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Financing of Startups - Investors' Requirement for Exit Strategy

A Comparative Study of Norway and the United States

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Master thesis in Financial Economics and
Business Analysis and Performance Management

NORWEGIAN SCHOOL OF ECONOMICS

Abstract

"A company doesn't sell itself though it is a success. A lot of work has to be put into the exit strategy"

Rune Rinnan, Founder and Venture Capitalist, Televenture

This thesis aims to gain an understanding of the conditions in Norway and the US regarding financing of startups and the importance of exit strategies. In addition, the thesis will study how culture within the business environments can affect both availability of startup funding and investors' focus on exit strategy. The main focus is therefore to identify if investors in fact focus on exit and if there are differences between the two environments. Investors' main goal is to achieve return on investment, and the return relies on successful exits. Therefore, one should expect every investor to focus on exit strategy. The research question is as following:

Which requirements do investors have regarding exit strategies when investing in innovative startups, and are there any differences between investors' requirements in the US and Norway?

To gain insight in this subject we found it beneficial to construct a qualitative research. We conducted personal interviews with individuals who have established innovative startups and investors supporting startups financially as angel investors, seed investors and venture capitalists. In addition, we interviewed individuals who have expertise in this subject as they are operating as consultants for startups. The respondents' different experiences were beneficial as it allowed for a nuanced analysis. The data was analyzed based on relevant theory from researchers within the academic fields that we found to be applicable.

Writing this thesis and examining the research question has uncovered several interesting findings. Both Norwegian and American investors pay little attention planning for a specific exit strategy, especially in early stage when investing in a startup. However, in later stages the focus on exits increase for both entrepreneurs and investors, as the exit becomes more prominent. It is also evident that there are differences between the cultures in Norway and Silicon Valley which have implications on the market dynamics for financing of startups. There are clear differences in market size, investors' competence and the use of standardized metrics, which seems to have a significant impact on entrepreneurial success.

Motivation and Acknowledgements

This thesis represents the completion of our Master of Science in Financial Economics and Business Analysis and Performance Management at the Norwegian School of Economics (NHH). Writing our thesis has been challenging, but above all it has been an entertaining, educational and rewarding journey.

Our motivation for choosing entrepreneurship and investors focus on exit strategy as an overall subject has emerged through a growing interest. This interest was triggered from spending a summer at the Norwegian School of Entrepreneurship taking classes at the University of Berkeley. Together with an overall increased focus on entrepreneurship in Norway and our background from the Norwegian School of Economics, we find the subject to be interesting and relevant for further research.

We would like to express gratitude to those who have contributed, encouraged and motivated us through the writing process. Their inputs were indispensable for the conclusion of this study. First, we thank our supervisor, Tor Aase Johannessen, for giving us precise, valuable and highly useful feedback during the entire writing process. We are certain his advice enhanced the quality of our analysis. Second, we would like to give a special appreciation to each interview participant for providing us with essential information; Bjørn Alsterberg (angel investor and consultant), Gro Eirin Dyrnes (Innovation Norway and Nordic Innovation House), Øivind Enger (Sarsia Seed), Fredrik Staksrud Hansen (Unisound), Tarjei Husøy (Megacool), Rune Rinnan (Televenture) and Arne Tonning (Alliance Venture). Their first-hand experience and thoughts on entrepreneurial activity and investor's focus on exit strategies gave us valuable perspectives and insights on various aspects of the subject.

Bergen, 19.12.2016

Kristine Engdahl Bjerkestrand & Tale Lefdal Helland

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1 Introduction

1.1 Background

It is widely acknowledged that entrepreneurship and innovation play a vital role in economic development, whereas startups contribute to uphold the necessary dynamics needed for a healthy national economy. Both Norway and the US are considered to be innovative-driven economies, whereas in Norway the oil and gas sector has been one of the dominating industries. Since the financial crisis in 2008 and the decreasing oil price since 2015, there has been a worsening outlook for the Norwegian economy were a large share of the industry's workforce has been laid off. A higher degree of employment uncertainty could however have a positive impact on the cultural shift towards entrepreneurial activity, and developing a sufficient ecosystem. Over the past few years, new startup hubs have been established, the number of startups are increasing and investments are growing as it has become more acknowledged to invest in startups.

