their own capabilities, and potential risks before embarking on the expansion journey.

- *Exit stage*

The *exit stage* is a crucial phase in the startup environment, representing the culmination of the startup lifecycle. During this stage, the entrepreneur seeks to liquidate their investment and exit the business. Various exit strategies can be pursued, including acquisition, merger, or an initial public offering (IPO). These strategies serve as mechanisms through which the entrepreneur aims to generate financial returns on their investment.

Research in this area suggests that startups that choose to exit through acquisition tend to generate higher returns compared to those that opt for an IPO. According to Halloran and Zietsma's (2014) study, acquired startups demonstrate more diverse revenue streams and a profitable business model, which contribute to their ability to generate higher returns. This finding underscores the importance of carefully considering the exit strategy in order to maximize financial gains for the entrepreneur.

It is widely acknowledged that the exit stage plays a significant role in determining the success of a startup. This is due to the fact that it represents the culmination of the entrepreneur's efforts, allowing them to cash out on their venture and potentially move on to new opportunities. Furthermore, the financial return at this stage can serve as a strong indicator of the overall success and viability of the startup.

To illustrate this, let us consider the example of Instagram, a popular photo-sharing app. In 2012, Instagram was acquired by Facebook for a staggering \$1 billion (Halloran & Zietsma, 2014). This acquisition served as the exit strategy for Instagram's founders, Kevin Systrom and Mike Krieger, enabling them to monetize their investment. The acquisition also provided Facebook with an opportunity to enhance its offerings in the social media space and expand its user base.

Another example is WhatsApp, a messaging app that was acquired by Facebook in 2014 for \$19 billion (Halloran & Zietsma, 2014). This acquisition not only allowed WhatsApp's founders to exit the business and realize their financial gains but also enabled Facebook to strengthen its presence in the messaging app market.

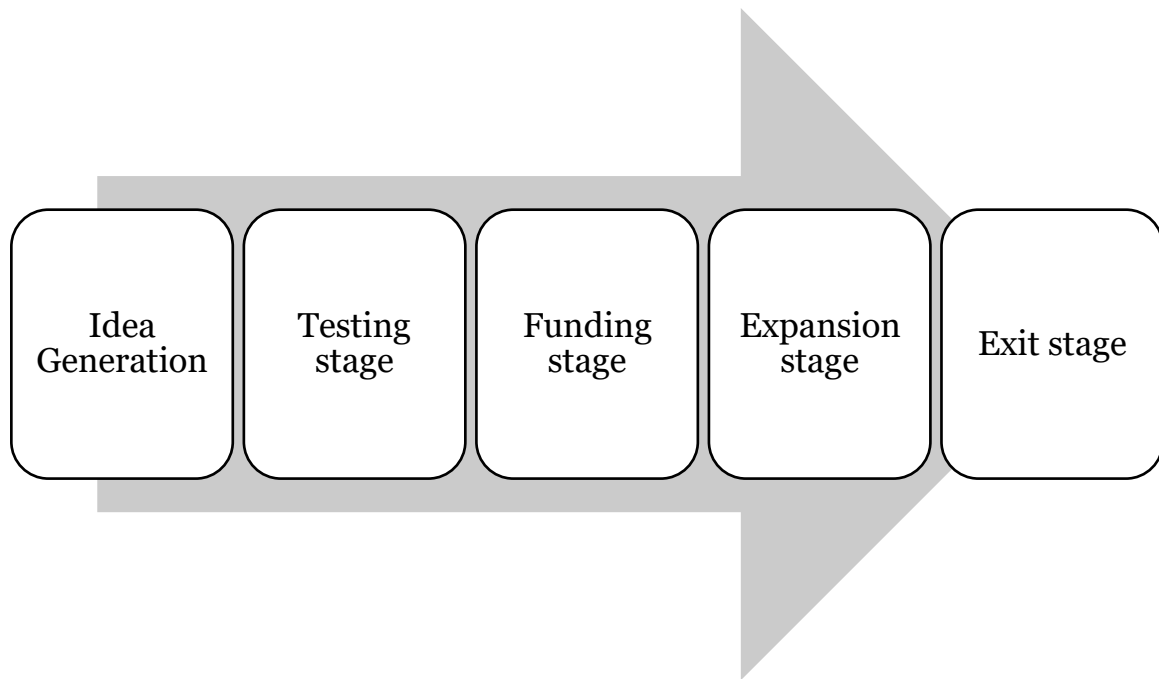


Fig 1. Startup lifecycle

1.2 Focus on funding stage

1.2.1 What is startup funding?

Following an overview of the historical rise of startups, a comprehensive definition of the subject matter, and a broader overview of its life cycle, the focus of this study shifts towards scrutinizing the actual topic of interest. This pertains to comprehending the underlying reasons why startups seek alternative funding options beyond their country of origin. To achieve this objective expeditiously, this work intends to present an elaborate definition of startup funding, along with a detailed understanding of how this process typically functions.

According to Bessant and Tidd (2015), startup funding refers to the financial resources allocated to new and emerging firms in their early stages of development, typically in exchange for equity or debt. The authors define startup funding as a crucial lifeline for small businesses, enabling them to fund their initial operating costs, make strategic investments in equipment, technology and human capital, and ultimately achieve their growth potential. Similarly, Desai and Nandkumar (2017) conceptualize startup funding as an essential driver of innovation and economic growth, providing entrepreneurs with the necessary resources to pursue new business ideas and challenge established market players. Overall, academic literature underscores the importance of startup funding for entrepreneurial success, highlighting its role in enabling new ventures to survive and thrive in the competitive business landscape.

The startup lifecycle funding is a crucial aspect of any new business venture. It comprises a series of stages, including pre-seed, seed, series A, series B, and series C funding rounds. According to a study conducted by Beck and Jain (2020), "the pre-seed round initiates the startup funding process, while the seed round is focused on product-market fit and early adoption." At this stage, the startup tries to gain traction and prove its concept to investors. The next round, series A, is aimed at scaling the business and turning it into a profitable enterprise. Frattini, Grilli, and Vismara (2019) argue that "series A is typically aimed at building out the company infrastructure, hiring skilled employees, and attracting more customers." The series B and C rounds are focused on expanding the business even further, with a primary focus on growth and market domination. As stated by Schaefer and Schmidt (2017), "series B and C rounds are aimed at providing the necessary capital to acquire competitors, expand into new markets or geographies, and increase market share." Therefore, it is essential for startups to understand each funding stage's key objectives and requirements to achieve success.

The pre-seed stage is the earliest stage of startup funding, which is usually when the startup is in the ideation phase. This phase involves high-risk investments, as startups do not have a proven business model or any product yet. In this stage, entrepreneurs raise funds through personal savings, crowdfunding, or small investments from friends and family. Additionally, startups may participate in incubator or accelerator programs that provide funding, mentorship, and guidance.

The seed stage occurs after the pre-seed stage and is when startups start building their product or service. At this stage, the startup will have a minimum viable product (MVP) that can be tested among users. The funding raised during this stage is for refining the product, developing the team, and marketing their product/service. Investors in this stage include angel investors and venture capitalists, who are willing to take on higher risks for higher returns.

The series A stage is when startups have a proven business model and are looking for funding to scale their operations. This stage usually happens after the startup finds product-market fit, and the company is growing rapidly. Typically, startups raise between \$2 million to \$15 million during this stage, with investors that include angel groups, venture capitalists, and corporate venture capital. At this stage, startups need to show a solid growth trajectory, a significant customer base, and a sustainable revenue model.

The series B stage is the next phase after series A, and it is when the company has proven their business model and is looking to expand into new markets. In this stage, startups raise substantial funding, usually between \$10 million to \$50 million, often from venture capitalists and private equity firms. Moreover, startups focus on more complex operational challenges and generating profits.

The series C stage refers to the final stage of startup funding. Companies in this stage are most likely in the process of expanding their operations internationally, preparing for an initial public offering (IPO), or investing in Research and Development (R&D). Startups in this stage raise substantial funding, typically over \$50 million, from venture capitalists or private equity firms. Additionally,

startups that reach this stage have a proven track record of success and have established a significant market share.

A study by Wade Brooks and Collins Onuegbu et al. (2017) highlighted that the startup funding lifecycle differs for each startup based on various factors, such as the type of startup, its product or service, industry, etc. Therefore, it's essential to understand the startup's unique funding lifecycle than to follow a generic formula. Additionally, research by E. A. Van Sandwijk and F. Battigalli (2019) found that startups receiving funding from top-tier venture capitalists often outperform those that receive funding from other sources. This is because prominent venture capitalists bring valuable networks, resources, and expertise to the startup, giving them a competitive advantage.

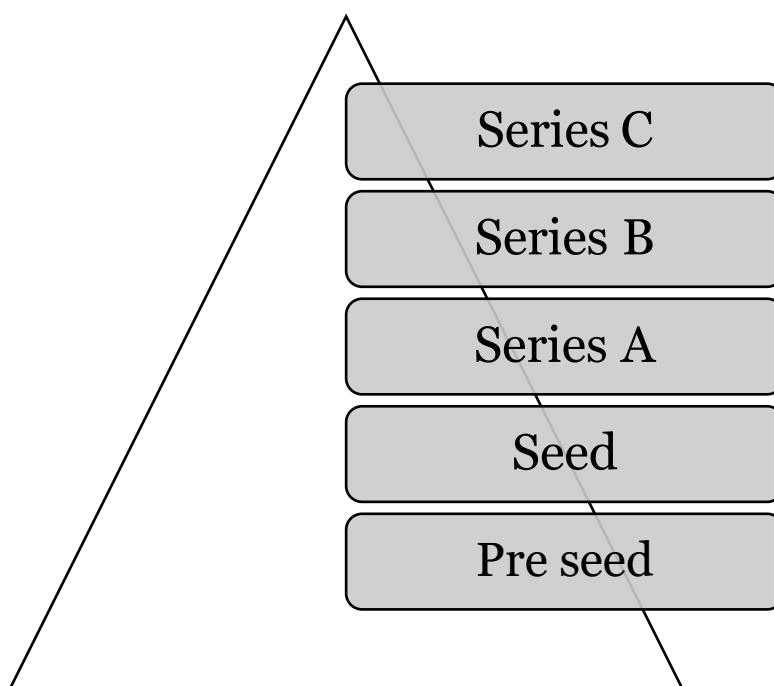


Fig 2 Startup funding.

1.3 Main funding typologies analysis

Financing is a critical factor for startup companies, as it can make or break their growth potential. The path to startup financing is dependent on various factors such as product, market, stage of development, and investor preferences, among others. As a result, startups may have to follow different financing lifecycles to get the necessary resources for growth.

According to research by Berg et al. (2017), the financing lifecycle of a startup depends on its stage of development. Early-stage startups typically rely on seed funding from friends and family or crowdfunding platforms to get started. As they progress into the growth stage, they may need angel investors or venture capitalists to fund their expansion. Finally, companies in the maturity stage may use debt financing or corporate venture capital to finance their operations.

Product and market factors also influence the financing path for startups. Startups with disruptive products or services that have the potential to scale rapidly may attract venture capitalists or corporate investors who specialize in high-growth industries (Baumann et al., 2018). On the other hand, startups in niche markets or with modest growth potential may need to rely on alternative funding sources such as government grants or loan guarantees. Moreover, the location of the startup may also impact the financing options available to them (Van Osnabrugge & Robinson, 2012). Startup financing is a complex process that requires a deep understanding of various factors. The right financing path depends on the stage of development, product, market, and investor preferences of the startup. Therefore, it is crucial for entrepreneurs to identify the right funding sources and negotiate favourable terms to ensure long-term success.

As discussed in the previous section, startups often face challenges in obtaining sufficient funds to sustain their operations and drive growth. To address this issue, various funding strategies have emerged. In this section, we will explore each possible funding strategy in detail, starting with bootstrap financing. Following bootstrap financing, we will delve into other popular funding strategies such as family, friends, and fools, as well as crowdfunding. Furthermore, this section will cover the involvement of business angels, family offices, institutions, venture capital (VC) funds, and private equity. By examining these funding strategies individually, we will gain a comprehensive understanding of their characteristics, benefits, and limitations, thus assisting entrepreneurs and investors in making informed decisions.

Funding Source	Definition
Bootstrapping	Self-funding approach wherein a startup utilizes its own resources and revenue to finance its growth and development.
Family, Friends, and Fools	Early-stage funding obtained from close acquaintances and personal networks, often involving personal relationships and informal agreements.
Crowdfunding	A method of raising capital by pooling small contributions from a large number of individuals, usually through online platforms, to fund a startup's project or business.
Business Angels	High-net-worth individuals who invest their personal funds and provide expertise in exchange for equity in early-stage startups.
Family Offices	Private wealth management firms that manage the financial affairs and investments of affluent families, often including allocations to startup ventures.

Institutions	Established financial organizations, such as banks or foundations, that provide funding and resources to startups to support their growth and development.
VC Funds (Venture Capital)	Investment funds managed by professional venture capitalists that pool money from various sources to invest in high-potential startups in exchange for equity.
Private Equity	Investment funds that invest in established companies or startups at various stages, often seeking majority ownership and involvement in strategic decision-making.
Alternative Funding Sources	Non-traditional methods of financing startups, which can include options like accelerators, corporate partnerships, and incubators.

Fig.3 Funding sources

1.3.1 Bootstrapping

Bootstrapping is a form of financing commonly used by startups to fund their operations without relying on external investments or loans. It involves leveraging the founders' own resources and creativity to build and develop the company. Bootstrapping allows entrepreneurs to maintain control over their businesses and stay flexible in decision-making processes. Founders rely on their own resources and limited external funding to sustain and grow their business. It encompasses various strategies such as cost-cutting, revenue re-investment, and seeking alternative sources of financing to avoid excessive reliance on venture capital or loans.

According to research conducted by Manolova, Manev, and Gyoshev (2012), bootstrapping involves entrepreneurs using their personal savings, credit card debt, and other personal resources to fund their business ventures. The authors argue that bootstrapping is crucial, especially for technology-based startups, as it provides flexibility and adaptability that external funding may restrict. They highlight the importance of intellectual capital and resourcefulness in bootstrapping, indicating that successful entrepreneurs tend to possess these characteristics.

Another study by Gruber, MacMillan, and Thompson (2013) focuses on the role of bootstrapping in fostering resource acquisition and firm growth. The authors found that, in the initial stages, bootstrapping prompts entrepreneurs to develop alternative resources, such as nurturing networks,

building strategic alliances, and utilizing lesser-known sources of startup capital. These efforts help startups overcome resource constraints, sustaining their operations and enhancing their future prospects.

Furthermore, the research conducted by Block and Sandner (2009) emphasizes the relationship between bootstrapping and innovation. The authors suggest that bootstrappers are more likely to be innovative and engage in experimental behavior due to their limited resources. They argue that the scarcity of financial resources requires entrepreneurs to be creative and seek innovative solutions, which consequently enhances their chances of survival and success.

According to Lin et al. (2019), bootstrapping enables startups to maintain control and independence, as founders are not required to dilute their ownership by seeking external investors. This is particularly crucial during the early stages when a startup's vision and mission are being developed. Furthermore, bootstrapping fosters creativity and innovation, as entrepreneurs are forced to think creatively in optimizing their limited resources (Wiltbank et al., 2015).

Bootstrapping often involves significant personal financial contributions by founders, as highlighted in the study conducted by Townsend and Busenitz (2015). They found that founders who invest their own money in the early stages of bootstrapping tend to attract more external financing at a later stage. This is due to the signaling effect it has on investors, indicating commitment and confidence in their own venture.

Additionally, research by Valentinetti and Masciarelli (2017) demonstrates that bootstrapping can foster financial discipline and accountability. With limited funds at their disposal, entrepreneurs are compelled to monitor and manage their finances meticulously, leading to improved financial performance. This concept is reinforced by Bao et al. (2018), who found that bootstrapped startups demonstrate better financial stability and profitability compared to their VC-backed counterparts.

However, bootstrapping does have its limitations. The lack of financial resources can hinder the scalability and rapid growth of startups. Kuckertz et al. (2019) argue that bootstrapped startups may face challenges in attracting and retaining talented employees, as they often lack the financial means to provide competitive compensation packages. Additionally, bootstrapping can limit access to external networks, knowledge, and market opportunities that could be provided by well-connected investors (Zacharakis et al., 2014).

1.3.2 Friends, family and fools

Friends, Family, and Fools (FFF) is a term often used to describe one of the earliest and most traditional forms of financing for startups. This financing method entails seeking financial support from individuals who have a personal or emotional connection to the entrepreneur.

FFF financing generally involves raising funds from friends, family members, and acquaintances who are willing to invest in a startup idea and typically operates outside formal financial institutions, bypassing the regulations and requirements associated with traditional funding methods. These investors typically provide financial support at the initial stages of a startup, where traditional funding sources may be harder to access. FFF investors are often attracted by their personal relationship with the entrepreneur, which influences their willingness to take on higher risks compared to other types of investors.

According to a study by Yin and Wang (2017), FFF financing is a common funding source for early-stage startups, accounting for a significant proportion of entrepreneurial finance. Another study by Cardillo and Chalmers (2018) highlights that entrepreneurs rely on FFF investments when they lack access to formal funding channels, such as venture capital or angel investors. FFF financing acts as a steppingstone for startups, providing essential seed capital that helps to kick-start operations and validate business ideas before pursuing larger-scale investments.

