Considerations about Financing Innovative Entrepreneurship

Thomas Gstraunthaler

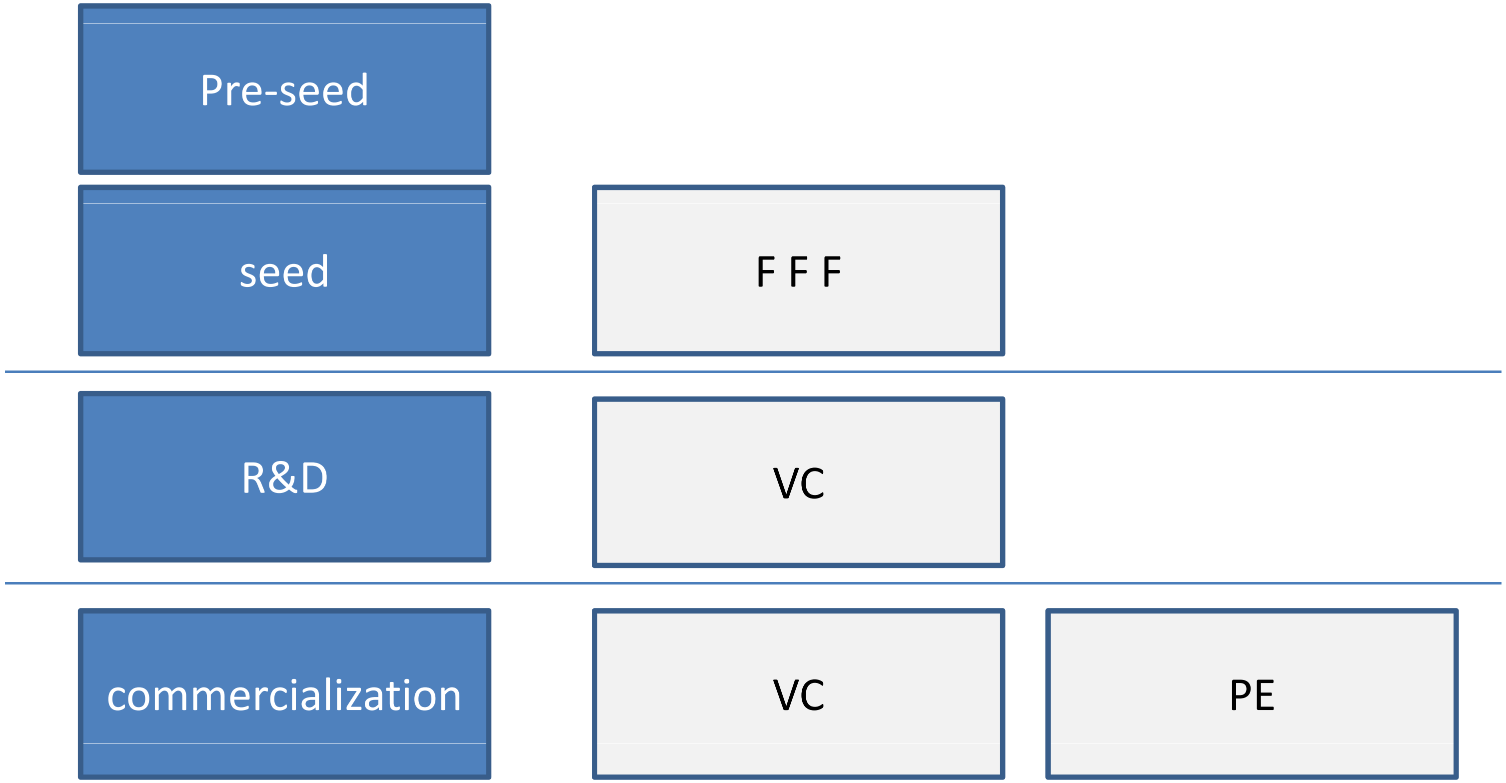
Intro

- Very little proven knowledge about Entrepreneurship
- Previous misperceptions: all about finance?
- Difference between radical and incremental innovation
- Understanding the needs of both sides

The difficult nature of the subject…

- High level of uncertainty
- Strongly depending on core players: T-shape teams
- Imperfection of markets on both sides
- Time to market is crucial success factor
- First mover advantage
- Very difficult to predict and no SOP!
- Is the lack of financial resources the reason or a consequence of failure?

The structure of the subject…



The prisoner‘s dilemma

	C_2	D_2
C_1	R,R	S,T
D_1	T,S	P,P

$T > R > P > S$

Note: C = cooperate; D = defect; T = temptation; R = reward; P = punishment; S = sucker's payoff

What to do about it?

- VC and E make decision based on the expected availability of future information
- The flow of information is assymetric by nature
- Individual deal structures
- Incentive to share information openly: benefit of cooperation
- Institutional differences have limited influence, but trust and triads do!
- Role of informal and culturally induced networks

Conclusions

- The financial side of high-tech start-ups are not to be decoupled from the social environment of the entrepreneur
- Strongly based on the right incentives and on the timing
- The most promising field for policy is the creation of the right eco-system for innovation
- Do not copy and paste the institutional settings!
- Finding the right solution for the right business model