Though there have been some improvements in the Norwegian entrepreneurial ecosystem, Norway is still far behind Silicon Valley when it comes to invested capital in startups. Among the Nordic countries, Norway is the country with the least amount of startup investments, especially from Norwegian venture capitalists. This may be because Norwegian investors traditionally have invested in industrial companies, real estate or the stock market instead of startups and new innovations.

In order to promote startup establishments and investments in entrepreneurial activity, it would be advantageous to have a more facilitated culture with a positive and encouraging environment for entrepreneurs and investors. An increasing number of competent investors at all stages and efficient capital markets could influence the entrepreneurial infrastructure to support developing companies. In addition, increased willingness to invest could lead to a higher number of successful companies, and further to a higher number of successful exits. There have been some examples of successful Norwegian exits, but overall there are few and they are quite rare. As entrepreneurship plays an important role in the economic growth of the country, exits are an important aspect that could increase investors interest to invest in startups.

1.2 The Literature Gap

"*The lack of research on entrepreneurial exits is striking when compared with the attention that has been given to entrepreneurial startups (...) one would expect that few events in the life of the entrepreneur, and for the firm itself, are more significant than the harvest*" (DeTienne, 2008, p. 204).

When establishing a startup, entrepreneurs focus on developing their product and raising capital, and generally not on how they might conduct an exit some years in the future. In addition, some entrepreneurs have no intention of conducting an exit at all (Vinturella & Erickson, 2003). DeTienne et al. (2015) refers to Small Business Administration stating that in 2012 in the US, more than 700 000 small businesses exited. This transfer of wealth through different exits is substantial, and is therefore in need of closer scholarly examination. According to Peters (2009, p. 18) "exits are the least understood part of investing - and often by the investors themselves as by the entrepreneurs. That is because there has been very little said or written about them". DeTienne (2008) states that there exists a gap in the literature on the subject of how entrepreneurs and investors make decisions about exits and develop exit strategies, in addition to gaps regarding available exit options.

The purpose of this research study is to try to answer the research question. By doing so we will hopefully be able to give a contribution to this subject. With this research, we therefore hope to fill some of the existing literature gap.

1.3 Research Question

Investors' goal is to acquire profits through return on their investments. When investors invest in startups, their returns become available when the startups conduct successful exits. Due to the lack of research and literature regarding startup companies' exit strategies, we have established the following research question:

Which requirements do investors have regarding exit strategies when investing in innovative startups, and are there any differences between investors' requirements in the US and Norway?

1.4 Scope

Due to the differences between Norway and the United States in regard to the size of the countries, both geographically and population-wise, the scope of this thesis needs to be limited. In addition, there exists a difference between the two nations in regard to the number of startups, numbers of investors and available capital for startup funding. It is difficult to compare Norway to the US as the countries consist of numerous clusters that vary considerably from each other. We chose to see Norway as one region due to the size of the country and the condensed environment. The most known area in the US regarding entrepreneurial activity is Silicon Valley, as Silicon Valley today accounts for one third of all venture capital investments in the US. Based on these facts, this thesis will mainly compare Norway to Silicon Valley.

1.5 Introducing the Respondents

The respondents interviewed in this research are all highly knowledgeable in regard to the thesis' subject on financing of startups and investors' requirements for exit strategies. Their various backgrounds have provided different perspectives as they operate as founder, seed investor, angel investor, venture capitalist and as consultant. Though the respondents are all Norwegian, some operate in Silicon Valley and some in Norway, which entails that several of them have knowledge about both environments. All respondents were positive to the subject of our thesis and the research question as it is a highly relevant subject receiving both private and governmental focus.

Alsterberg, Bjørn
Angel investor and consultant. Bjørn Alsterberg has experience from working eight years in Bergen Technology Transfer (BTO). His work in BTO consisted of providing assistance to the startup environment helping startups commercialize their innovation research and becoming investor-ready. Today Alsterberg works as an independent consultant and runs the pre-seed fund FFV AS, which invest in early stage companies.

Dyrnes, Gro Eirin
Director of Innovation Norway in San Francisco and Silicon Valley and Chairman of the board at Nordic Innovation House. Dyrnes works with tech startups, Norwegian companies and Norwegian investors who invest in Norwegian technology. Nordic Innovation House is a co-working space, an incubator and a resource center for Nordic tech companies.