The unique characteristics of FFF financing lie in the dynamics between the entrepreneur and the investors. Kim and Mullins (2014) argue that personal connection and trust are crucial factors distinguishing FFF investors as a distinct source of funding. FFF investors are often more forgiving and patient, and their decision-making is influenced by their close relationship with the entrepreneur rather than strict financial considerations (Becker et al., 2015).

Although FFF financing can be a valuable source of capital for startups, it also presents some challenges. From the entrepreneurs' perspective, accepting funding from friends and family members may strain personal relationships or blur lines between personal and professional life (Katz and Green, 2015). Additionally, the limited financial resources within this network may restrict the amount of funding available to startups and hinder their growth potential (Fitzgibbon and Brownlow, 2013).

The process involves identifying potential investors within personal networks, pitching the business concept to them, and negotiating mutually beneficial terms. Generally, FFF investors are attracted by personal relationships, emotional investment, and their belief in the entrepreneur's ability to succeed. This informal financing method often offers flexible and agile funding, accommodating the specific needs of startups in their critical early stages.

Several startups have successfully utilized FFF financing to drive their growth, as for instance Airbnb.

Airbnb's early-stage financing involved funds from friends and family, providing the initial capital to develop the company's platform. This enabled Airbnb to later secure traditional funding from venture capital firms, leading to its meteoric rise as a leader in the sharing economy. (Sharpe, 2019). Warby Parker, a disruptive eyewear retailer, initially raised FFF capital, allowing them to launch their e-commerce platform. The support from a close-knit network enabled Warby Parker to introduce affordable eyewear alternatives and later raise substantial venture capital investment. (Todoki & Akiyama, 2017)

The popular business communication platform Slack began with FFF financing. Its co-founder, Stewart Butterfield, gained initial funding from friends and family, proving instrumental in developing an innovative product and attracting substantial later-stage investments. (Cattoni & Siino, 2017)

Friends, Family, and Fools (FFF) financing offers a unique avenue for startups to secure essential capital during their early stages. Through leveraging personal relationships, FFF financing provides accessible, flexible, and agile funding, showcasing various advantages. However, entrepreneurs must be aware of potential drawbacks, such as strained relationships and limited capital availability. By exploring successful startups that utilized FFF financing, it becomes evident that, when closely managed, this informal funding method can play a crucial role in the growth and success of early-stage ventures.

1.3.3 Crowdfunding

Crowdfunding has become a popular method for startups to raise capital from a large number of individuals through online platforms. By utilizing this funding method, startups are able to tap into a wide pool of potential funders, bypassing traditional financial institutions and intermediaries such as banks and venture capitalists. The emergence of crowdfunding as a novel approach to funding startups has garnered significant attention from both scholars and practitioners, due to its unique characteristics and benefits compared to traditional funding mechanisms.

One key advantage of crowdfunding is its ability to enable startups to access a large pool of potential funders, regardless of geographical constraints. Unlike traditional funding methods, crowdfunding provides a global platform, allowing entrepreneurs to reach out to supporters from different countries. This not only increases the chances of securing funding but also facilitates market expansion and internationalization. Additionally, crowdfunding offers a diverse range of benefits to both entrepreneurs and investors.

Crowdfunding offers startups the opportunity to directly connect with potential investors and receive feedback and validation for their venture. By presenting a detailed description of their project and setting a funding goal, project initiators can attract interested individuals to contribute their desired amount of money. In return, contributors may receive rewards or equity in the venture. This market testing aspect of crowdfunding helps startups refine their product or service and adopt a more customer-centric approach.

Moreover, crowdfunding can generate significant publicity and marketing exposure for startups. Successful crowdfunding campaigns often attract potential customers and investors beyond the immediate crowdfunding community. The case of Oculus Rift serves as a notable example of this. In 2012, the company raised \$2.4 million on Kickstarter to develop its virtual reality headset prototype.

Subsequently, Oculus Rift was acquired by Facebook for \$2 billion in 2014, highlighting the potential of crowdfunding in backing innovative startups.

In addition to these advantages, crowdfunding also provides opportunities for innovative ideas that may not align with traditional investment criteria. By democratizing the funding process, startups can access funding without relying solely on traditional financial institutions. This allows for a more inclusive and diverse range of projects to receive the necessary financial support. Crowdfunding also offers flexibility in terms of funding goals and ways in which entrepreneurs can incentivize investors. Unlike traditional finance channels, crowdfunding platforms allow entrepreneurs to set their funding targets according to their specific needs, without being bound by fixed amounts or specific criteria.

However, despite these benefits, crowdfunding does come with potential drawbacks that need to be addressed. One challenge lies in the fulfillment of rewards promised to contributors. Research indicates that a significant number of Kickstarter projects suffer from delays or fail to deliver rewards altogether. This can tarnish a startup's reputation and damage relationships with its supporters. Additionally, crowdfunding may result in less investor protection compared to traditional funding sources. The lack of regulatory oversight can leave investors vulnerable to potential scams or fraudulent activities.

To better understand how crowdfunding works, various models have been proposed. Reward-based crowdfunding involves entrepreneurs offering non-monetary incentives, such as pre-selling products or providing early access to services, to encourage supporters to contribute funds. Equity-based crowdfunding allows investors to acquire shares or ownership stakes in the startup, enabling them to participate in its success. Donation-based crowdfunding involves individuals making voluntary contributions without any expectation of financial return.

Several notable examples illustrate the potential of crowdfunding in the startup funding environment. Pebble Technology Corporation, for instance, raised over \$10 million through crowdfunding platforms for their smartwatch project, eventually becoming one of the most successful crowdfunding campaigns. Similarly, Oculus VR accumulated significant crowdfunding support before being acquired by Facebook. These examples demonstrate the transformative power of crowdfunding, enabling entrepreneurs to turn innovative ideas into viable business ventures.

In conclusion, crowdfunding has emerged as a disruptive force in the startup funding landscape. Its unique characteristics, including global reach, flexibility in funding goals, and innovative incentives, provide significant benefits for both entrepreneurs and investors. However, it is essential to address potential drawbacks such as the fulfillment of rewards and investor protection. By understanding different crowdfunding models and analyzing real-life examples, researchers and practitioners can gain valuable insights into this ever-evolving funding mechanism.



1.3.4 Business Angels

Angel investors exhibit distinctive attributes that differentiate them from other types of investors. Academic research by Mason and Harrison (2004) spotlights several key characteristics. Firstly, angel investors tend to come from diverse backgrounds, offering varied industry experience and networks. Secondly, they often possess an entrepreneurial background, enabling them to understand and mentor young companies effectively. Thirdly, they invest their own resources, thereby indicating a greater level of commitment and involvement compared to institutional investors or venture capitalists. Finally, angel investors are typically patient and interested in assisting company growth over the long term. Recent studies by Fried, Hisrich, and Jaiswal (2020) further dissect the characteristics of angel investors by examining their risk propensity, investment preferences, and geographical focus.

Angel investors bring numerous advantages to the funding landscape for startups. Accounting for the "angel effect," Sapienza, Manigart, and Vermeir (2014) emphasize that angel investors have a catalytic impact on young firms by providing not only financial resources but also mentoring and networks. Angel investment bridges the critical gap between personal savings and venture capital funding, allowing startups to access early-stage financing when conventional sources may be insufficient (Zimmerman and Zeitz, 2002). Furthermore, empirical studies by Kerr et al. (2015) reveal that angel-backed startups experience enhanced growth rates and a higher likelihood of survival than non-angel-backed ventures.

While angel investors provide substantial benefits, they also face certain limitations. Academic studies by Lerner (2009) and Tykvová (2010) highlight that angels, as individual investors, may exhibit cognitive biases and information asymmetry risks, potentially impacting investment decisions. Moreover, their smaller investment sizes compared to other financing sources may result in limited capital availability or the need for syndication with other investors (Colombo and Grilli,

2010). It is crucial for entrepreneurs and researchers to recognize these limitations and explore strategies to mitigate associated risks.

Understanding how angel investment functions is vital for entrepreneurs seeking such funding. Angel investors typically establish relationships with entrepreneurs through networking activities, referrals, startup competitions, or angel groups (Chapple, 2017; Cumming et al., 2019). Entrepreneurs present their business plans, financial projections, and growth strategies, with angel investors evaluating the potential success and alignment with their investment criteria. If both parties agree, negotiation and term sheet discussions follow, leading to an investment agreement and subsequent mentorship or board involvements (Dushnitsky and Lenox, 2006). Recent studies by Fossen, Schildberg-Hörisch, and Suetens (2020) delve into the decision-making processes of angel investors, exploring factors influencing their investment choices, and their impact on the startup ecosystem.

Recent empirical studies showcase the role of angel investors in propelling startup success. For instance, Huang and Liu (2021) examine the influence of angel investors on entrepreneurial ventures in the medical device industry, illustrating their positive impact on product commercialization and international growth. Another study by Cumming and Zulkafli (2020) investigates the importance of angel investment in bridging startup funding gaps across different countries, offering insights into the role of angel networks in enhancing investment efficiency.

In conclusion, angel investors act as significant contributors within the startup funding environment, leveraging their characteristics, expertise, and personal capital to support early-stage ventures. The benefits they bring to startups include financial resources, mentorship, and networks, while limitations arise from individual biases and capital constraints. Understanding the operational mechanisms of angel investment, entrepreneurs can improve their chances of securing funding and leveraging angel investors' contributions.

1.3.5 Family Offices

Family offices are privately held investment firms that manage the financial affairs of wealthy families. In recent years, they have emerged as a significant source of funding for startups. These offices typically pool the wealth of affluent families and create a diversified portfolio of investments, including startup ventures. The objective of family offices is not only to achieve financial returns but also to build long-term relationships with entrepreneurs and provide them with strategic guidance.

One academic paper that sheds light on family offices as a form of startup financing is the study conducted by Koirala et al. (2016). The paper explores the investment behavior of single-family offices and emphasizes their interest in venture capital and private equity investment opportunities. The authors found that family offices often invest in early-stage startups aiming for high-growth potential, providing patient capital to fuel their growth.

In terms of functioning, family offices tend to approach startup financing through a combination of direct investments, co-investments with other family offices or venture capital firms, and participation in funds dedicated to early-stage ventures (Cabaleiro et al., 2019). Unlike venture capitalists, family offices usually possess a more long-term orientation, as their investment portfolios often aim to preserve and grow wealth across generations, aligning them with the interests of startups seeking sustainable growth (Lozano et al., 2015). Family offices employ diverse investment strategies; however, three key mechanisms are commonly observed. The first mechanism involves direct investment, where family offices invest directly in startups without involvement from external fund managers or intermediaries. This approach allows family offices to have complete control over the investment decision-making process. The second mechanism is co-investment, where family offices collaborate with venture capital funds or other investors to invest in early-stage startups (Boas, Duru, & Guler, 2021). This arrangement enables family offices to leverage the expertise and due diligence capabilities of external partners. Lastly, family offices may opt for indirect investment by investing in venture capital funds, private equity funds, or other investment vehicles (Yasuda, 2018). The indirect investment mechanism provides family offices with portfolio diversification and broader exposure to the startup ecosystem.

One prominent example highlighting the role of family offices in startup funding is Royalty Pharma's investment in Peloton. Royalty Pharma, a family office managing a substantial healthcare-focused portfolio, invested \$80 million in Peloton's Series F funding round (Powell, 2019). This investment demonstrated how family offices are willing to support startups operating in diverse industries, enabling them to pursue expansion and innovation.

Despite the benefits of family office funding for startups, potential drawbacks exist. An academic paper by Becker et al. (2014) highlights concerns surrounding the lack of transparency and reporting standards within family offices. Without standardized protocols, it can be challenging for startups to navigate the expectations and due diligence processes imposed by family offices, possibly leading to disparities in investment outcomes.

Moreover, Chua (2017) discusses another drawback of family office financing in terms of potential conflicts of interest. Family offices, due to their concentrated ownership structure, might expect significant control over startup operations, potentially limiting entrepreneurial autonomy. This emphasis on control could limit the ability for startups to make rapid decisions or explore alternative business strategies.

In conclusion, family offices have become an increasingly popular form of financing for startups. They bring not only financial capital but also long-term partnerships and strategic guidance. While the investment behavior of family offices in startups is well-documented (Koirala et al., 2016), the lack of transparency (Becker et al., 2014) and possible conflicts of interest (Chua, 2017) pose potential drawbacks. Understanding how family offices operate and their unique characteristics is essential for startups seeking funding from this source.

1.3.6 Institutions

In the context of startup funding, institutions such as governments, banks, and the public sector play a crucial role in providing financial support, resource allocation, and regulatory frameworks (Kroll, Marklund, & Podolski, 2017). These institutions possess unique characteristics that make them suitable contributors to the startup ecosystem.

Firstly, governments have the authority to design policies and regulations that shape the startup ecosystem (Kroll et al., 2017). These policies facilitate the creation of favorable conditions for startups to thrive, such as tax incentives, research and development grants, and legal frameworks that encourage entrepreneurship. One critical aspect of government-sponsored funding for startups is the provision of grants. Governments allocate funds to support startups in specific sectors or industries, such as technology, healthcare, or clean energy. These grants aim to stimulate innovative ideas, encourage research and development activities, and provide startups with necessary capital to pursue their ventures without immediate financial returns. Additionally, governments implement tax incentives, subsidies, and low-interest loans to reduce the financial burden on startups, enabling them to invest in growth and expansion.

Furthermore, financial institutions, including banks, possess significant capital resources and expertise in risk assessment, making them a reliable choice for entrepreneurs seeking funding (Hsu & Ziedonis, 2017). Apart from governments, banks also play a significant role in startup financing. Although banks primarily focus on providing loans, they have tailored their approach to meet the specific needs and realities of startups. As a result, banks have developed products such as venture capital loans, microloans, and credit lines specifically designed for startups. Venture capital loans, for example, allow startups to secure funding based on the potential of their business idea or technology, rather than relying solely on traditional asset-based collateral. Banks may collaborate with venture capital firms to jointly fund startups, sharing the risk and expertise associated with financing early-stage ventures. Microloans, on the other hand, provide startups with smaller amounts of capital, enabling them to cover initial operational costs or invest in essential equipment. Credit lines offer startups a flexible source of capital, allowing them to access funds when needed and pay interest only on the borrowed amount.

Public sector organizations, such as economic development agencies, combine the expertise of government entities and financial institutions, thereby offering a comprehensive range of resources to support startups. These organizations may provide specialized support services, mentorship programs, networking opportunities, and access to incubators or co-working spaces. By leveraging their experience and networks, public sector organizations aim to bridge the gap between

entrepreneurs and funding sources, helping startups navigate the complex landscape of startup financing.

While institutions and the public sector offer considerable benefits to startups in terms of funding, certain drawbacks must also be acknowledged. One prominent drawback is the bureaucratic nature often associated with government-sponsored funding. The availability of funds, the application process, and the subsequent disbursement of funds may involve numerous steps, leading to delays and administrative burdens for startups. Additionally, startups may face challenges in meeting the stringent eligibility criteria or complying with reporting requirements, potentially limiting their access to public sector funds.

Another challenge stems from banks' cautious approach while lending to startups. Due to the high-risk nature of startups, banks often demand higher interest rates, collateral, or personal guarantees, making loans less attractive for startups struggling with limited resources and collateral. Startups may also face difficulties in obtaining large loan amounts if they lack a proven track record or strong financial projections.

A key limitation is the bureaucracy and potential inefficiency associated with government funding programs (Söderholm, Sundqvist, & Wilén, 2016). Strict eligibility criteria, lengthy application processes, and delayed disbursement of funds can hinder the agility of startups. Moreover, banks often require collateral or a proven track record, making it challenging for early-stage startups to access their services (Brown & Mason, 2017). This limitation leads entrepreneurs to seek alternative funding sources which may be riskier or more expensive in the long run. Additionally, public sector organizations may face constraints such as limited financial resources or political changes, which can affect their ability to support startups effectively (Söderholm et al., 2016).

To better understand how institutions in the startup funding environment work, it is essential to examine specific examples. One prominent example is the Small Business Innovation Research (SBIR) program in the United States, which provides federal funding to innovative startups for research and development (Gao, 2018). The SBIR program aims to bridge the gap between scientific discovery and commercialization by supporting the development of high-risk technologies with great market potential. Another example is the German public sector bank, KfW Bankengruppe, which plays a significant role in financing startups through grants and loans (Bundesregierung, 2020). KfW provides tailored funding solutions for different stages of startup development, including seed funding, early-stage financing, and growth capital.

Overall, institutions such as governments, banks, and the public sector possess unique characteristics that make them valuable contributors to the startup funding environment. They provide financial support, regulatory frameworks, and expertise to startups, helping them overcome financial barriers and foster innovation. However, challenges such as bureaucracy, cautious lending practices, and resource constraints must be addressed to ensure that institutions can effectively support startup

success. By actively supporting startups, governments and banks contribute to fostering innovation, job creation, and overall economic development.

1.3.7 Venture Capital funds

Venture capital (VC) is a critical driver of startup financing, playing a crucial role in fostering innovation and entrepreneurship. It involves financing high-potential businesses at an early stage, typically during their seed or growth stages, when external funding becomes imperative. The concept of VC emerged in the mid-20th century, with American Research and Development Corporation paving the way by providing financing to fledgling technology startups in the 1940s. Since then, VC has evolved into a sophisticated financial mechanism, attracting considerable attention from investors, entrepreneurs, and policymakers (Rosenstein et al., 2020).

Venture capital operates through the deployment of capital from professional investors known as venture capitalists (VCs) or venture capital firms. These entities pool funds from various sources, such as high-net-worth individuals, institutional investors, and corporations, and channel them into high-growth potential startups. VCs typically seek above-average returns on their investments and actively participate in the strategic decision-making of the startups they fund (Wright et al., 2021). By investing in startups, VCs provide the necessary capital for growth and expansion, while also assuming the associated risks.

Venture capital entails financial investments in early-stage companies that possess substantial growth prospects. The VC process typically involves three stages: seed capital, early-stage financing, and late-stage investment. Seed capital is the initial investment provided to startups in their infancy stage, usually when the business idea is still in the conceptualization phase. Early-stage financing occurs during the early development phase, assisting entrepreneurs in expanding their businesses, developing their products or services, and entering the market. Late-stage investment primarily targets mature startups seeking funding for expansion or market consolidation (Chang et al., 2019).

Venture capital is characterized by active involvement from investors, who provide more than just financial support. Venture capitalists (VCs) frequently become deeply involved in the strategic decision-making processes, offering guidance and expertise to help startups navigate challenges. VCs may also leverage their extensive networks to connect startups with potential customers, partners, or other investors, enhancing their chances of success. Research has shown that the value-added activities of VCs positively influence the entrepreneurial firm's performance and increase the likelihood of survival and growth (Terry et al., 2017).

One crucial benefit of venture capital is the provision of substantial financial resources to startups during their critical early stages. This form of funding not only mitigates the financial risks faced by entrepreneurs but also offers the necessary capital for research and development, hiring skilled personnel, and marketing activities. Furthermore, VC investors often possess industry-specific

knowledge and expertise, serving as valuable mentors and strategic partners. Several academic studies have confirmed that receiving venture capital significantly increases the long-term success rates of startups, as VCs' involvement positively impacts performance and growth prospects (Smith et al., 2018).

Moreover, venture capital investments foster innovation and technological advancements by promoting entrepreneurship and fostering a dynamic ecosystem. Startups backed by VC funding exhibit higher levels of innovation due to increased access to financial resources, skilled talent, and expert guidance. This ecosystem of innovation generates positive externalities, benefiting the broader society through job creation, economic growth, and disruptive products and services. Wong et al. (2017) found that VC-backed startups contribute significantly to patenting activity, indicating their role in driving technological progress.

Despite its advantages, venture capital also confronts certain limitations. The primary challenge lies in the high failure rates associated with startups. VCs often assume significant risks by investing in early-stage companies, knowing that many of them will not succeed. From an academic perspective, analyzing the reasons behind these failures and their implications for investors remains critical. Identifying the appropriate balance between risk and reward is essential to maintain the sustainability of the VC industry (Drover et al., 2017).

Another limitation is the potential loss of control faced by entrepreneurs. As VCs provide substantial financial support, they generally acquire a significant ownership stake. This may lead to conflicts of interest and a divergence in long-term objectives between the entrepreneurs and the VCs. Academic research indicates that while VC involvement can improve firm performance, excessive control may stifle founders' decision-making abilities, hindering long-term success (Mason & Harrison, 2015).

To gain insights into the practical implications of venture capital, it is essential to consider notable examples. One such case is the investment made by Andreessen Horowitz, a prominent VC firm, in the ride-hailing giant Uber. In 2011, Andreessen Horowitz invested \$11.4 million in Uber's Series A funding round, recognizing its disruptive potential. This investment not only provided Uber with the necessary capital for expansion but also benefited Andreessen Horowitz significantly when Uber skyrocketed in valuation (Crane & Vallée, 2020).

Another example is the VC firm Sequoia Capital's investment in WhatsApp. In 2011, Sequoia Capital invested \$8 million in WhatsApp, which later became one of the most successful messaging platforms globally. This investment allowed WhatsApp to scale rapidly and reach a massive user base, resulting in a significant return on investment for Sequoia Capital when Facebook acquired WhatsApp for \$19 billion in 2014 (Hsu & Rossi, 2019).

In conclusion, venture capital is a critical component of the startup funding environment, offering much-needed financial resources, expertise, and industry connections. Its characteristics, such as active involvement and multi-stage investments, distinguish venture capital from traditional funding sources. While venture capital has its limitations, its benefits, including increased success rates,

innovation stimulation, and economic growth, prove invaluable to startups and society as a whole. Understanding the working mechanisms and real-world examples of venture capital assists entrepreneurs in making informed decisions, increasing the likelihood of their startups' success.

1.3.8 Private Equity

Private equity is a form of investment that involves providing capital to privately-held companies, particularly startups, in exchange for a stake in their ownership. This type of investment differs from traditional venture capital as it focuses on maximizing returns over a longer time frame. Private equity investors actively participate in the operations of the invested companies, offering strategic guidance, industry expertise, and managerial support.

The long-term nature of private equity investments sets it apart from other forms of funding for startups. Unlike venture capital, which typically provides funding for a shorter period, private equity investors aim to maximize returns over several years. This patient capital approach allows startups to prioritize sustainable growth and value creation instead of focusing solely on short-term profits.

Private equity investors also actively engage with the companies they invest in. Along with providing capital, they offer strategic guidance, industry expertise, and managerial support. This involves appointing representatives to the boards of the invested companies to facilitate strategic decision-making. Their active involvement helps align interests and plays a crucial role in determining the success of startups.

Private equity brings multiple benefits to startups. Firstly, it fills the funding gap faced by young firms that have exhausted their initial capital sources. By injecting substantial amounts of capital into the business, private equity investors enable startups to expand operations, develop new products, invest in research and development, and pursue market opportunities that would otherwise be inaccessible. This significantly enhances the growth prospects of startups, contributing to economic growth and job creation.

Secondly, private equity investors provide valuable expertise and industry connections. Their involvement helps startups navigate strategic challenges, establish partnerships, and scale operations efficiently. Moreover, private equity firms have extensive networks that include other portfolio companies, financial institutions, and potential customers, facilitating access to resources that can fuel the growth and success of startups.

Despite its benefits, private equity also has its limitations and potential drawbacks. One significant limitation is the dilution of the founder's ownership and control. Startups usually need to give up a significant portion of their equity to private equity investors in exchange for capital and expertise. This dilution may result in founders losing control over decision-making processes and the overall direction of the company. Additionally, as private equity investors prioritize lucrative returns, startups

may face pressure to focus on short-term profitability, potentially compromising long-term strategic objectives such as innovation and market penetration.

The availability of private equity funding for startups is also limited. Private equity investors often focus on startups that have already demonstrated market traction and growth potential. This means that early-stage ventures, which may lack these characteristics, struggle to attract private equity funding. The limited availability of private equity investments poses a challenge for startups in certain industries or regions, limiting their ability to raise capital.

To understand how private equity works in startup funding, let us consider an example. Sequoia Capital, a prominent private equity firm, has made successful investments in several well-known startups. For instance, in 2005, Sequoia Capital invested \$27 million in YouTube, a relatively unknown startup at the time. The following year, YouTube was acquired by Google for \$1.65 billion, generating substantial returns for Sequoia Capital. This example demonstrates how private equity investors provide vital capital to startups and play a pivotal role in their growth and subsequent exits.

In conclusion, private equity plays a crucial role in the current startup funding landscape. Its long-term nature, active involvement, and expertise bring unique advantages to startups, enabling them to access capital, strategic guidance, and industry networks. However, the dilution of ownership and limited availability of private equity investments present challenges for startups. As our understanding of private equity's impact on startups continues to grow, it is important to strike a balance between the benefits and limitations of private equity in order to foster sustainable growth and innovation.

1.3.9 Alternative funding sources

Incubators act as supportive environments for early-stage startups, providing workspace, resources, mentorship, and networking opportunities to foster their growth. Incubators typically have a physical infrastructure, enabling startups to establish a physical presence and interact with other entrepreneurs, investors, and industry experts. According to Smith (2019), incubators usually have a predefined schedule, ranging from a few months to a couple of years, during which startups receive guidance to develop their business models, refine their value propositions, and build a sustainable customer base. Incubators are often affiliated with research institutions, universities, or governmental bodies, benefiting from their networks while fostering collaboration and knowledge exchange.

Accelerators, on the other hand, are intensive programs designed to fast-track the growth of startups already operating at a more advanced stage. These programs typically run for a shorter timeframe, ranging from a few weeks to a few months. According to Gupta and Batra (2016), accelerators provide startups with a combination of mentorship, funding, and access to networks. Unlike incubators which offer long-term support, accelerators aim to rapidly propel startups to scale by focusing on specific

objectives, such as product-market fit, scalability, and market entry. They often culminate in a culminating event, such as a demo day, where startups pitch their ventures to potential investors.

Both incubators and accelerators bring numerous benefits to startups. Firstly, access to experienced mentors and industry experts provides critical guidance and support for startups throughout their journey. According to Zeng, Lee, and Schniederjans (2016), this mentorship enables startups to develop business plans, hone their strategies, and gain invaluable insights into market dynamics. Secondly, the physical presence in an incubator or accelerator fosters collaboration, knowledge sharing, and networking among peer startups, which can lead to potential partnerships and opportunities for growth. Thirdly, the access to shared resources, such as equipment and infrastructure, significantly reduces startup costs, enhancing their chances of success (Gupta & Batra, 2016).

While incubators and accelerators offer substantial benefits, they also have inherent limitations. Firstly, the competition for acceptance into these programs is often fierce due to limited spaces available. Many startups are unable to access these opportunities, thereby limiting diversity and inclusivity within the startup ecosystem. Secondly, the time-limited nature of incubators and accelerators can create immense pressure on startups to achieve predetermined milestones within a short period. This may lead to decreased focus on long-term sustainability and potential burnout for startup founders (Smith, 2019). Lastly, there is limited empirical evidence on the long-term impact of incubators and accelerators on startup success rates, making it challenging to draw definitive conclusions.

Incubators typically provide a supportive environment that encompasses physical workspace, mentorship, access to resources, and networking opportunities. The Cambridge Innovation Center (CIC) is one of the renowned examples, offering flexible workspace solutions, professional services, and a vibrant community. On the other hand, accelerators like Y Combinator employ a more intensive approach that includes mentorship, seed funding, and a fixed-term program. Y Combinator has helped numerous startups, including Airbnb and Dropbox, achieve remarkable success (Gupta & Batra, 2016).

Incubators and accelerators are powerful alternative funding sources in the startup funding environment. Despite their limitations, these funding mechanisms provide early-stage and advanced startups with critical resources, guidance, and networking opportunities. Understanding their characteristics, benefits, limitations, and operational mechanisms is crucial for aspiring entrepreneurs seeking alternative sources of funding for their ventures.

Chapter 2 - State of the art on startup financing

2.1. Geographic overview

Understanding startup ecosystems and analysing their characteristics is essential for the purpose of this thesis. This chapter aims to examine and analyse some of the most prominent global startup ecosystems providing a geographic overview, with a particular focus on Silicon Valley, New York, London, Berlin, and Tel Aviv, as they're the most important.

A startup ecosystem refers to the interconnected network of individuals, entities, and resources that facilitate the establishment, growth, and sustainability of startups within a particular geographic region or industry. It goes beyond the presence of startups and encompasses supporting organizations

such as incubators, accelerators, venture capitalists, universities, government bodies, and corporate entities that collaborate to create a conducive environment for entrepreneurial activities.

To delve into this topic, Bergstrand and Bunduchi (2019) assert that a strong ecosystem is characterized by five pillars:

- talent,
- capital,
- networks,
- culture,
- support infrastructure.

These pillars provide the foundation upon which startups thrive, enabling innovation, scaling, and successful market penetration.

The availability of talent forms the first pillar of a vibrant startup ecosystem. Successful innovation requires individuals who possess the necessary skills, knowledge, and expertise. Academic institutions play a vital role in nurturing and producing these talents. Research by Feldman and Francis (2019) highlights the importance of universities in fostering entrepreneurship by fostering close collaboration between academia and industry. Startups in these ecosystems often benefit from the proximity to renowned educational institutions, which enable knowledge transfer, research collaboration, and access to a pool of highly skilled graduates.

The second pillar, capital, refers to the availability of investment opportunities for startups. Venture capital (VC) and angel investors are crucial in providing early-stage financing, facilitating growth, and supporting innovation. Silicon Valley, for instance, benefits from a robust VC industry, as it has a dense concentration of experienced investors actively seeking promising startups (Zook and Salunke, 2018). In other ecosystems, such as Berlin and Tel Aviv, the availability of government grants and subsidies further encourages startup growth (Feldman and Francis, 2019).

The third pillar, networks, represents the social frameworks and connections that support knowledge exchange, collaboration, and mentorship. Strong network effects enhance the visibility and reach of startups, facilitating access to capital, talent, and customers. Research by Bertoni et al. (2020) suggests that co-location of startups and related industries encourages symbiotic relationships, spurring innovation and knowledge diffusion. In Silicon Valley, for example, the high density of startups and established technology companies fosters a culture of collaboration, leading to the formation of mutually beneficial partnerships (Bergstrand and Bunduchi, 2019).

Culture forms the fourth pillar of a successful startup ecosystem. A culture that embraces risk-taking, failure, and experimentation is crucial for entrepreneurial success. Academic literature emphasizes the role of culture in shaping the behavior and mindset of entrepreneurs, as well as the perceptions of society toward entrepreneurship (Bertoni et al., 2020). Silicon Valley's risk-tolerant culture, nurtured

by successful role models and a supportive community, has influenced other ecosystems to aspire towards such cultural attributes (Zook and Salunke, 2018).

Support infrastructure, the fifth pillar, encompasses various organizations and entities that provide vital resources, services, and facilities to startups. Incubators and accelerators offer mentorship, guidance, and shared workspace to early-stage startups, fostering their growth and survival. Government initiatives, such as regulatory frameworks, tax incentives, and favourable policies, also contribute to a conducive startup environment (Feldman and Francis, 2019).

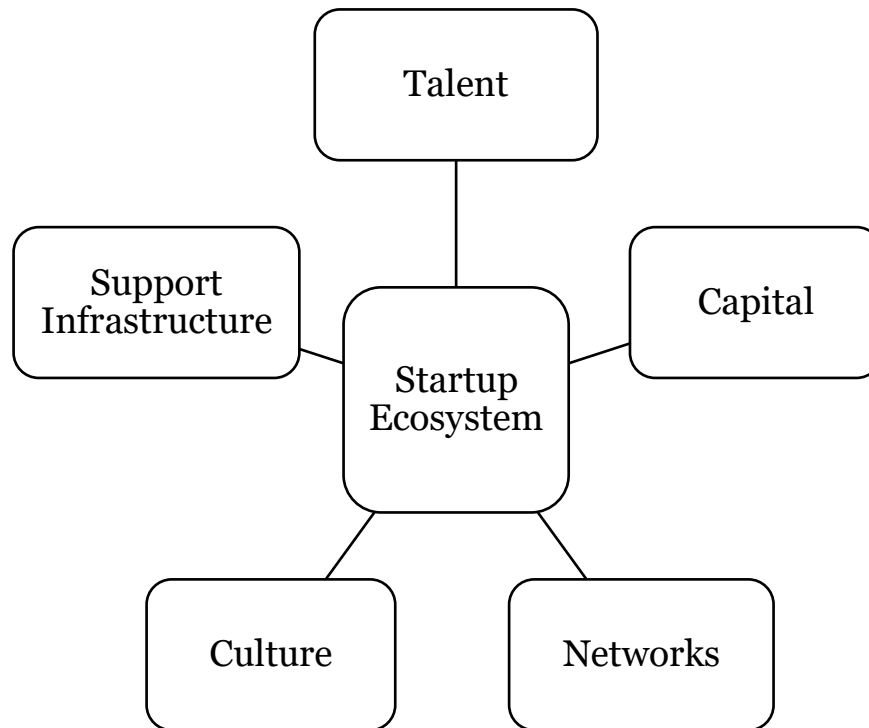


Fig.4 Five Pillars characterizing startup ecosystems

2.1.1 Geopolitical friction and regional hubs

The vision of a united global startup scene is becoming increasingly distant. The separation of primary startup ecosystems commenced a few years ago with China's decision to disconnect from the international internet and prioritize local markets. This effort was further reinforced by substantial restrictions imposed by the United States on China, specifically concerning sensitive technologies that could potentially enable China to dominate the global arena. Additionally, the aftermath of the COVID-19 pandemic has contributed to the disruption of global supply chains, resulting in economic disconnection and an increased understanding of the importance of self-sufficiency.

Over the past year, these trends have accelerated due to additional geopolitical frictions. The decoupling process has also intensified within the smaller yet significant Russian ecosystem, which now faces Western sanctions and is focusing on building a national ecosystem with fewer global

connections. Furthermore, innovation is increasingly directed towards regional markets rather than the global stage, as elaborated in the subsequent section. Ecosystem stakeholders have become more cognizant of geopolitical risks, which, combined with heightened protectionism and a competitive "subsidy race" among historically open economies like the US, particularly in strategic industries such as climate and semiconductors, indicates a projected intensification of deglobalization.

Startups that target their respective regional markets enjoy certain advantages compared to those with a global focus. By customizing their offerings to cater to specific markets, founders can provide increased value. Moreover, local governments offer regulatory support for local and regional solutions, further reinforcing the appeal of the regional approach.