Enger, Øivind
Partner Investment Advisor, Sarsia Seed. Enger has a PhD in microbiology with 15 years of experience as a researcher. Today he works on IPR and commercialization of research in biology, aquaculture, medicine and biotechnology in Sarsia Seed, investing in early stage technology companies operating in the areas of Energy/Cleantech and Biotech/Life Science.

Hansen, Fredric Staksrud
Founder of Unisound. Unisound is a Norwegian startup with offices in Trondheim and Silicon Valley. Unisound has developed the world's first fully autonomous sound field system for speech recognition and communication. With offices in both Norway and Silicon Valley, Fredric has experience from both environments regarding the financial ecosystem and the different cultures.

Husøy, Tarjei
Co-founder and Lead Developer of Megacool. Megacool is a GIF capturing, sharing and attribution Software Development Kit for gaming, solving marketing problems by enabling players to invite their friends. Megacool is founded by three Norwegians and is based in San Francisco. Husøy and his team have experience from running a startup in the United States.

Rinnan, Rune
Managing partner and founder of Televenture. Rinnan holds a Master of Science in Business and Economics, with a major in finance from the Norwegian School of Management. He has a top level international and financial experience in telecom, IT, media and the oil & gas sector. Televenture is one of the leading venture capital companies in Norway.

Tonning, Arne
Partner, Alliance Venture. Arne Tonning joined Alliance Venture in 2008. Prior to this, he spent 6 years in London with the Norwegian Trade Council/Innovation Norway. Tonning has also worked in SINTEF Telecom and Informatics developing wireless technologies. He holds a BSc and a MSc in electrical engineering from Georgia Tech and an MBA from Heriot-Watt University. Since 2014, Tonning has been Investor in Residence at Nordic Innovation House in Palo Alto.

2 Literary Review

2.1 Entrepreneurship

Entrepreneurship was by Joseph A. Schumpeter (1947) early recognized to be a significant and systematic source to economic growth, and entrepreneurship has since been an important aspect of economic research. As a repercussion from the financial crisis, lower oil prices and generally slower economic growth, entrepreneurship and innovation should be of importance for most countries, including Norway. By restructuring the business sector from activities with falling demand and low productivity to activities with increasing demand and high productivity, a country can gain social economic benefits. New establishments are therefore essential to uphold a healthy dynamic in a national economy.

The following chapters will address historic views on entrepreneurship, Schumpeter's approach to economic development and the development of definitions on innovation before rendering some general statistics on entrepreneurship.

2.1.1 Historic Views

The term *entrepreneurship* has throughout history been difficult to define. Tor Aase Johannessen provides in the course *Innovations Management and Entrepreneurship* at the Norwegian School of Economics, a chronological overview of some of the most important definitions developed by researchers within the economic field.

Knight (1921) described entrepreneurship as profiting from bearing uncertainty and risk. However, Schumpeter (1934) described the term as carrying out new combinations of firm organizations. Some years later, Hoselitz (1952) argued that entrepreneurship entails bearing uncertainty, coordination of productive resources, introduction of innovations and the provision of capital. Further, Cole (1959) defined it as a purposeful activity to initiate and develop a profit-oriented business, while McClelland (1961) argued that moderate risk taking is the most describing definition (Johannessen, 2016). Due to these different definitions, Hébert and Link (1982) argued that:

"One of the major difficulties confronting any investigation into the connection between entrepreneurship and economic activity is that in the broad expanse of time the entrepreneur has worn many faces and played many roles. There is yet no consensus among economists regarding who the entrepreneur is and what he does" (Hébert, 1982, p. 107).

Herbert and Link's argument is still accurate today as economic researchers has not published one common definition of entrepreneurship. Johannessen (2016) continues with Casson's (1982) definition, stating that entrepreneurship can be described as decisions and judgments about the coordination of scarce recourses. Gartner (1985) approaches entrepreneurship from another angle defining it simply as the creation of organizations. Later, Stevenson et al. (1989) described entrepreneurship as the pursuit of opportunity without regards to resources currently controlled, while Hart et al (1995) expanded this definition to entail the pursuit of opportunity without regards to resources currently controlled, but constrained by the founders' previous choices and industry-related experience (Johannessen, 2016).

It is evident that entrepreneurship has been defined differently throughout history, and there exists nearly as many definitions of entrepreneurship as writers on the subject. The researcher who perhaps has made the greatest contribution to the subject is Schumpeter, and his approach and findings will therefore be discussed in the next chapter.