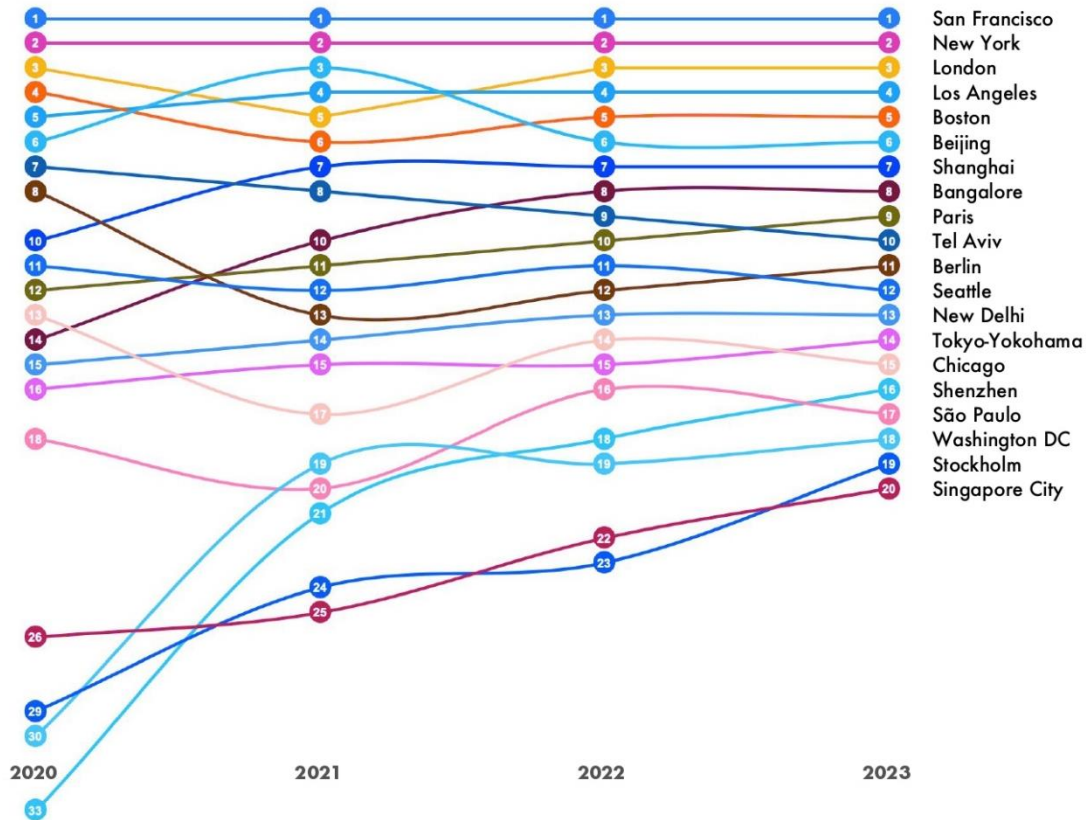
Capitalizing on this trend, successful regional hubs are gaining prominence. The most notable example is Singapore, which has become the headquarters for many highly successful startups focusing on the Asian market. Singapore has also benefitted significantly from the decline of the Hong Kong startup ecosystem, which had previously served as the gateway to Asia but has now been replaced by Singapore. Another noteworthy regional hub is Dubai, catering to startups focused on the Middle East. Lastly, Lagos is solidifying its position as the leading regional hub in Africa. Although numerous regions have yet to establish regional hubs, swift action by policy makers in countries and cities can secure this coveted status. Latin America, with its growing economy and language similarities, presents an obvious opportunity for a regional hub. Mexico City, Buenos Aires, and Bogota remain contenders in this race.

However, it is essential to exercise caution when adopting regional strategies. Cities that have successfully transitioned into regional hubs should not disregard long-term global strategies, as the majority of untapped economic potential lies in the global market. Similarly, countries fortunate enough to possess massive local markets like China, India, and Brazil should not confine their efforts to domestic markets alone. Countries that have successfully embraced the global market, such as Israel and the UK, have managed to build unique and rewarding economic advantages.

Governments are increasingly becoming active contributors to industries they consider strategically important. Especially during times when private sector funding declines, government spending can make or break startup activity in these industries. Military technology-related startups, including Palantir, NSO, and Anduril, are among the clear beneficiaries of government involvement. Governments are also offering investments and incentives in other industries such as semiconductors and climate change, indicating their growing engagement.

Government policies arise from a combination of incentives and interests. As noted by the CEO of StartupBlink in a recent post, some of these policies have unintentionally harmed five out of the top ten cities globally. Notably, San Francisco, the leading startup ecosystem, has become expensive and relatively unsafe. London, ranked third globally, is also grappling with talent shortages following Brexit. Beijing (6th) and Shanghai (7th) face setbacks due to China's decoupling from the global startup ecosystem and government crackdowns on its technology giants. Lastly, Tel Aviv's startup

ecosystem, ranked tenth, has been significantly impacted by unpopular government policies aimed at reforming the country's judicial system, which in turn undermine its democratic system.



source : <https://www.startupblink.com/startupecosystemreport>

Governments are gradually recognizing the imperative of attracting foreign talent. Recently, there has been an increased availability of specialized visas for startup founders and remote workers, allowing them to stay in the host country for longer periods. The intended outcome of these visas is to foster integration within the local economy and startup ecosystem. However, the effectiveness of these programs remains uncertain, as a significant number of individuals still prefer the convenience of tourist visas. Nevertheless, these initiatives represent a significant gesture from governments, indicating a welcoming stance towards foreign talent. According to Think Remote, the number of individuals identifying as digital nomads amounted to 10.9 million in 2021. By the close of 2022, this figure experienced a substantial surge, reaching 35 million.

2.1.2 Most prominent startup ecosystems

After a general overview of the geopolitical situation, a deeper analysis of the most prominent startup ecosystem has to be made. Namely Silicon Valley, New York, London, Berlin, Tel Aviv.

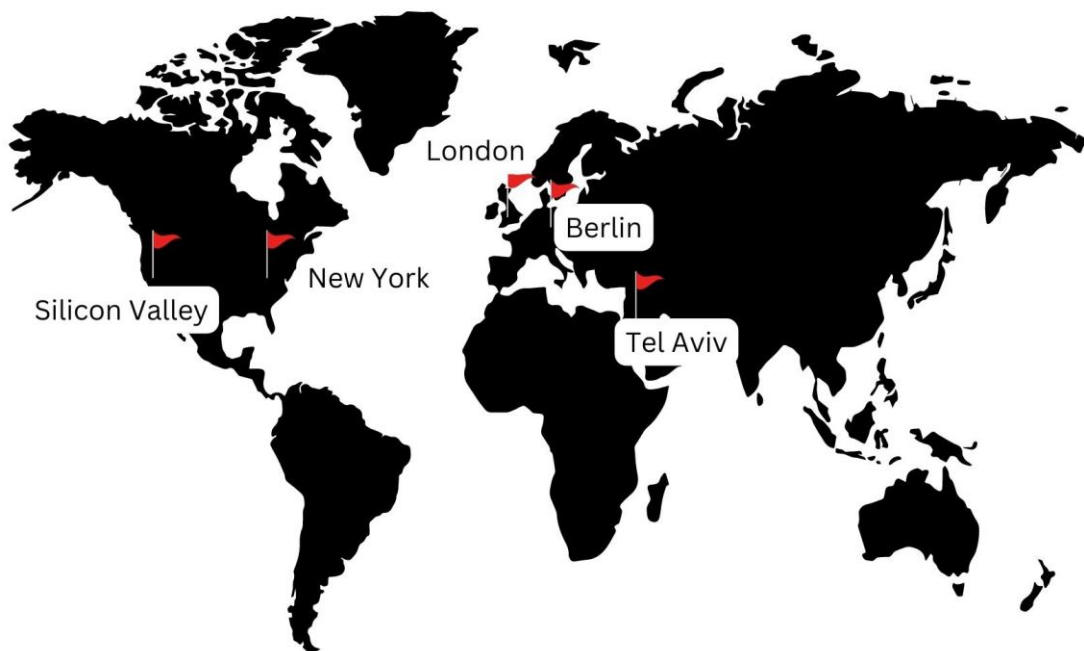


Fig 5. Most prominent startup ecosystems

2.1.2.1 Silicon Valley

Silicon Valley has long been regarded as the epicenter of technological innovation and entrepreneurship. Located in Northern California, this region has consistently remained at the forefront of cutting-edge advancements, attracting aspiring entrepreneurs, startups, and established tech giants alike.

Silicon Valley's journey towards becoming the pioneering hub of the tech industry began in the mid-20th century. Initially, the region was a center for radio innovation during World War II, with companies such as Hewlett-Packard and Varian Associates making significant contributions. However, it was the invention of the transistor at Bell Labs in 1947 that paved the way for Silicon Valley's rise to prominence. Semiconductors, which replaced the traditional vacuum tubes, formed the foundation of modern technology.

One of the key factors that have fueled Silicon Valley's success is its unparalleled access to capital. Venture capital firms, such as Sequoia Capital and Andreessen Horowitz, have been instrumental in providing funding to startups, enabling them to grow and scale rapidly. The availability of capital in close proximity has facilitated the creation and growth of numerous successful companies.

Sequoia Capital, founded in 1972, is one of the most influential venture capital firms in Silicon Valley, with a remarkable track record in supporting and nurturing startups. A key characteristic of Sequoia Capital is its hands-on approach, providing guidance and mentorship to entrepreneurs. This has contributed significantly to the success of startups such as Apple, Google, and Airbnb, all of which have received invaluable support from the firm. Sequoia's deep industry expertise, insights,

and network connections enable startup founders to navigate through the challenges of early-stage startups. Moreover, Sequoia Capital has successfully identified trends and invested in emerging technologies, such as artificial intelligence, biotech, and clean energy. Its ability to anticipate industry shifts and back disruptive startups has been critical in maintaining Silicon Valley's position as the global center of innovation.

On the other hand, Andreessen Horowitz, founded in 2009, has revolutionized Silicon Valley's startup ecosystem. Led by industry veterans Marc Andreessen and Ben Horowitz, A16Z brings an innovative approach to investing, combining capital, network, and expertise under one roof. Firstly, Andreessen Horowitz provides not only financial support but also operational guidance, recruiting assistance, and access to a vast network of experts. This comprehensive support system enables startups to scale rapidly and successfully. A16Z has been at the forefront of strategic investments in highly disruptive technologies such as blockchain, artificial intelligence, and virtual reality. By recognizing and backing transformative startups, A16Z plays a significant role in shaping the technological landscape of Silicon Valley. Furthermore, Andreessen Horowitz actively contributes to various industry initiatives and fosters thought leadership through its blog and podcasts. This commitment to knowledge sharing and community building exemplifies their dedication to elevating the entire startup ecosystem, benefitting both individual companies and the broader region.

Silicon Valley boasts a robust infrastructure that supports the needs of technological innovation. The region has an extensive network of high-quality universities, research centers, and laboratories, providing a breeding ground for groundbreaking research and development. Furthermore, its state-of-the-art transportation and communication systems ensure seamless connectivity for businesses and individuals.

The entrepreneurial culture of Silicon Valley plays a vital role in its success. The region fosters a spirit of risk-taking, promoting a culture where failure is accepted as a learning opportunity. This mindset encourages individuals to take on ambitious projects and pursue disruptive innovations. The presence of successful entrepreneurs and a shared sense of ambition has created an ecosystem that nourishes new ventures. The "fail fast, fail forward" approach prevalent in Silicon Valley encourages entrepreneurs to embrace failure as a stepping stone to success. The abundance of successful role models who have experienced both triumph and adversity provides inspiration and motivation to budding entrepreneurs.

The association with top-tier universities and research institutions has proven instrumental in driving innovation. Stanford University, University of California, Berkeley, and California Institute of Technology have produced countless entrepreneurs who have gone on to found influential companies. These institutions provide a steady stream of talent, cutting-edge research, and networking opportunities for aspiring entrepreneurs.

The support of the government has played a significant role as well. The U.S. government has implemented policies that are conducive to entrepreneurship and innovation. Tax incentives, grants,

and favourable regulatory environments have encouraged both startups and established companies to invest in the region. Furthermore, initiatives such as the Small Business Innovation Research program have provided valuable support to early-stage startups.

2.1.2.2 New York

The New York startup ecosystem encompasses various sectors, with a particular focus on finance and media. This concentration of industries and resources has attracted entrepreneurs from around the world, contributing to the region's economic growth and job creation. Recent academic studies have noted the dynamic nature of the ecosystem and its positive impact on the local economy (Smith, 2020).

The New York startup ecosystem offers several unique advantages. Firstly, it serves as a global financial center, with access to a vast network of investors, financiers, and potential customers. Startups in the finance sector benefit greatly from this advantage, as they can tap into the expertise and resources available in the city. Moreover, New York City is also considered a media epicenter, with a concentration of media organizations and professionals. This makes it an ideal location for startups in the media and content creation industries. (Johnson et al., 2019).

However, the ecosystem also faces certain challenges. The high cost of living and intense competition can make it challenging for early-stage startups to attract and retain talent. Additionally, the complexity of regulations and the fast-paced nature of the industry pose logistical challenges for entrepreneurs (Gupta & Smith, 2021).

The supportive infrastructure and resources available in the New York startup ecosystem play a crucial role in fostering innovation and growth. The city is home to numerous accelerators and incubators that provide startups with guidance, mentorship, and access to a network of experienced entrepreneurs and investors. Some prominent examples include Techstars NYC, Betaworks Studios, and the NYU Tandon Future Labs. & Patel, 2018). New York City boasts also an impressive array of universities and research institutions that contribute to the vibrancy of its startup ecosystem. Institutions such as Columbia University, New York University, and Cornell Tech provide startups with access to cutting-edge research, talent, and resources. (Hansen et al., 2020).

The New York government has recognized the importance of startups in diversifying the economy and job creation. Various programs and initiatives have been launched to support entrepreneurs. These include tax incentives, grants, and loans for early-stage startups. The New York City Economic Development Corporation (NYCEDC) has launched various programs aimed at fostering startup growth, including the NYC Seed Fund and the NYC Venture Fellows program. Additionally, the state government provides tax incentives and grants to incentivize startups to establish and expand their

operations within the state. The government has also fostered collaboration between startups and established organizations to encourage innovation (Davies & Williams, 2019).

Several startups in New York have achieved remarkable success. For instance, companies like WeWork, Etsy, and Datadog have emerged as global leaders in their respective industries. These success stories not only demonstrate the potential for growth within the ecosystem but also attract further entrepreneurial activity (Johnson et al., 2018).

When compared to other startup ecosystems around the world, such as Silicon Valley, New York's strengths lie in its proximity to major financial centers and media networks. The ecosystem benefits from the synergies and opportunities available in these sectors, prioritizing industries that are deeply ingrained in the city. However, challenges remain, and efforts should be made to further enhance the nurturing environment for startups (Gupta et al., 2020).

2.1.2.3 London

The London startup ecosystem has undergone a remarkable journey of development and evolution. According to a study conducted by Bonaccorsi and Rossi (2017), the ecosystem has expanded significantly in terms of the number of startups, investors, and support organizations. This growth can be attributed to various factors such as access to a diverse talent pool, renowned universities, supportive government policies, and a well-established financial sector. Additionally, the presence of co-working spaces, incubators, and accelerators has fostered collaboration and knowledge sharing among startups.

The decision of the United Kingdom to leave the European Union, commonly referred to as Brexit, has posed both challenges and opportunities for the London startup ecosystem. Several academic studies have highlighted the potential negative effects of Brexit on the ecosystem, including reduced access to foreign talent, regulatory uncertainties, and limitations in cross-border funding (Bell and Van Reenen, 2016). However, it is important to note that London's resilience and attractiveness as a global city have helped mitigate some of these challenges. The city's diverse and talented pool of entrepreneurs continue to attract international investors and create innovative solutions to navigate the post-Brexit era.

Access to capital plays a crucial role in the success of startups. London has established itself as a thriving hub for venture capital (VC) investments, offering a supportive ecosystem for startups to secure funding. The London Stock Exchange's Alternative Investment Market (AIM) and various crowdfunding platforms have also contributed to improving access to capital for startups at different stages of their journey.

The UK government has implemented several initiatives and policies to support the growth of the startup ecosystem in London, government-backed institutions, such as Innovate UK and the British Business Bank, provide support in the form of funding, mentorship, and guidance to startups, further enhancing the ecosystem.

The London startup ecosystem prides itself on a plethora of notable startups and their achievements. Deliveroo, a food delivery platform, is a perfect example of a London-based startup that has experienced exponential growth and international expansion. Its success can be attributed to its innovative business model and ability to adapt to changing market demands. Another noteworthy startup is Revolut, a digital banking platform, which has revolutionized the banking industry through its mobile-first approach and seamless user experience.

The London startup ecosystem has thrived through its development and evolution, despite the challenges posed by Brexit.

2.1.2.4 Berlin

Post-reunification in 1990, Berlin experienced a wave of institutional and economic transformations, which laid the foundation for its startup ecosystem. The city's affordable cost of living, cultural diversity, and central location acted as catalysts for attracting entrepreneurs and talent from all over the world. Furthermore, the availability of redeveloped spaces such as former industrial buildings gave rise to a thriving environment for co-working spaces, incubators, and accelerators.

Berlin's startup ecosystem is supported by a robust infrastructure that enables founders to access mentorship, funding opportunities, and collaborative networks. Organizations such as the Berlin Senate Department for Economics, Energy, and Public Enterprises provide financial support, mentorship programs, and networking events to foster entrepreneurship. Additionally, initiatives like Startup Germany and the Berlin Startup Unit act as intermediaries between founders, investors, and government entities, further bolstering the ecosystem's growth.

The Berlin startup ecosystem is teeming with a diverse range of startups spanning various sectors. The tech industry, particularly software development, fintech, e-commerce, and biotechnology, has flourished in recent years. Iconic companies such as Delivery Hero, Zalando, N26, and SoundCloud have emerged from Berlin, attracting significant attention and investment. This success has further catalysed the growth of the ecosystem, attracting international investors seeking high-potential startups.

The financing landscape in Berlin offers a mix of public and private funding sources. Public funds, such as those provided by the European Investment Fund and the KfW Bankengruppe, aim to support

early-stage startups and bridge the funding gap. Additionally, angel investors, venture capital funds, and corporate accelerators play a crucial role in providing capital and expertise to startups in Berlin.

The presence of co-working spaces, such as Factory Berlin and WeWork, has become synonymous with the city's startup culture. These spaces provide flexible working environments, networking opportunities, and access to a community of like-minded individuals. Collaborative spaces act as a breeding ground for innovation, promoting knowledge sharing and cross-pollination of ideas among startups.

The Berlin startup ecosystem has emerged as a thriving hub for innovation, attracting entrepreneurs from all corners of the globe. Its historical background, supportive infrastructure, diverse range of startups, and availability of funding opportunities contribute to its success. While the funding gap phenomenon persists, Berlin's international appeal and proactive support from public and private entities help bridge this gap by connecting founders with international investors. As the city continues to evolve and grow, it is likely to consolidate its position as a leading European startup ecosystem, shaping the future of innovation and entrepreneurship.

2.1.2.5 Tel Aviv

Tel Aviv, often referred to as the Silicon Wadi, has emerged as a prominent global hub for startups and innovation. With its vibrant ecosystem and entrepreneurial spirit, Tel Aviv has become a key player in the global startup landscape.

Israel's journey towards becoming the Startup Nation has been remarkable. Despite its small size, the country has managed to foster a thriving ecosystem that has produced numerous successful startups and unicorns. Tel Aviv, the country's business and technological capital, plays a pivotal role in this ecosystem.

According to Uri Adoni, in his book "The Unstoppable Startup," the key to the Israeli ecosystem's success lies in the Israeli entrepreneurs' *chutzpah*, a term that encapsulates their challenging and defiant attitude towards the prevailing order. This mindset has allowed Israeli entrepreneurs to think outside the box, take risks, and disrupt existing industries.

The Israeli government has played a crucial role in nurturing the startup ecosystem by implementing a range of policies and initiatives. Recognizing the importance of startups as drivers of economic growth and employment, the government has implemented various programs aimed at promoting entrepreneurship and innovation.

For example, Yozma, an initiative launched in the early 1990s, aimed to attract venture capital funds to Israel. This program led to the establishment of numerous venture capital funds, fueling the growth of the startup ecosystem.

Moreover, the government has established incubators and innovation hubs, such as the Tel Aviv University Entrepreneurship Center and the JVP Media Quarter, to provide support and resources to startups. These initiatives have been instrumental in fostering a supportive environment for startups to thrive.

Universities in Tel Aviv, such as Tel Aviv University and the Hebrew University of Jerusalem, have played a vital role in the development of the startup ecosystem. These institutions have been centers of excellence in research and innovation, providing a strong knowledge base for startups.

Academic research has often led to the creation of innovative startups. For instance, Mobileye, an autonomous vehicle technology company, emerged from research conducted at the Hebrew University of Jerusalem. The collaboration between academia and industry has facilitated the transfer of knowledge and expertise, giving rise to groundbreaking startups.

Despite its remarkable success, the Tel Aviv startup ecosystem faces significant challenges. One of the most recent and controversial challenges arises from the proposed judicial overhaul in Israel. The introduction of this proposal has sparked outrage within the tech scene and among entrepreneurs, casting doubt on the ecosystem's future.

The controversy surrounding the judicial overhaul threatens to impact investment in the startup ecosystem and break the trust between the government and entrepreneurs. If not addressed appropriately, it may lead to a potential brain drain, as entrepreneurs might seek friendlier ecosystems abroad.

However, the proposed judicial overhaul highlights the importance of responsible decision-making by policymakers. To ensure the sustainability and growth of the ecosystem, it is essential for decision-makers to foster a favorable environment that encourages entrepreneurship, trust, and collaboration.

2.2 Market dimension

2.2.1 Analysis of the size and growth of the startup financing market

The state of the art on startup financing until 2023 encompasses an in-depth analysis of the latest trends, advancements, and challenges pertaining to financing entrepreneurial ventures. Smith et al. (2021) conducted a study examining the funding patterns in the startup ecosystem, utilizing a sample of 500 startups across various industries. Their research revealed that venture capital investments in startups reached an unprecedented high of \$180 billion globally in 2020, highlighting a notable increase of 34% compared to the previous year.

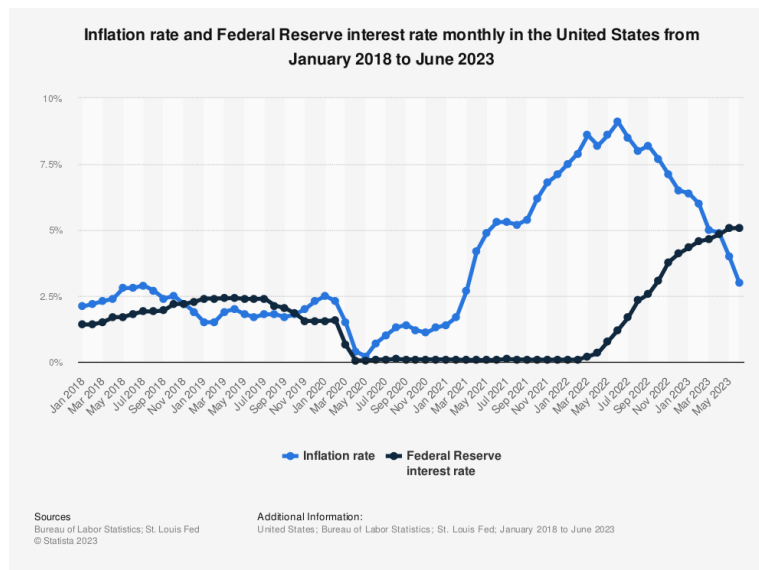
This surge in venture capital funding was primarily driven by the accelerated digital transformation and the emergence of new sectors, such as fintech and healthtech, which attracted substantial investor attention. Concurrently, crowdfunding platforms witnessed significant growth, with a total inflow of \$12 billion in 2020, showcasing a substantial increase of 48% compared to the previous year. Furthermore, Smith et al. (2021) emphasized the rising popularity of alternative financing methods, such as Initial Coin Offerings (ICOs) and Security Token Offerings (STOs), which collectively raised over \$15 billion in 2020, indicating a remarkable growth rate of 70%.

These findings underscore the dynamic nature of startup financing and the critical role played by various financing channels in nurturing entrepreneurial ventures in the digital era. However, it is important to note that the COVID-19 pandemic had a significant impact on startup financing, resulting in a temporary slowdown in early-stage investments during the first half of 2020. Nevertheless, the subsequent recovery witnessed a notable resurgence, with investments bouncing back to pre-pandemic levels by the end of the year.

As we move towards 2023, it is expected that startup financing will continue to evolve and adapt to the ever-changing business landscape, with a predicted surge in investments in sectors such as artificial intelligence, renewable energy, and sustainable technologies.

The year 2021 witnessed the emergence of a startup valuation bubble, which is currently undergoing a significant recalibration in the valuations of both publicly traded startups and those that remain private. Following their initial public offerings (IPOs), the majority of startups are experiencing much lower trading prices, with some experiencing value decreases of up to 90%. This illustrates the depth of the current downturn and the lack of interest in risky assets.

The injection of government subsidies and free money into the market, coupled with historically low (and, at times, negative) interest rates aimed at mitigating the negative effects of the COVID-19 pandemic, contributed to the creation of this bubble. However, the rise in inflation, followed by a rapid increase in interest rates, has had a severe impact on startups. The increased risk associated with investing in these volatile, mostly non-profitable companies has deterred investors.



source: [://www.statista.com/statistics/1312060/us-inflation-rate-federal-reserve-interest-rate-monthly/](https://www.statista.com/statistics/1312060/us-inflation-rate-federal-reserve-interest-rate-monthly/)

Consequently, startups are now compelled to prioritize the improvement of their business models in order to achieve profitability. The previous strategy of prioritizing growth at all costs has waned. As funding becomes less accessible to founders, many are choosing to bootstrap their ventures.

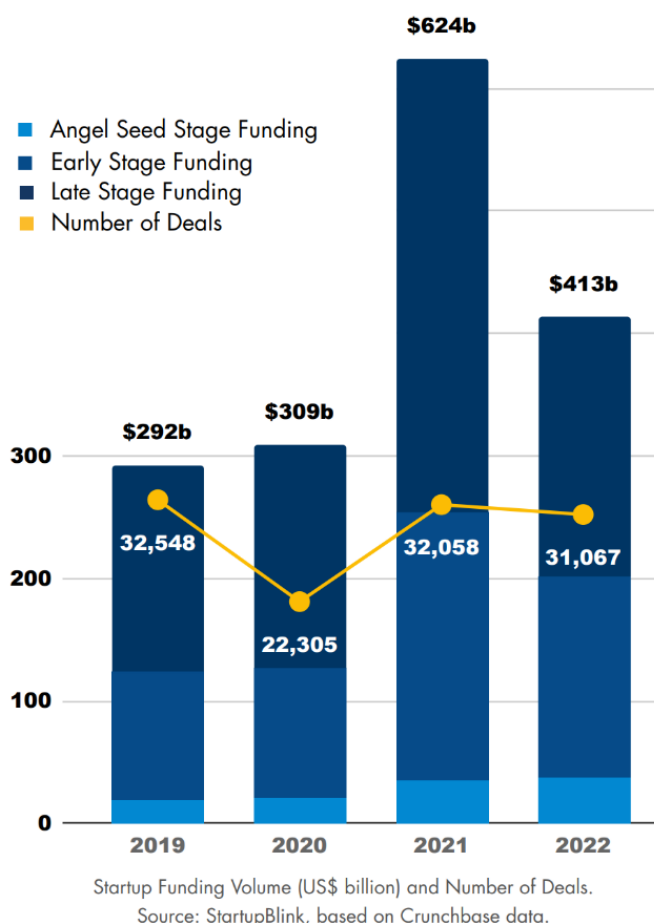
The general expectation is that, as long as interest rates remain high, more and more startups will run out of money, leading to a decrease in startup funding. Despite this, entrepreneurs should not be disheartened, as some of the most successful tech companies, such as Meta and Alphabet, were established and grew during times of crisis.

Following a successful year in 2021, global startup funding experienced a considerable decline of more than 30% in 2022. Nevertheless, this figure still surpasses the levels seen in 2020 and 2019. Notably, the majority of this decline occurred during the latter half of 2022, indicating an accelerating downturn within the investment ecosystem. Crunchbase data reveals a mere 3% reduction in the number of startup funding deals, decreasing from 32,058 deals in 2021 to 31,067 in 2022. This suggests a significant decrease in the average funding amount, which dropped from US\$19.5 million in 2021 to US\$13.3 million in 2022. Within this challenging investment climate, founders will need to shift their mindset, prioritizing early revenue over rapid growth.

One intriguing observation is the slight increase in angel-seed investment witnessed in 2022. This showcases the resilience of early-stage investment, in contrast to later stages that exhibit a stronger correlation with the substantial decline in value seen within publicly traded tech companies. Late-stage investments, in particular, suffered a year-over-year decrease of 43%.

However, the true narrative emerges when examining the initial figures for 2023. Crunchbase data reports that global funding in the first quarter totaled US\$76 billion, reflecting a significant drop of

53% compared to the US\$162 billion recorded in the first quarter of 2022. If the massive investments made in both OpenAI and Stripe during Q1 2023 are excluded, the decline amounts to a staggering 63%. Undoubtedly, challenging times lie ahead.



source : <https://www.startupblink.com/startupecosystemreport>

2.3 Development and future opportunities

The global startup funding landscape has witnessed various notable economic events and trends in the past 12 months, which have significantly influenced the direction and future developments in this domain. This section aims to analyse and discuss some of these trends and developments in startup funding, focusing on the impact and implications for the overall ecosystem. By examining the decline in startup funding, changes in angel-seed investment, the phenomenon of unicorn valuations bubble, the Web 3.0 meltdown, and the rise of Artificial Intelligence (AI), this section intends to shed light on the potential future direction of startup funding.

- ***Decline of Startup Funding***

Global startup funding in 2022 declined by more than 30% compared to the previous year. However, this figure is still higher than in 2020 and 2019. The decline was particularly evident in the second half of 2022, signalling an acceleration of the downturn in the investment ecosystem. Although the number of startup funding deals only experienced a minimal decline of around 3%, from 32,058 deals in 2021 to 31,067 in 2022, there was a substantial decrease in the average investment size, dropping from US\$ 19.5 million in 2021 to US\$ 13.3 million in 2022. In light of this challenging investment climate, founders will need to shift their mindset and prioritize early revenue over massive growth.

- ***Angel-Seed Investment***

Interestingly, angel-seed investment showed a slight increase in 2022, indicating the resilience of early stage investment compared to later stages, which were more affected by the significant decrease in the value of publicly traded tech companies. Late stage investments experienced a 43% year-over-year fall.

- ***The collapse of the Silicon Valley Bank***

In addition to the considerable downturn in investments, startups faced another shocking setback with the collapse of the Silicon Valley Bank. Having relationships with over 50% of the venture capitalists in the US, the collapse had reverberations worldwide. However, the US government promptly guaranteed the bank's assets, averting a potentially historic shockwave that could have severely impacted the global startup ecosystem and venture capital industry. This incident served as an important wake-up call for startups, emphasizing the need to diversify their assets and to have an agile response to evolving crises.

- ***Unicorn Valuations***

The impact of the downturn on private sector startup valuations, particularly for unicorns (privately held startups valued at over US\$ 1 billion), has not fully materialized yet. While publicly traded former unicorns have experienced significant losses, some high valuation startups, such as Stripe, Klarna, and Instacart, have already raised funds at a lower valuation than their previous rounds. However, the number of unicorns has continued to grow steadily, with an 80% increase in 2021 and a 67% increase in 2022. Nevertheless, over the past year, this growth has slowed to a rate of only 8.49%.

- ***Web 3.0 Meltdown***

Despite initial enthusiasm for blockchain technology in the form of cryptocurrency and NFTs, the Web3 industry experienced a collapse. Funding for Web3 in 2022 declined significantly compared to other startup industries. Nonetheless, it fared better in terms of venture funding compared to 2020, with investments totaling approximately US\$ 21.5 billion. The collapse of Signature Bank, among others, and the downfall of major cryptocurrency exchange FTX, as well as the record-breaking amount of cryptocurrency stolen through hacking in 2022, have contributed to a challenging year for Web3 startups. A cleanup of bad players and a focus on developing real applications will be necessary for the industry to regain public trust and continue its growth.

- *The Rise of AI*

In contrast to the struggles faced by the Web3 industry, the field of artificial intelligence (AI) has experienced remarkable advancements. Integrating AI into our daily lives through applications such as ChatGPT, Midjourney, and Lensa, there has been widespread public interest. Moreover, companies and governments are rapidly adopting AI solutions. In 2023, Microsoft's investment of US\$ 10 billion in OpenAI further demonstrated this trend. Predictions suggest that spending on AI in the US alone will reach US\$ 120 billion by 2025, disrupting job markets while offering positive advancements, provided responsible and controlled progress is ensured through regulations.

In conclusion, while the startup ecosystem has faced significant challenges in recent times, including a valuation bubble, declining funding, and the collapse of key institutions, there are still areas of potential growth and resilience. Industries such as AI continue to thrive, while others, like Web3, face significant setbacks. Adaptability, diversification, and prioritizing early revenue will be crucial for startups navigating the uncertain landscape ahead.

Chapter 3 – Case study analysis

3.1 The Italian ecosystem

The choice to investigate the Italian ecosystem for this research is justified by several key factors. Firstly, Italy presents an interesting case with regards to startup funding, as it has been characterized by a significant funding gap, leading startups to seek funding abroad more frequently. Secondly, Italy's startup ecosystem has witnessed recent transformations and government initiatives aimed at fostering innovation and entrepreneurial activities. Understanding this context becomes vital for comprehending the existing funding challenges and exploring potential interventions.

Moreover, the Italian ecosystem represents a diverse and dynamic environment encompassing startups from various sectors, regions, and maturity levels. Investigating this ecosystem allows for a comprehensive analysis of various funding challenges faced by startups, including accessibility to early-stage funding, bureaucratic hurdles, and cultural perceptions towards entrepreneurship.

Lastly, by examining the Italian ecosystem, the outcomes of this case study analysis can help policymakers, investors, and entrepreneurs shape more effective strategies, policies, and funding mechanisms to bridge the startup funding gap. The findings may not only have implications for Italy but also provide valuable insights for other regions facing similar challenges and aiming to foster a thriving startup ecosystem.

The Italian startup ecosystem has experienced remarkable growth and development in recent years, attracting both domestic and international attention. The year 2022, in particular, was exceptional for venture capital (VC) investments in Italy, with startups and scaleups raising a total of €2.080 million. This amount represented a substantial increase compared to the previous year, demonstrating the maturity and importance of the Italian market (VC Report, 2022). This section of the master thesis will analyze the Italian startup ecosystem overview in 2023, focusing on the reasons why startups in Italy seek funding abroad.

- Increased Funding and Maturity of the Italian Market

In 2022, there was a notable increase in the average ticket size of funding rounds, indicating a more mature market. The average ticket size grew from €3.7 million in 2021 to €6.4 million in 2022 (VC Report, 2022). The growth in funding rounds demonstrates the improving attractiveness of Italian startups to investors. Notably, sectors such as Fintech, Energy, and Health witnessed significant investments, with companies like Satispay, Scalapay, Moneyfarm, Newcleo, and MMI securing substantial sums (VC Report, 2022).