2.1.2 Schumpeter's Approach

Schumpeter tried to clarify the fundamental phenomenon of economic development and define the role of an entrepreneur in his book *The Theory of Economic Development* from 1934. Schumpeter describes economic development as carrying out activities in new combinations, and provides five cases to explain the concept:

"(1) *The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of good.* (2) *The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which needs by no means be founded upon a discovery scientifically new, and can also exist in a new way a commodity commercially.* (3) *The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.* (4) *The conquest of a new source of supply of raw materials or*

half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) *The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position"* (Schumpeter, 1983, p. 66).

Schumpeter's definition of entrepreneurship is characterized by the fact that new combinations are embodied in new firms and not in already established firms, and that innovation and newness are required characteristics to define it as entrepreneurship. Therefore, Schumpeter named the entity that carries out new combinations as *enterprise*, and the individuals who carry them out as *entrepreneurs* (Schumpeter, 1983). However, Schumpeter argues that the term entrepreneur is dependent on the continuing creation of new combinations by stating:

"... everyone is an entrepreneur only when he actually "carries out new combinations", and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses" (Schumpeter, 1983, p. 68).

In other words, Schumpeter argues that it is time-limited to be an entrepreneur unless the entrepreneur goes from project to project as soon as the entrepreneurial role diminishes in each project.

2.1.3 Innovation

As Schumpeter establishes, *newness* and *innovation* are two important fundamentals of the definition of entrepreneurship. One definition of innovation made by Trott (2008, p. 15) is "innovation is the management of all the activities involved in the process of idea generation, technology development, manufacturing and marketing of a new (and improved) product or manufacturing process or equipment". Another definition is made by Hovland (2008, p. 16) as he defines innovation as "a broad term that include all situations where society is introduced to, and use, something new". This coincide with Schumpeter's definition which include four elements of new combinations (process innovation, market innovation, factor innovation and organizational innovation), as modes of innovation.

However, none of the presented definitions on innovation has defined innovation on a scale of newness. To do so one may distinguish between radical and incremental innovation. Radical innovation is described as fundamental changes that represent revolutionary shifts in technology, and is characterized by a clear departure from existing practice. In contrast, incremental innovations are described as minor improvements or simple adjustments in current technology (Dewar & Dutton, 1986). With this, risk is introduced in connection to the degree of innovations, as a high (low) degree of innovation is normally accompanied by high (low) risk. Generally, there will be a higher risk involved when starting a business with a product or service that is unfamiliar and unknown, which should be of importance to investors during evaluations of investment opportunities (Hovland, 2008).

Although startups are commonly associated with entrepreneurship, Schumpeter's definition of an entrepreneur does not include individuals who start a business without innovation. Among other writers however, this is not the case. Garner (1988, p. 11) states that "entrepreneurship is the creation of organizations" without distinguishing between whether the organization is innovative or if it is a replica of an existing business. Entrepreneurship is, in other words, all about the creation of new organizations. By defining an entrepreneur as the individual creating a new business, the term is brought quite close to the term *founder.*

2.1.4 Statistics on Entrepreneurship

To comprehend the subject of entrepreneurship it is supportive to substantiate theory with useful and comparable statistics to compare Norway and the United States. This chapter will therefore view some statistics gathered from the world's foremost study of entrepreneurship, the Global Entrepreneurship Monitor (GEM). GEM is through international collected data able to provide high quality information that enhance the understanding of the entrepreneurial phenomenon. GEM's survey from 2015/2016 counts over 60 participating countries, including both Norway and the United States. Since the thesis has narrowed the focus to Silicon Valley, the data from this survey must be interpreted cautiously. The survey defines entrepreneurship as:

"Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business" (Reynolds, Hay, & Camp, 1999, p. 3).

The GEM report introduces the term Total Early-Stage Entrepreneurial Activity (TEA). TEA refers to all individuals between the age of 18 to 64 who are in the process of starting a venture, and those running a business that is less than three and a half years old (Kelley, Singer, S., & Herrington, 2016). In 2015, Norway had a TEA of 5.7 % while the United States had a TEA of 11.9 % (Kelley et al., 2016, p. 122). The TEA percentages for Norway and the USA over the last five years are presented in figure 2.1.