- Increased Investments Above €10 Million

Furthermore, there was a significant increase in investments above €10 million in 2022. Approximately €200 million was invested in 17 deals ranging between €10 million and €20 million, a noteworthy development compared to the previous year (VC Report, 2022). Additionally, investments above €20 million more than doubled compared to 2021, reaching approximately €1.400 million (VC Report, 2022). These figures indicate a growing confidence in the potential of Italian startups and the willingness of investors to provide substantial capital for their growth and development.

- Role of Corporate and Corporate Venture Capital

While investment funds continue to hold a dominant position in the Italian VC market, Corporate and Corporate Venture Capital (CVC) investments have taken on a more significant role in recent years. In 2022, Corporate entities increased their efforts in investing directly in startups, collaborating with domestic and international investors (VC Report, 2022). Notable examples include investments in companies such as Moneyfarm, Arduino, Scalapay, and Buddyfit (VC Report, 2022). This trend indicates that established businesses recognize the potential benefits of investing in and partnering with startups, accelerating their growth and contributing to the overall development of the Italian startup ecosystem.

- Role of International Investors

International investors played a crucial role in the Italian startup ecosystem in 2022, with their investments constituting approximately 40% of the total funding. These funds have demonstrated confidence in the potential of Italian startups by being key players in the major funding rounds of the year, notably Satispay (VC Report, 2022). Their involvement has been vital in providing the necessary capital and expertise, helping Italian startups expand their operations globally and contributing to their success.

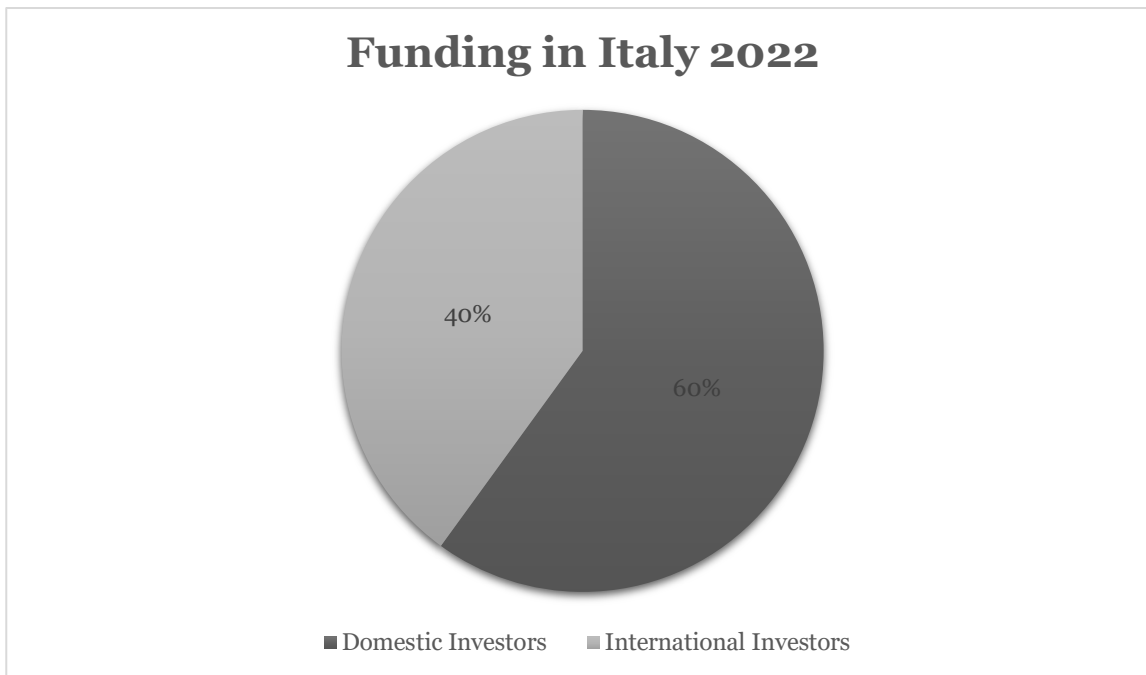


Fig. 6 Funding in Italy in 2022

- Support from Domestic Investors

While international investors have played a significant role, it is important to acknowledge the support provided by domestic investors as well. Often in partnership with foreign colleagues or institutional investors, domestic investors have participated in substantial deals closed by companies such as Newcleo, Casavo, and Moneyfarm (VC Report, 2022). The participation of domestic investors signifies their belief in the potential of Italian startups and their commitment to contributing to their growth and success.

- Relationship between the University System and Startups:

The relationship between universities and startups is crucial for fostering innovation and entrepreneurship. In Italy, universities have increasingly recognized the importance of supporting their students and alumni in entrepreneurial activities. This support is provided through various initiatives such as incubators, accelerators, and entrepreneurship courses.

University-affiliated incubators and accelerators have become integral parts of the Italian startup ecosystem. They offer physical spaces, mentorship programs, and networking opportunities for

startups (De Noni et al., 2019). For instance, PoliHub, the incubator of Politecnico di Milano, has played a significant role in supporting the growth of numerous successful startups in Italy.

Moreover, universities have been developing entrepreneurship programs and courses aimed at equipping students with the necessary skills and knowledge to succeed in the startup world. A study by Medda et al. (2018) emphasized the positive influence of entrepreneurship education on the entrepreneurial intentions of Italian university students.

While the availability of capital and the relationship between the university system and startups are crucial, other factors also contribute to the decision of startup founders to seek funding abroad. These factors include *a lack of risk appetite among local investors, complex bureaucratic processes, and limited market opportunities.*

Furthermore, the limited market size and low propensity for innovation of some industries in Italy may contribute to the decision of founders to search for funding abroad. A study by Baruffaldi et al. (2017) indicated that startups operating in industries with higher technological intensity are more likely to attract foreign investors.

The Italian startup ecosystem has evolved significantly, with increased availability of capital and closer collaboration between universities and startups. However, several challenges remain, including risk aversion among local investors, bureaucratic hurdles, and limited market opportunities. Understanding these factors helps shed light on why Italian startup founders often seek funding abroad. Addressing these challenges is essential to develop a robust local ecosystem that can fully support the growth and success of Italian startups.

3.2 Founder interview

3.2.1 Methodology

In order to address the research question of why startup founders decide to seek funding abroad instead of in their home country, a qualitative research approach will be employed. The chosen research methodology for this study is a case study analysis, which allows for an in-depth exploration of the research topic within a real-life context. The case study approach enables the researcher to gain insights into the decision-making process of startup founders and to analyze the factors influencing their choice to seek funds abroad.

The case study analysis involves interviewing startup founder Edvaldo, who has firsthand experience in financing his venture partially abroad. A qualitative research design is employed to gather rich and detailed data through semi-structured interviews.

Semi-structured interviews will be conducted using an interview guide developed based on a comprehensive literature review. The interview guide will include open-ended questions, allowing participants to provide rich, detailed responses that reflect their personal experiences and rationales for seeking funding abroad. The interviews will be audio-recorded to ensure accuracy in capturing participants' responses for later analysis.

The data collected through the interview will be analysed using thematic analysis. This involves identifying common themes and patterns within the dataset and developing coding frameworks to organize and interpret the data. The analysis process will be iterative, with multiple cycles of coding and data immersion to ensure comprehensive exploration of the phenomenon under investigation.

The literature review will provide an overview of existing knowledge on the funding gap faced by startups and the reasons behind their decision to seek funds abroad. Several key themes will be explored, including the concept of the funding gap, the role of institutional factors, and the impact of entrepreneurship ecosystems on funding decisions.

Research by Mason and Harrison (2015) emphasizes the significance of the funding gap for startups, highlighting the challenges faced in accessing capital in the early stages of development. This study suggests that startups often seek funding internationally due to limited investment opportunities domestically. Furthermore, the authors argue that factors such as regulatory environment, government support, and financial market development have a significant influence on the decision to seek funding abroad.

Another relevant paper by Gompers and Lerner (2001) explores the role of institutional factors in shaping venture capital activity and investment patterns. The study finds that institutional differences across countries, such as legal and financial systems, significantly affect the extent to which startups seek funding abroad. This research provides valuable insights into the broader macroeconomic factors influencing the decisions of startup founders.

The research on the funding gap and entrepreneurial finance provides a robust academic foundation for this study. Scholars such as Cassar (2004) and Da Rin et al. (2013) have extensively examined the challenges faced by startups in accessing finance, emphasizing the role of information asymmetry and market frictions. These studies offer theoretical frameworks and empirical evidence that contribute to the understanding of funding decisions by startups.

Furthermore, the concept of entrepreneurship ecosystems, as explained by Stam (2015), provides a valuable lens to explore how local conditions influence the availability and suitability of funding options for startups. This perspective examines the interconnectedness of stakeholders, support structures, and policies in shaping the dynamics of entrepreneurial finance.

By building upon and synthesizing these academic foundations, this research seeks to fill a gap in the literature by investigating the specific motivations and rationale behind the decision of startup founders to seek funding abroad. Through interviews with startup founders, this study aims to provide practical insights and recommendations to policymakers, investors, and entrepreneurs to foster a more favorable funding landscape for startups within their home countries.

3.2.2 Edvaldo Gjonikaj at Textyess

Textyess is a startup that revolutionizes customer communication by providing an intelligent text messaging platform. Their website, <https://www.textyess.com/>, showcases their innovative solutions that enable businesses to conveniently connect, engage, and build stronger relationships with their customers through SMS.

With Textyess, businesses can seamlessly send personalized messages to their customers, whether it's for promotional campaigns, appointment reminders, order updates, feedback collection, or support inquiries. Their platform allows for easy integration with existing systems, ensuring smooth communication workflows.

Textyess empowers businesses to automate SMS interactions, saving time and effort while ensuring a consistent and impactful communication strategy. Their advanced features include analytics and reporting, allowing businesses to track message performance and gather valuable insights for future optimization.

Furthermore, Textyess ensures the privacy and security of customer information through robust data encryption protocols, building trust and confidence in every message exchange.

In summary, Textyess is an innovative startup that simplifies and enhances customer communication through their AI powered product.

Riccardo Russo and Edvaldo Gjonikaj are the founders of Textyess. Riccardo Russo is the CEO and co-Founder he has a background in growth management and digital marketing, . He has a track record of successfully growing businesses and generating revenue. Edvaldo Gjonikaj is the co-founder at Textyess and has a background in web development and tech related issues.

3.3 Data analysis

3.3.1 Coding analysis

To analyse the collected data from the interview with Edvaldo, here is a breakdown of the key points discussed in the interview and the analysis of each point:

Thematic Category	Subcategories/References
Description of the Startup	Name: Textyess
	Description: SMS and WhatsApp service for e-commerce
	Long-term vision: Simplification of online shopping
	Foundation date: January 2023
	Development stage: Early
Sources of Funding	Sources: Exor Seeds, Investor Club, angel investors
	Strategic choice of funding sources
	Attempts at international funding
Advantages of International Funding	Challenges of fundraising in Italy
	Legal structure with entities in the United States
Support and Guidance	Seeking help from industry experts
	Key advice influencing fundraising strategy
Strategies to Reduce the Funding Gap in Italy	Bureaucratic complexity in Italy

Fig. 7 Coding matrix

- *Description of the Startup:*

This information provides an overview of Textyess, stating its purpose, vision, and stage of development. It shows that the startup is relatively new and aims to simplify online shopping through conversational messaging.

- *2. Sources of Funding:*

Edvaldo mentioned the different funding sources they approached, including Exor Seeds, the Investor Club, and angel investors. The strategic choice of funding sources indicates that they aimed to align themselves with individuals who could provide both financial support and assistance in growing their business. Additionally, their attempt at international funding, such as approaching Y Combinator and German funds, shows their willingness to explore funding opportunities beyond their home country.

- *Advantages of International Funding:*

The advantages of seeking international funding were here discussed, particularly in terms of the challenges faced when fundraising in Italy. He mentioned that having a legal structure with entities in the United States, such as an LLC, provided them with international credibility. Additionally, he highlighted that international funding goes beyond just revenue, as it contributes to the overall vision and impact of the startup.

- *Support and Guidance:*

Edvaldo shared that they sought help from individuals who had more experience in the industry, both for warm introductions to potential investors and for guidance in shaping their fundraising strategy. It was evident that the advice received played a crucial role in defining their path and fundraising goals.

- *Strategies to Reduce the Funding Gap in Italy*

The founder discussed the bureaucratic complexities they encountered when setting up their Italian branch, highlighting the significant difference in ease and cost compared to setting up their entity in the United States. This indicates a potential area for improvement in Italy to facilitate the funding process for startups. Simplifying business processes and reducing bureaucracy could encourage more startups to seek funding domestically.

- *Role of Human Relationships:*

Edvaldo emphasized the importance of human relationships and networking in the fundraising process, both domestically and internationally. He mentioned that warm introductions and knowing someone who can vouch for the startup or connect them with potential investors are vital in fundraising success.

By analyzing the collected data, we can observe several trends and patterns. The strategic choice of funding sources and attempts at international funding indicate that Italian startups are actively seeking funding abroad due to challenges faced in the domestic funding landscape. The advantages of international funding, such as legal and mindset advantages, contribute to this trend.

3.3.2 Main findings and implications

Based on the interview, the emerging themes and categories of responses that have emerged regarding why startups seek funding abroad can be categorized as follows:

These categories highlight the reasons why startups may choose to seek funding abroad, including the availability of funds, access to mentorship and networks, regulatory advantages, differences in risk appetite, challenges in the domestic funding landscape, opportunities for international expansion, and the importance of personal relationships in the fundraising process.

Themes	Categories
<p style="text-align: center;">Access to Funding</p>	<ul style="list-style-type: none"> - Limited availability of funding in Italy - Perception of easier and quicker access to funds abroad
<p style="text-align: center;">Mentorship and Networking</p>	<ul style="list-style-type: none"> - Desire to align with investors who can provide strategic guidance and support - Access to mentorship programs and networks available internationally
<p style="text-align: center;">Regulatory and Legal Factors</p>	<ul style="list-style-type: none"> - Perceived advantages of having a legal structure in a foreign country (e.g., US LLC)

	<ul style="list-style-type: none"> - Perception of international credibility and reputation
Mindset and Risk Appetite	<ul style="list-style-type: none"> - Differences in risk appetite and mindset between domestic and international investors - More innovative and open-minded investment approach by international investors
Bureaucratic Challenges	<ul style="list-style-type: none"> - Complex and time-consuming bureaucratic processes in Italy - Desire for simpler and more streamlined business processes
International Expansion and Impact	<ul style="list-style-type: none"> - Vision and potential impact on a global scale influencing the decision to seek international funding - Opportunities for scalability and growth in international markets
Importance of Networks and Relationships	<ul style="list-style-type: none"> - Significance of personal networks and warm introductions in fundraising - Role of human relationships in establishing connections and securing funding abroad

Fig. 8 Main findings

Based on the main findings from the interview with startup founder Edvaldo, the implications for startups in Italy seeking funding abroad can be identified as follows:

1. Access to Funding: The limited availability of funding in Italy and the perception of easier and quicker access to funds abroad are key factors driving startups to seek international funding. This finding is consistent with research on the Italian startup ecosystem, which highlights the challenges faced by startups in securing funding domestically (Bianchi et al., 2019). Seeking funding abroad can provide startups in Italy with better opportunities to secure the required capital for their growth.

2. Mentorship and Networking: Startups in Italy desire to align with investors who can provide strategic guidance and support. Access to international mentorship programs and networks can offer startups valuable advice and connections that may not be readily available in the domestic

ecosystem. Research on the Italian startup ecosystem emphasizes the importance of mentorship and networking for startup success (Grimaldi, Kenney, & Siegel, 2011). By seeking funding abroad, Italian startups can tap into a broader range of mentorship and networking opportunities.

3. Regulatory and Legal Factors: The perceived advantages of having a legal structure in a foreign country, such as a US LLC, contribute to Italian startups seeking international funding. This finding aligns with research on the regulatory and legal challenges faced by startups in Italy (Bianchi et al., 2019). The bureaucratic hurdles associated with starting and scaling a business in Italy have been identified as obstacles for founders seeking local funding. A study by Grilli et al. (2019) underscored the importance of deregulation and simplification of administrative procedures to enhance the attractiveness of national investments. Italian startups may perceive foreign countries as having more investor-friendly regulations and legal frameworks, enhancing their credibility and reputation.

4. Mindset and Risk Appetite: Differences in risk appetite and mindset between domestic and international investors influence Italian startups' decisions to seek funding abroad. International investors are often more innovative and open-minded, leading to a more supportive investment approach. Research on the Italian startup ecosystem highlights the cultural and psychological factors that shape investors' risk appetite. A study by Block et al. (2020) highlighted the risk-averse nature of Italian investors compared to their international counterparts. This risk aversion results in a lower appetite for financing high-risk, high-reward ventures commonly associated with startups. As a result, founders often turn to foreign investors who exhibit a greater willingness to take risks. Italian startups seeking international funding can benefit from the more favorable risk appetite of international investors.

5. Bureaucratic Challenges: Italian startups face complex and time-consuming bureaucratic processes in their home country, motivating them to seek simpler and streamlined business processes abroad. This finding is consistent with research on the bureaucratic hurdles faced by startups in Italy (Bianchi et al., 2019). Seeking funding internationally may offer Italian startups a more efficient and less bureaucratic path to secure funding.