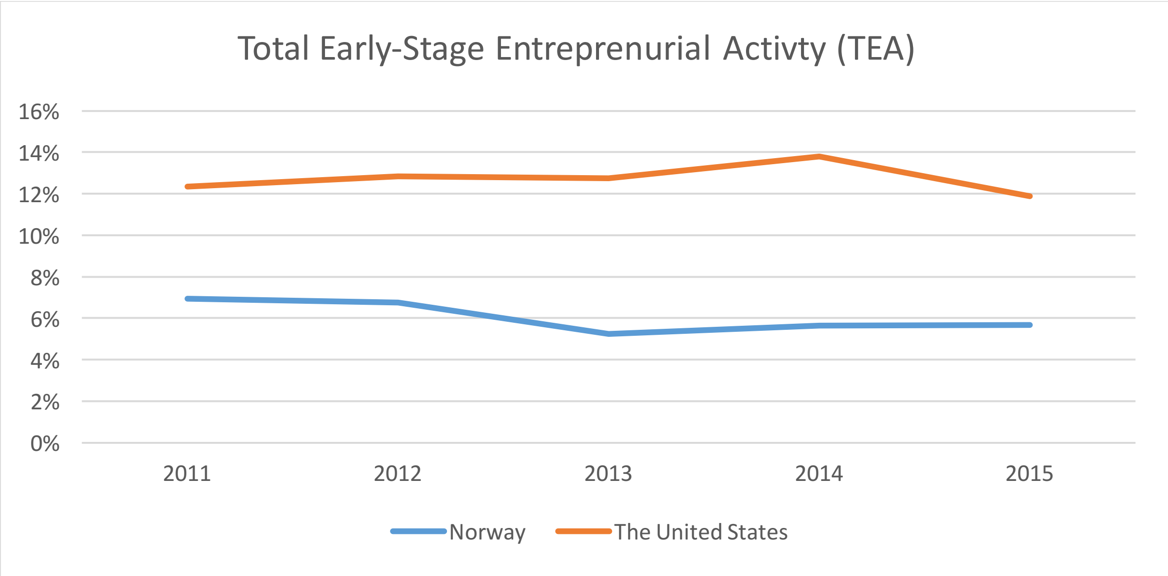

Figure 2.1: TEA-level for Norway and the USA (Global Entrepreneurship Research Association, 2016).

From the definition made by Reynolds et al. (1999), there is no specification regarding a new good which the definition made by Schumpeter (1934) emphasizes. As the thesis focus on the introduction of a new product or service, the statistics on country specific TEA becomes less interesting. However, GEM includes statistics on percentage of TEA which indicate that their product or service is new to at least some customers. In Norway, this percentage is found to be 19.76 % for 2015, while it is 47.09 % in the US (Global Entrepreneurship Research Association, 2016). The numbers for the last five years are displayed in figure 2.2.

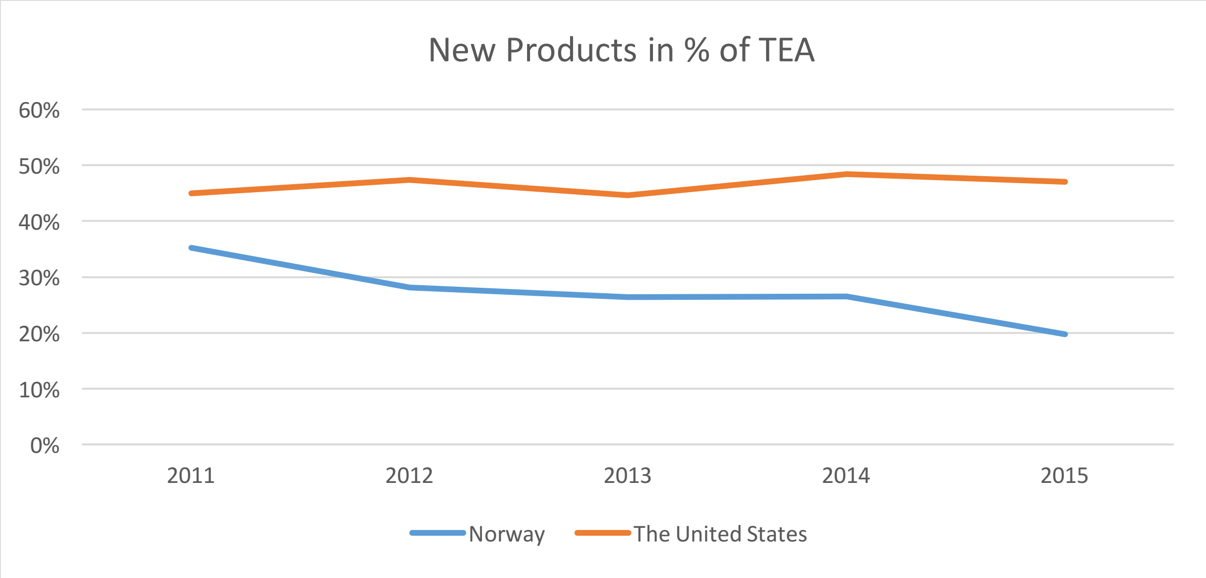

Figure 2.2: Percentage of TEA that perceive their product or service as new to at least some customers (Global Entrepreneurship Research Association, 2016).

To find the TEA adjusted for innovation, it is possible to combine these statistics. The TEA adjusted for innovation will show the percentage of a country's population (18 to 64 years old) who are in the process of starting a venture, or have been running a business less than three and a half years, where the product or service is perceived as new to at least some customers. In Norway, the TEA adjusted for 2015 was 1.12 % (0,0566 x 0,1976) compared to 5.56 % for the United States (0.1181 x 0.4709). These numbers demonstrate that the entrepreneurial activity is of a larger scale in the United States compared to Norway.

2.2 From Investor Funding to Successful Exit

Economic theory of homo economicus describes humans to take rational decisions trying to maximize their utility for monetary and non-monetary gains. Capital wealth is therefore one of the motivational factors in life. However, most people work to feel successful and useful, to have a sense of purpose and to have fun. Building up a business and selling it brings a rich and diverse range of experience and knowledge in addition to monetary wealth. It also creates freedom to explore one's true capabilities and brings with it the thrill of winning in the face of adversity (Peters, 2009; Uphill & McMillan, 2007). Bergo (2007) refers to a study conducted by EY in 2006 where only 15 % claimed that the reason for starting a business was to gain a possible increase in revenue. However, to become their own boss (40 %) and the wish to realize a great idea (28 %) was the main reasons for establishing their own business (Bergo, 2007).

Businesses today operate in a fast-moving marketplace where they change, expand or contract in order to balance with the current economy. This constant change has made acquisitions, sales, mergers and takeovers more common in the global commercial environment. Because of rapid changes it is more essential than ever to access external capital in the entrepreneurial industry. Organic growth is not sustainable for startups wanting to expand and achieve growth. Therefore, it is necessary to access external funding in order to survive and succeed. The rapid changes also affect the exit opportunities as exits occur at an earlier stage than before. Choices entrepreneurs make in regard to investors can have profound effects on exit opportunities and probabilities of success (Peters, 2009).

The following chapters will describe the importance of entrepreneurs raising capital, in addition which investors are available for startup funding. Further, investors' requirements when funding startup companies, different exit strategies and the importance of an exit strategy will be described.

2.2.1 Financing of Startups

There are numerous ways to raise capital for a startup. Entrepreneurs can attain capital by self-financing, friends and family, soft money, crowdfunding, angel funding in addition to seed and venture capital. An obvious source of startup funding is personal resources, which include personal savings, assets and debt capacity. In early stage, entrepreneurs are often "bootstrapping" the startup which means that the business is operating with minimal cash outflows because of limited capital (McKinsey & Company, 2007). At this period the entrepreneur tries to fund and build a company using personal resources. However, a lack of personal resources may lead to obtaining capital from friends and family in early stage (Smith, Smith, & Bliss, 2011).

Personal savings, as well as funding from friends and family, is often not vital to keep the business running. Therefore, startups need to raise capital from other external sources. One possibility is governmental or organizational one-time funding for a special project or purpose, generally called *soft money* (Smith et al., 2011). Soft money can be described as a loan without any obligations, and one possible and well-known source of soft money in Norway is Innovation Norway (Innovasjon Norge). Another source of capital is crowdfunding, a relatively new phenomenon where consumers act as investors. In crowdfunding people raise money for a project by collecting small to medium-size investments from other people interested in the project (Ordanini, Miceli, Pizzetti, & Parasuraman, 2009).