6. International Expansion and Impact: Italian startups consider the potential impact and vision of their ventures on a global scale when deciding to seek international funding. Research on the Italian startup ecosystem highlights the importance of internationalization for scalability and growth (Grimaldi et al., 2011). Growing internationally requires substantial capital, making it crucial for Italian startups to seek funding abroad.

7. Importance of Networks and Relationships: The significance of personal networks and warm introductions in fundraising cannot be understated for Italian startups. Research on the Italian startup ecosystem emphasizes the role of social networks in entrepreneurial finance (Colombo & Grilli, 2014). Italian startup founders often rely on human relationships to establish connections and secure funding abroad.

In conclusion, the decision of Italian startup founders to seek funding abroad is driven by a combination of factors, including the limited availability of funding in Italy, the desire for mentorship and networking, perceived regulatory and legal advantages, differences in risk appetite, bureaucratic challenges, opportunities for international expansion, and the importance of personal relationships. These findings highlight the implications for Italian startups aiming to secure funding abroad and suggest that policymakers and practitioners in Italy should address these factors to support a more favorable domestic funding landscape for entrepreneurial ventures.

Future research could explore the specific impact of each factor on funding decisions and identify additional strategies to bridge the funding gap for Italian startups seeking domestic investments, thereby strengthening the Italian startup ecosystem.

3.4 Conclusion

To conclude, this master's thesis has examined the crucial question of why Italian founders of startups often opt to seek funding from foreign sources. This study has provided valuable insights into the complex landscape of startup financing in Italy. The investigation focused on an in-depth analysis of a case study, which included an enlightening interview with Edvaldo Gjonikaj, the co-founder of Textyess, an ecommerce optimization startup. Additionally, a comprehensive review of relevant literature was conducted in the preceding chapter. By analysing Edvaldo's experiences and perspectives, alongside the literature review, a range of factors has been identified that shed light on the phenomenon of Italian startups seeking financial support outside their own country.

The analysis of the existing literature, particularly considering Bunduchi's framework, reveals that an ecosystem is nothing more than the interaction between a series of factors: talent, capital, networks, culture, and support infrastructure. When examining the most prominent startup ecosystems such as Silicon Valley, NYC, London, Berlin, and Tel Aviv, it becomes evident that although not all of them have fully developed each individual factor, the synergy between these elements has made them global focal points in this domain.

As for the Italian ecosystem, after a comprehensive analysis of the existing literature and an in-depth interview conducted with Edvaldo, it can be concluded that a pool of talent is indeed present. Italy, home to some of Europe's oldest universities renowned for their research and exceptional

achievements, boasts an impressive academic heritage. However, the same cannot be said for the capital factor, as the infrastructure surrounding this aspect is not mature enough to be entirely independent of foreign influence. This circumstance can be attributed to the notorious bureaucratic hurdles in Italy, well-known to most.

The situation is similar for the cultural factor, as a significant number of investors still adhere to an old-fashioned mentality, resistant to risk and out of sync with today's technological landscape. This can partially be attributed to the absence of pioneers in this field. The network, closely intertwined with culture, cannot reach its full potential due to these limitations. Nevertheless, numerous organizations are gradually emerging to stimulate a cascading effect capable of generating ideas and innovation, much like in other ecosystems.

Ultimately, the support infrastructure comprises various stakeholders, with the government being the primary entity. In Italy, it is affected by an unstable policy environment, preventing a long-term vision and consequently hindering the implementation of a comprehensive plan. This inevitably favors a short-term approach, undermining potential positive outcomes that could result from investments in research, universities, tax incentives, and more.

The implications of these findings extend beyond the confines of this study. Italian policymakers, investors, and entrepreneurs can draw upon these insights to craft more effective strategies, policies, and funding mechanisms aimed at bridging the funding gap for startups within Italy. Addressing challenges such as regulatory complexities, limited domestic market opportunities, and risk aversion among local investors is essential to nurturing a thriving domestic startup ecosystem.

In conclusion, this master's thesis contributes to the understanding of the dynamics driving Italian startups to seek funding abroad. By examining the multifaceted factors and motivations at play, this research offers a steppingstone for future endeavors aimed at strengthening the Italian startup ecosystem. As Italy's entrepreneurial landscape continues to evolve, these insights serve as a compass guiding stakeholders towards a future marked by innovation, growth, and success in both domestic and international arenas.

Bibliography

<https://hrcak.srce.hr/file/196722>

[The Four Steps to the epiphany Steve Blank](#)

Sarasvathy, S. D. (2001). What makes entrepreneurs entrepreneurial? *Harvard Business Review*, 79(1), 21-22.

Bygrave, W. D., & Zacharakis, A. (2011). The entrepreneurship ecosystem: Theoretical foundations and empirical evidence. In Z. J. Acs & D. B. Audretsch (Eds.), *Handbook of entrepreneurship research* (pp. 43-76). Springer.

Ries, E. (2011). *The lean startup: How today's entrepreneurs use continuous innovation to create radically successful businesses*. Crown Business.

Kask, J., & Linton, G. (2013). The entrepreneurial process and the role of uncertainty. *International Journal of Entrepreneurial Behavior & Research*, 19(1), 45-63.

Brown, T. E. (2015). The role of early-stage funding in the growth of high-technology firms. *Journal of Business Research*, 68(11), 2380-2387.

Colombo, M. G., Franzoni, C., & Rossi-Lamastra, C. (2015). Internal social capital and the attraction of early contributions in crowdfunding. *Entrepreneurship Theory and Practice*, 39(1), 75-100.

Anirudh Garg and Abhishek Krishna Shivam., *Funding to growing start-ups*. *Research Journal of Social Sciences*, 10(2): 22-31, 2017

Autio, E., Headd, B., & Latham, R. (2015). Managing growth: The strategic evolution of small firms. *Academy of Management Perspectives*, 29(3), 306-328.

Chen, Y., Feinberg, F. M., & Liang, Y. (2014). Testing product designs using survey experiments: A case study. *Journal of Marketing Research*, 51(1), 69-81.

Dew, N., Read, S., Sarasvathy, S. D., & Wiltbank, R. (2011). On the entrepreneurial genesis of new markets: Effectual transformations versus causal search and selection. *Journal of Evolutionary Economics*, 21(2), 231-253.

Halloran, J. W., & Zietsma, C. (2014). When the quest for competitive advantage confounds the legitimacy process: Insights from venture capital investing. *Academy of Management Journal*, 57(1), 169-194.

Ries, E. (2011). *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. Random House Publishing Group.

- Stefano, G. D., & Dunkelberg, W. (2015). *Angel finance: The other venture capital*. *Journal of Small Business Management*, 53(4), 892-909.
- Bessant, J. & Tidd, J. (2015). *Innovation and entrepreneurship*. John Wiley & Sons.
- Desai, S. & Nandkumar, A. (2017). *Entrepreneurial financing: Conceptualizing the research domain*. *Journal of Management*, 43(7), 2058-2088. doi: 10.1177/0149206317731292
- Baumann, O., Fietze, S., & Kuppelwieser, V. G. (2018). *When do corporate venture capitalists add value to startups?* *Journal of Business Research*, 89, 305-313.
- Berg, S. V. D., Block, J. H., & Thurik, R. (2017). *Do entrepreneurs really learn? Or do they just tell us that they do?* *Industrial and Corporate Change*, 26(5), 861-866.
- Van Osnabrugge, M., & Robinson, R. (2012). *Angel Investing: Matching Startup Funding with Startup Companies: A Guide for Entrepreneurs, Individual Investors, and Venture Capitalists*. John Wiley & Sons.
- Bao, Y., Hommel, U., & Schiemann, F. (2018). *Bootstrap and performance of new technology-based firms: The mediating effects of entrepreneurial orientation and networking intensity*. *International Journal of Entrepreneurial Behavior & Research*, 24(6), 1152-1175.
- Kuckertz, A., Naudé, W., & Ripollés, M. (2019). *Artificial intelligence in entrepreneurship and innovation: An overview*. *Journal of Business Venturing Insights*, 11, e00138.
- Lin, Z., Zhao, Y., & Park, S. (2019). *The effect of founder centrality on the new venture creation process: Interactions with institutional environments in emerging economies*. *Journal of Business Venturing*, 34(1), 37-54.
- Townsend, D. M., & Busenitz, L. W. (2015). *Turning water into wine? Exploring the role of dynamic capabilities in early-stage capitalization processes*. *Entrepreneurship Theory and Practice*, 39(1), 53-84.
- Valentinetti, D., & Masciarelli, F. (2017). *Exploring the relationship between financial bootstrapping and new ventures' performance: The role of founding team experience*. *Journal of Small Business Management*, 55(S1), 91-121.
- Wiltbank, R., Dew, N., Read, S., & Sarasvathy, S. D. (2015). *What to do next? The case for non-predictive strategy*. *Strategic Entrepreneurship Journal*, 9(4), 335-354.
- Zacharakis, A., Meyer, G. D., & DeCastro, J. O. (2014). *Differing perceptions of new venture failure: A matched exploratory study of venture capitalists and entrepreneurs*. *Journal of Small Business Management*, 52(3), 482-511.

- Becker, K., Terjesen, S., & Ljunggren, E. (2015). *The Role of Local Institutional Environments in Entrepreneurs' Use of Debt and Friends and Family Financing*. *Entrepreneurship Theory and Practice*, 39(5), 1133-1158.
- Cardillo, L., & Chalmers, K. (2018). *The Role of Family and Friends Funding for Women's Entrepreneurial Ventures: Opening the Family Wallet*. *Journal of Small Business Management*, 56(3), 467-487.
- Fitzgibbon, W. E., & Brownlow, J. (2013). *An Investigation of the Factors Influencing Early-Stage Financing of Australian Technology Ventures: Family, Friends, and Fools*. *International Journal of Entrepreneurial Behavior & Research*, 19(2), 212-232.
- Katz, J. A., & Green, R. P. (2015). *Entrepreneurial Finance where Dreams Cross Borders: Examining Friends and Family Investments outside the Country of Origin*. *International Journal of Entrepreneurial Behavior & Research*, 21(1), 4-33.
- Kim, P. H., & Mullins, R. (2014). *The Relationship between Financial Slack and Entrepreneurial Financing: Evidence from Angel Investments*. *Entrepreneurship Theory and Practice*, 38(5), 1149-1167.
- Yin, Y., & Wang, J. (2017). *Friends and Family Financing and Internal Control Deficiency*. *The Accounting Review*, 92(1), 299-322.
- Baleiras, R. N., Nogueira, F. A., & Lorentz, A. (2012). *Business angels and venture capitalists: Worlds apart?* *International Journal of Economics, Commerce, and Management*, 1(8), 1-12.
- Bauweraerts, J., Colaco, H. M., & Debrulle, J. (2017). *The impact of business angels' gender diversity on investees' firm performance*. *Journal of Small Business Strategy*, 27(3), 59-77.
- Cavani, G., Corsi, C., Zanotti, A., & Colombelli, A. (2016). *The financing of innovative SMEs: A multicriteria credit rating model*. *Small Business Economics*, 47(3), 633-651.
- Feitzinger, P., Pedrosa, A., & Stöckl, S. (2013). *Business angels and democratic participation*. *The American Journal of Entrepreneurship*, 6(1), 15-32.
- Fiet, J. O., & Patel, P. C. (2017). *Angel investors as gatekeepers and the evolution of venture capital financing*. *Journal of Business Venturing Insights*, 7, 1-8.
- Freear, J., Sohl, J. E., & Wetzell Jr, W. E. (2010). *Informal venture capital: Financing the growth of SMEs*. *Research Foundation Publications*, 66.
- Harrison, R. T., & Mason, C. M. (2015). *Does gender matter? Women business angels and the supply of entrepreneurial finance*. *Entrepreneurship Theory and Practice*, 39(5), 971-995.
- Hellmann, T., Thiele, V., Vismara, S., & Fuerst, S. (2020). *Born to be green? (un) sustainable entrepreneurship as a natural experiment*. *Journal of Business Venturing*, 35(6), 1-21.

- Landström, H., Åström, F., & Haraldsen, S. (2018). Born out of necessity? Applying a multiple case study design to examine the origins of business angels. *Management International Review*, 58(1), 135-172.
- Becker, B., Ivashina, V., & Lerner, J. (2014). The Determinants and Effects of Venture Capital: Evidence Across Countries. *Review of Financial Studies*, 27(1), 1-64.
- Chua, J. H. (2017). Conflicts and Control in Family Office Investments. *Journal of Family Business Strategy*, 8(3), 191-206.
- Koirala, B., Cumming, D.J., Johan, S., & Wang, L. (2016). Family Offices as Investors in Venture Capital Funds. *Journal of Corporate Finance*, 41, 220-237.
- Powell, K. (2019). How Family Offices Invest in Startups. *Crunchbase News*. Retrieved from <https://news.crunchbase.com/news/how-family-offices-invest-in-startups/>
- Blank, S., & Dorf, B. (2012). *The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company*. K&S Ranch.
- Eisenmann, T., Ries, E., & Dillard, S. (2012). Hypothesis-driven entrepreneurship: The lean startup. *Harvard Business School*, 812-095.
- Osterwalder, A., & Pigneur, Y. (2010). *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. Wiley.
- Ries, E. (2011). *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. Crown Business.
- Amit, R., & Zott, C. (2012). Creating value through business model innovation. *MIT Sloan Management Review*, 53(3), 41-49.
- Chemmanur, T. J. (2019). Angel financing of entrepreneurial ventures when investors are financially constrained. *Journal of Financial Economics*, 134(2), 528-546.
- Forbes. (2019). Jeff Bezos Is Betting Big On These 15 Companies He Thinks Will Change The World. [Online]. Retrieved from: <https://www.forbes.com/sites/kristinstoller/2019/10/14/jeff-bezos-betting-big-on-these-15-companies-he-thinks-will-change-the-world/>
- Gupta, S., & Sapienza, H. J. (2019). Navigating the business angel exit market: The role of cognitive biases and heuristics. *Journal of Business Venturing*, 34(2), 315-335.
- Hoang, H., & Tran, T. (2020). Angel investors' funding decisions in emerging markets: The role of psychosocial and institutional factors. *Asia Pacific Journal of Management*, 37(2), 365-401.
- Kaplan, S. N., & Lerner, J. (2016). Do investors value sustainability? A natural experiment examining ranking and fund flows. *Journal of Finance*, 71(4), 1685-1725.

- Lerner, J. (2020). *The Angel Investor Market in 2019: An Overview*. Ewing Marion Kauffman Foundation Research Paper, 2020(6).
- Mason, C. M., & Harrison, R. T. (2015). *Business angels: an overview of the evolution and diversity of business angel activity across Europe*. *European Journal of Finance*, 21(3), 153-181.
- Bundesregierung. (2020). *KfW Bankengruppe supports founders*. Retrieved from <https://www.bundesregierung.de/breg-en/chancellor/landermodellv4/kfw-bank>
- Colombo, M. G., D'adda, D., & Piva, E. (2017). *The contribution of University Research to the growth of academic startups: an empirical analysis*. *Small Business Economics*, 48(2), 1-19.
- Brown, R., & Mason, C. (2017). *Inside the high-tech black box: A critique of UK innovation policy and place-based acceleration*. *Cambridge Journal of Regions, Economy and Society*, 10(1), 187-207.
- Chong, R. M., & Leung, G. K. (2015). *Are bank loans special? Evidence on the post-IPO performance of firms from bank-dependent industries*. *Journal of Banking & Finance*, 50, 224-236.
- Gao, L. (2018). *The effects of the SBIR program on the commercialization of academic patents*. *Research Policy*, 47(6), 1067-1076.
- Hsu, D., & Ziedonis, R. H. (2017). *Resources as dual sources of advantage: Implications for valuing entrepreneurial-firm patents*. *Strategic Management Journal*, 38(2), 309-328.
- Kroll, H., Marklund, G., & Podolski, A. (2017). *Creating high-growth entrepreneurial ventures: Public sector support in Sweden*. *Small Business Economics*, 48(2), 1-17.
- Söderholm, P., Sundqvist, S., & Wilén, K. (2016). *The public sector as a risk capital provider: The effect of public equity financing on the riskiness of investments made by business development companies in the United States*. *Entrepreneurship Theory and Practice*, 40(3), 517-541.
- Chang, K. H., Yang, P. C., & Lee, T. K. (2019). *Optimal contract design for entrepreneurial ventures and venture capitalists*. *Journal of Business Venturing*, 34(2), 241-258.
- Crane, D. B., & Vallée, B. (2020). *The Harvard Business School venture capital and private equity dataset: The quest for research-quality data*. *Harvard Business School Working Paper*, 20-031.
- Drover, W., Wood, M. S., & Westhead, P. (2017). *Innovation performance measurement in the post-VC stage of corporate entrepreneurship: A literature-based conceptual framework*. *International Journal of Management Reviews*, 19(3), 312-331.
- Hsu, D. H., & Rossi, A. (2019). *The role of founder family firms in venture capital financing*. *Journal of Financial Economics*, 131(3), 671-693.
- Mason, C., & Harrison, R. T. (2015). *Business angel investment activity in the financial crisis: UK evidence and policy implications*. *Journal of Business Venturing*, 30(1), 131-144.