The focus of this thesis is investors' requirements for exit strategy. This thesis will therefore concentrate on investors who have a focus on exit strategy and the investors who might set exit strategy as a requirement before funding a startup. Therefore, the focus will be on angel investors, seed capital and venture capital funds, and these investors will be described more thoroughly in chapter 2.2.3 Sources of Funding. However, venture capitalists will be the main focus as they are generally more professionalized and most likely to have requirements towards exit strategy.

2.2.2 The Importance of Capital Funding

Access to financial resources is crucial for an entrepreneur when establishing a startup company, and the process of raising capital can be challenging. Raising capital is essential for the realization of the business and to achieve growth, which indicates that every decision an entrepreneur makes has economic consequences for the startup and its future possibilities (Bergo, 2007). Therefore, available funding is a fundamental subject in enterprise research (Deakins & Freel, 2003). As stated by Timmons (1990):

"Money is like a sixth sense without you cannot make a complete use of the other five" (Timmons, 1990, p. 421).

However, the available funding options is not always sufficient to create and operate a company due to tough competition to acquire funding, and existing funding gaps in different development stages. If the venture does not receive the next round of funding before they run out of money they experience a funding gap. Funding availability will therefore have a significant impact on startup rates, survival rates and early development of businesses (Smith et al., 2011). The lack of capital funding is according to Bergo (2007) a crucial barrier for development of entrepreneurial activity. In a study conducted by Alsos, Brastad, Iakovleva & Ljunggren (2006), a total of 51 % of the participants claim that the lack of available financial resources was the main reason for not establishing a startup. In addition, the most common reasons for startups to fail or close were the lack of capital (36 %) or that the establishment became too expensive (25 %) (Innovasjon Norge, 2006).

2.2.3 Sources of Funding

As the startup is developing and growing the financial needs will most likely outgrow the entrepreneur's personal resources, and external types of funding will be vital. To acquire this form of capital, entrepreneurs must meet and negotiate with investors and lenders in the capital market. The ecosystem for startup financing consists of different types of investors who operate in different stages of a venture's life cycle (Smith et al., 2011).

In this chapter, there will be given a short introduction to the investors operating at the different stages. Then angel investors, seed investors and venture capitalists will be thoroughly described as they are the main focus of this thesis.

Available Funding in Different Startup Stages

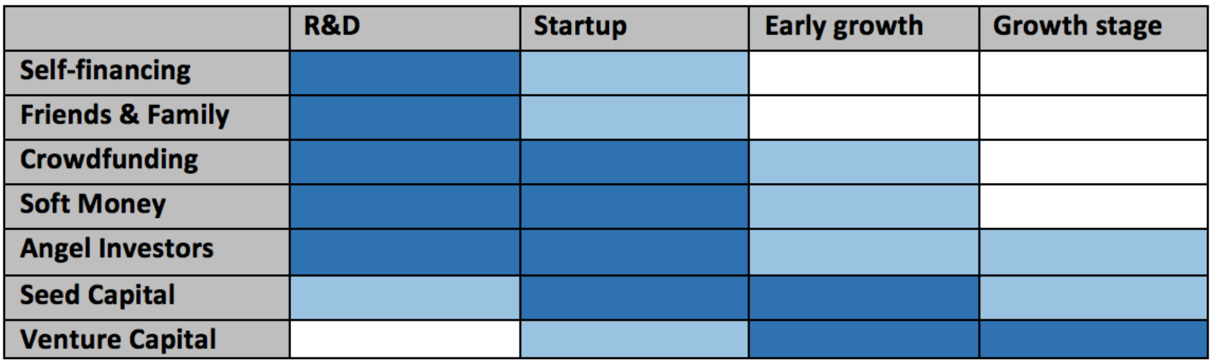

Figure 2.3 Available funding in different startup stages (based on Smith et al., 2011).

The available funding options differ depending on the different stages of a company's life cycle. As seen from figure 2.3, in the early stages self-financing together with crowdfunding, friends and family and soft money are possible funding options for a startup company. At the earliest stage of development entrepreneurs do not have much else than an idea in their mind, which is, along with the business concept, still being developed. During research and development stage, the entrepreneur has normally not begun to invest in production and is still working on the prototype. At this stage the venture does not generate revenue and the cash flow is generally negative as the company invests in the equipment needed for research and development (Smith et al., 2011).