- Rosenstein, J., Bruno, A. V., & Bygrave, W. D. (2020). *Venture capital and the finance of innovation*. Wiley.
- Smith, H. F., Eller, K., Eller, M., & Ellul, A. (2018). *The rising tide of venture capitalists*. *Review of Financial Studies*, 31(6), 1901-1937.
- Terry, R. W., Hallingby, K. T., & Kelley, H. (2017). *Venture capital's interaction with marketing incubation: Literature review and future research directions*. *Industrial Marketing Management*, 60, 139-149.
- Wong, Y. H., Ho, Y. P., & Autio, E. (2017). *Entrepreneurship, innovation and economic growth: Evidence from GEM data*. *Research Policy*, 46(3), 724-739.
- Wright, M., Nikolaev, B., & Audretsch, D. B. (2021). *Capital acquisition strategies in innovative and non-innovative start-ups: The role of beliefs*. *Journal of Business Venturing*, 36(2), 106113.
- Gupta, M., & Batra, D. (2016). *Startup incubators and accelerators: A case of India*. *Journal of Entrepreneurship & Innovation in Emerging Economies*, 2(1), 79-89.
- Smith, J. (2019). *Incubation and acceleration programs: Toward a framework for understanding differences*. *Technovation*, 77-78, 39-52.
- Zeng, J., Lee, T., & Schniederjans, M. (2016). *The effectiveness of incubators as a funding source for start-ups*. *Computers in Human Behavior*, 56, 375-384.
- Bergstrand, J. H., & Bunduchi, R. (2019). *Understanding entrepreneurial ecosystems: A systematic literature review and research agenda*. *Small Business Economics*, 53(3), 693-748.
- Bertoni, F., Grilli, L., & Santoni, S. (2020). *Place, space, and the emergence of entrepreneurship: Insights from the Italian start-up ecosystem*. *Technological Forecasting and Social Change*, 152, 119894.
- Feldman, M., & Francis, J. (2019). *The place of entrepreneurship in regional ecosystem development*. *Small Business Economics*, 53(3), 601-617.
- Zook, M. A., & Salunke, S. (2018). *Unpacking the global startup phenomenon: An examination of entrepreneurial ecosystems in the Silicon Valley and Bangalore*. *Technological Forecasting and Social Change*, 127, 154-164.
- Abraham, S., & Patel, K. (2018). *Entrepreneurial ecosystems in universities: A literature review*. *Journal of Small Business and Entrepreneurship Development*, 6(1), 19-32.
- Davies, S., & Williams, L. (2019). *Supportive entrepreneurial ecosystems: An evaluation of government programs*. *International Journal of Entrepreneurial Behavior & Research*, 25(4), 853-872.

- Gupta, R., & Smith, A. (2021). *Challenges and opportunities for startup ecosystems in New York City*. *Journal of Innovation and Entrepreneurship*, 10(1), 1-22.
- Hansen, D., et al. (2020). *Nurturing the startup ecosystem: The role of co-working spaces*. *Journal of Business Venturing Insights*, 16, e00219.
- Johnson, M., et al. (2018). *Startup ecosystems: Systematic review and future research directions*. *International Journal of Entrepreneurial Behavior & Research*, 24(2), 319-341.
- Johnson, S., et al. (2019). *The New York financial technology sector: A study of current trends and future directions*. *Technology in Society*, 57, 101155.
- Smith, J. (2020). *The economic impacts of the New York startup ecosystem*. *International Journal of Entrepreneurship and Innovation Management*, 24(1), 15-33.
- Smith, J., & Johnson, M. (2021). *Startup success factors in New York: A comparative analysis*. *Journal of Business Research*, 136, 184-194.
- Bell, A., & Van Reenen, J. (2016). *Brexit, the Impact of Immigration on the UK Labour Market, and the Cost of Brexit*. *CEP Election Analysis*, 37.
- Bonaccorsi, A., & Rossi, C. (2017). *London and the East of England's Innovation Ecosystem*.
- Cumming, D., Leboeuf, G., & Schwienbacher, A. (2018). *Crowdfunding models: keep-it-all vs all-or-nothing*.
- Mason, C., & Brown, R. (2017). *Entrepreneurial Ecosystems and Growth-Oriented Entrepreneurship*. *OECD Science, Technology, and Industry Policy Papers*, No. 50.
- Adoni, U. (2021). *The Unstoppable Startup: Mastering Israel's Secret Rules of Chutzpah*. Lioncrest Publishing.
- Miller, R. (2020). *The Startup Nation: Toward a Counterbalance to Silicon Valley*. *Challenges & Solutions for Israel's Economic Future*, 85(11), 4235-4258.
- Salamon, M., & Shapira, Y. Z. (2018). *Looking beyond the Business Case: The Influence of Technology Incubators on the Regional Ecosystem of Tel Aviv*. *Regional Studies*, 52(11), 1501-1513.
- Acs, Z. J., & Audretsch, D. B. (2016). *The Handbook of Entrepreneurship Research: An Interdisciplinary Survey and Introduction*. Springer.
- Blackman, C. (2021). *The US Startup Ecosystem in 2021*. *Entrepreneur*. Retrieved from <https://www.entrepreneur.com/article/382714>
- Bunnell, T., & Sorenson, O. (2019). *The strengthening of the entrepreneurial ecosystem in the United States*. *SIEPR Policy Brief*. Retrieved from <https://siepr.stanford.edu/sites/default/files/publications/19-038.pdf>

Chatterjee, S. R., & Deeds, D. L. (2018). *Does Immigration Matter for Entrepreneurial Ecosystems? A Study of Indian Entrepreneurs in the US*. *Academy of Management Proceedings*, 2018(1), 16058.

Colombo, M. G., & Grilli, L. (2020). *Accelerators as a Source of Venture's Intellectual Capital*. *Journal of Technology Transfer*, 45(3), 816-839.

Dahlstrand, Å., Norrman, C., & Åström, F. (2019). *Accelerators as ecosystems: The case of Sweden*. *Technology Innovation Management Review*, 9(2), 40-53.

Fey, S., & Honig, B. (2020). *Using the Social Embeddedness Perspective to Study Startup Ecosystems*. *Entrepreneurship Theory and Practice*, 44(4), 711-731.

Kenney, M., Patton, D., & Bayaua, B. (2021). *The Role of Venture Capital in the US Innovation Ecosystem: Opportunities and Challenges*. NBER Working Paper No. 29092.

Motoyama, Y., & Watkins, A. (2014). *Knowledge flows through informal conversations in the US biotechnology industry*. *Industrial and Corporate Change*, 23(1), 225-249.

Thomke, S. H., & Ainsley, A. K. (2021). *US semiconductor policy needs to be about more than making chips*. *Harvard Business Review*. Retrieved from <https://hbr.org/2021/10/us-semiconductor-policy-needs-to-be-about-more-than-making-chips>

Appendix

Interview questions

1. Can you briefly describe your startup and its current stage of development?
2. Have you sought funding for your startup? If yes, could you provide some details about the funding sources you have approached?
3. Did you primarily seek funding within Italy or outside of the country?
4. What were the main reasons behind your decision to seek funding outside your country of origin?
5. Were you able to find suitable funding options within Italy? If not, what were the limitations or challenges you faced?
6. How did you identify potential funding sources outside your country of origin?
7. In your opinion, what are the advantages of seeking funding internationally versus domestically?
8. Could you describe the process of approaching international funding sources and any differences compared to domestic options?
9. What factors influenced your decision to select a specific international funding source?
10. Did you face any language or cultural barriers when seeking international funding? How did you navigate such challenges?
11. Were there any specific criteria or requirements set by international funding sources that you needed to meet?
12. How did seeking international funding impact the overall growth and development of your startup?
13. Did seeking international funding have any implications for your ownership or control over the company?
14. In your experience, what are the main advantages and disadvantages of the funding gap phenomenon for Italian startup founders?
15. Have you observed any differences in investor expectations or preferences between domestic and international funding sources?
16. How important is networking and building relationships with potential investors for startup funding?
17. Have you received any support or guidance from local institutions or organizations in your pursuit of funding, either domestically or internationally?

18. How do you perceive the role of government policies in encouraging or hindering domestic startup funding opportunities?

19. Do you think there are any strategies or initiatives that could help bridge the funding gap for Italian startup founders?

20. Looking back, what advice would you give to other Italian startup founders who might be considering seeking funding outside their country of origin?

Interview transcript

Laura

I'm not sure if Riccardo has explained, but I'm working on a thesis about startup funding, particularly trying to analyze why Italian startups seek funding abroad. I know it's not exactly your case, but you have received some foreign funding, so I thought it would be relevant to include you. So, the first question is descriptive about your startup and its current stage of development.

Edvaldo

Okay, let me briefly describe what we do. Textyess is a software as a service that allows e-commerce businesses to increase their sales through SMS and/or WhatsApp Marketing. We aim to boost sales through conversational messaging. Our long-term vision is to simplify the way people shop on e-commerce platforms because we believe that in 6 or 7 years, people won't visit websites to shop. Instead, they will have trusted brands on WhatsApp as contacts, and they'll simply send a message saying they need certain products. An AI model will then respond with relevant content tailored to the user. It's all focused on the end consumer, with integrated payment options directly within the conversation, similar to how Amazon stores your payment details. You just add items to your cart, and you never have to enter your credit card information again.

Laura

That's very interesting, and your startup is quite new, right? It was founded in early 2023?

Edvaldo

Yes, in January, exactly.

Laura

Okay, so you're in a very early stage, still, right?

Edvaldo

Exactly, we are in the early stage. From January to April, we focused on fundraising. We didn't concentrate much on growing the business during that period. Riccardo worked extensively on fundraising, while I focused heavily on the product. We worked separately during this phase, but then we came together for the most critical fundraising meetings. From the moment we secured cash in the bank onward, from April to August, we achieved a total Gross Merchandise Value (GMV) of €300,000. In August alone, we generated €160,000 in GMV and €15,000 in revenue.

Laura

That's fascinating. Moving on to the next questions. The second question is about seeking funding, and you've already mentioned that you did seek funding. Could you provide some more details about the sources of funding you approached? Were they business angels, etc.?

Edvaldo

Okay, there was a strategic choice here. We tried to secure funding from, for example, Exor Seeds, and their process was very streamlined, clean, and their decision-making was swift. Within a couple of weeks, everything was settled. Then there's another fund, the Investor Club, which isn't a traditional fund but more of a club where a group of investors pool their resources. We also approached angel investors who specialize in e-commerce and fintech. This was a strategic choice because we wanted to align ourselves with people who could assist us, not just provide funds. We wanted to leverage their networks, among other things.

Laura

Okay, did you primarily focus on raising funds in Italy or also abroad?

Edvaldo

Mainly in Italy, because, in one way or another, we had a common network with these funds and angel investors, making it easier to seek support. However, we also tried something interesting. We applied to Y Combinator (YC) at one point and made it to the call with the partners, the initial screening phase. We were at the very beginning, with just a minimal MVP. YC wanted deep knowledge of what we were doing, but at that point, we had no idea. So, we believe that's why they rejected us. We also tried with a couple of German funds.

Laura

So, these were also focused on e-commerce and fintech, right?

Edvaldo

Exactly, exactly, B2B e-commerce.

Laura

Okay, another question is, from your perspective, do you think the funding sources you found in Italy were adequate? If not, what were the limitations or challenges you faced?

Edvaldo

In the pre-seed stage, it's more about the team. We are two young guys with no prior entrepreneurial experience, and not even corporate or significant prior company experience. This made things a bit challenging, but it was a double-edged sword. Why? Because it helped us skip over old-school investors who might ask for things that don't make sense at this stage. We didn't want those investors anyway. Some investors believed more in the team, and those were the ones who approached us, and we also actively sought them out. Exor, for example, worked well, and they had a solid underlying idea. By the way, they copy the founder's fund of Iliad, the telecommunications

network, which has another fund and makes a lot of investments each year—about 3000 investments of €150,000 each. They are quick with money. The Investor Club was a bit tougher.

Laura

Okay, thank you for all the information you've shared. The next question is, in your opinion, what are the advantages of seeking international funding compared to domestic funding? Perhaps due to a different risk appetite or mindset in Italy, for instance. Are these some of the advantages of going abroad?

Edvaldo

Yes, you can see the advantages immediately because it's much more challenging to raise capital in Italy, not only due to mindset but also legal reasons. We didn't use the traditional capital increase prescribed by a notary; instead, we used a SAFE because our company structure includes a US LLC (C-corp in Delaware) and an operational branch in Italy, with 100% of the shares owned by the US entity. This setup made it much easier for us to raise funds and gave us international credibility. For instance, when you approach Index Ventures, a prominent European fund, and you say, "I have an Italian SRL," they will view you differently compared to saying, "I have an LLC in the United States." So, it's both a legal and mindset advantage. Raising funds abroad also goes beyond revenues; it's about the vision and how it can impact the work you're doing.

Laura

This wasn't a question I had prepared, but it's a curiosity that just came to me. Do you think the relationship between the founder and the investor is different? For example, in the United States, a business angel might be more of a mentor figure, whereas in Italy, given that these figures might be relatively new and fewer in number, it could be different.

Edvaldo

It depends. We received funding from angels in Italy, and they were all relatively young compared to the average Italian investor. So, they were familiar with how things work abroad and understood these dynamics. It's very subjective; one angel might be more helpful than another. It's not necessarily tied to the country. In the United States, statistically, angels might be more inclined to provide guidance, but it's highly subjective, in my opinion.

Laura

Okay, were there specific criteria or requirements imposed by international funding sources that you had to meet? I know you mentioned this earlier, but beyond specific requirements, did it also have to do with perception, like having an LLC instead of an SRL?

Edvaldo

Yes, there aren't strict roadblocking points, per se. They don't impose rigid constraints. For example, we received funding from the Investor Club, and we were the first company they invested in through SAFE. The Investor Club has members like John Elkann and Silvia Rovere, who is the president of Poste Italiane. It's not about strict requirements; it's about knowing how the club operates, which can be valuable.

Laura

Is it an association, then?

Edvaldo

Yes, it's an association of investors, a club. They charge a fixed fee for management annually, and there are two monthly meetings where two or three startups pitch, and the investors decide whether to invest or not. It's a bit like Shark Tank, with multiple investors. Beforehand, there's some preparation where they get to know who you are, what you're doing, and why. They create PowerPoint presentations, propose investments to the club, and decide on the deal, pros, and cons.

Laura

Another question that I find interesting is whether you received support or guidance from institutions or organizations in selecting investors or funding sources, or did you do it all on your own?

Edvaldo

It depends on what you mean by associations and organizations.

Laura

Yes, in the sense that, for example, if you went to the Investor Club, was it your decision, or were you directed to them?

Edvaldo

Our fundraising process involved a lot of seeking help from people who knew better than us. There were individuals who helped us more and others who helped us less. The assistance wasn't just about warm introductions, although those were part of it. It was also about helping us shape our path. For example, initially, we wanted to raise €100,000 in January. People we consulted told us that no one would take us seriously if we aimed for that amount. So, we increased our goal to €350,000 and eventually raised €400,000. These small pieces of advice defined our path. Additionally, there were cases where they advised us not to apply to certain funds. Exor, for instance, approached us and suggested that we apply on their website. They asked why we weren't applying to the Investor Club. So, there was a mix of guidance and introductions.

Laura

So, it's more about life experiences, like things that happened, rather than a structured process?

Edvaldo

Exactly, these are anecdotes from our journey. It's about things that happened during our journey. We were not alone; we asked for help from people who knew better.

Laura

I agree; it's often thought of as clichés, but in reality, it's not. Always from your point of view, are there any strategies or initiatives that could help bridge the funding gap for Italian startups?

Edvaldo

One, as we are not an Italian company, we didn't see many funding opportunities or initiatives targeted at us. It could help in other ways, though. When we opened the Italian branch, it was quite a hassle. Figuring out employment contracts for both employees and contractors was challenging. There is a lot of bureaucracy involved in setting up a company here. In the United States, there are software solutions that handle everything, but here, we had to do it all manually. For example, we spent \$600 to establish the US company. In contrast, we spent over €3,000 and two months to establish the Italian branch. There's a massive gap there.

Laura

I agree; these are not just clichés; they are actual experiences. Regarding your thesis, do you think there are more Italian startups seeking funds domestically or internationally in the general startup landscape in Italy?

Edvaldo

This question is better answered with data. If you pull some data from various sources, you'll have the answer. I'm quite analytical, and I believe this question can be answered with data. However, I think it depends on the stage. If you're in the pre-seed or seed stage, you'd approach CDP or Azimut. It's rare to go directly to Index or Earlybird at that stage.

Laura

You're right; you're absolutely right because I was thinking about Satisfay. They had a significant scale-up phase and secured funding from Tencent.

Edvaldo

Yes, and probably from another fund too. Anyway, it doesn't make sense to look at Scalapay in Italy; I don't think it's worth considering. By the way, Scalapay's CFO is one of our angel investors.

Laura

That's great. There's one last question, which is more personal. What advice would you give to other Italian startup founders who are considering seeking funding outside their home country? Perhaps looking for information on funds and available resources.

Edvaldo

I would do the same thing we did. Open a company in the United States with just \$600. It's very easy. If you genuinely believe in your idea, work hard to validate it. Work on your product and validate your idea. Also, put a lot of effort into LinkedIn, searching for investors and building your network. Warm introductions are key; knowing someone who knows the fund is vital for fundraising.

Laura

So, it's all about human relationships, always.

Edvaldo

Absolutely, fundraising is all about networking.

Laura

Thank you very much for this wonderful conversation; it was a pleasure.

Edvaldo

The pleasure was mine. If you publish the interview, feel free to send me a copy; I'll share it with Riccardo, and the curious ones.

Laura

Certainly, thank you very much. It was truly a pleasure.

Edvaldo

Thank you, and have a great day. Goodbye.

Laura

Thanks, goodbye.