Once the business concept is presentable, the entrepreneur may attract further financing from angel investors, seed funds and later venture capital funds (Berger & Udell, 1998). In the startup stage, the company starts to acquire facilities, equipment and employees needed to produce the product or service. Cash flow is declining in this stage due to the high level of investments. When the startup reaches the early growth stage, revenue should be growing. However, both net income and cash flow available to investors are commonly still negative. Cash flow exceeds net income, essentially because periodic depreciation expenses are larger than the increase of investment in working capital. In the rapid growth stage, the rapid sales growth puts heavy demand on the entrepreneur to locate the financing needed to sustain the corresponding growth of the working capital. In this stage, net income should become positive (Smith et al., 2011).

Angel Investor

Shane (2008, p. 14) defines an angel investor as "a person who provides capital, in the form of debt or equity, from his own funds to a private business owned and operated by someone else, who is neither a friend nor a family member". Business angels are typically individuals with a high net worth who are willing to provide startup capital for high-risk ventures. Angel investors will fund startup companies for different reasons as they are a group with diverse backgrounds, yet the most common reason is to get financial returns on their investment (Benjamin & Margulis, 2005).

Angels tend to fund companies with a product, service or technology that they already have insight to or knowledge about. Due to their own interests, many angel investors want to add value to the company by sharing their knowledge with the entrepreneurs. The investors then get the opportunity to work with entrepreneurs and innovations, which gives them the possibility to contribute to developing new companies and to help the community (Shane, 2008). When angel investors find ideas that are attractive for nonfinancial reasons, they often take higher risk or accept lower returns. This may be due to the pay-it-forward mentality as many angel investors are previous entrepreneurs who want to contribute to continuous growth. The great varieties among business angels make them a diverse group that can contribute to great success as they add value to startup companies. However, potential conflicts between the founder and the investor may arise due to different views on the future of the product, service or company. This indicates that it can be of equal importance for both the entrepreneur and the angel investor to have the same interests and knowledge before entering a partnership (Gompers, 2002).

Seed Capital

Seed financing is known as one of the earliest external financing sources and consists of relatively small amounts of money to support exploration of the startup's concept (Smith et al., 2011). Seed capital can be divided into two types, respectively pre-seed and seed, whereas pre-seed capital is provided to the startup at an earlier stage than seed capital. Both seed and pre-seed funds aims to facilitate pre-market development of a new startup. Pre-seed funding is often concerned with research and development, manufacturing prototypes or business planning including market research activities. Seed funds are similar to venture capitalist firms, but they invest in earlier stages than the conventional venture capitalists (Deakins & Freel, 2003).

Venture Capitalist Funds

Venture capital is by Deakins & Freel (2003) defined as "financial investment in unquoted companies, which have significant growth potential, with a view to yielding substantial capital gains in line with the additional risk and illiquidity of an investment, which cannot be freely traded during the lifetime of the investor's commitment to the business" (Deakins & Freel, 2003, p. 140). A venture capital fund is often referred to as a pool of capital that is professionally managed, and is quite unique as an institutional investor asset class (Sahlman & Stevenson, 1992). Venture capitalists seek young startups with the potential for rapid and substantial growth that will need significant capital investments to finance this growth (Smith et al., 2011). Well-off investors, investment banks and other financial institutions, also called limited partners, invest in venture funds where the general partners manage the investments in exchange of a fee and a percentage of the gain on the investment (McKinsey & Company, 2007).

Generally, venture capital firms' tasks entails providing capital, assistance and expertise to firms. Venture capitalists can contribute with professional advice as they often have an entrepreneurial background with knowledge and experience from the industry in addition to a relevant education. Venture capitalists prefer to specialize in one industry rather than diversify across investment stages and industry (Norton & Tenenbaum, 1993). Research shows that entrepreneurial firms backed by venture capitalists investing outside their preferred industry are less likely to have a successful exit (Johansen, 2014). By analyzing a sample of Silicon Valley startups, Hellmann and Puri (2002) found that venture capitalists add value beyond capital by helping firms develop their human resources. Venture capitalists look for relatively long term investments, which normally is in the interval of seven to ten years. They aim for a high rate of return through successful exits, which can be achieved by the sale of the equity stake rather than through interest or a divided income (Deakins & Freel, 2003).

2.2.4 The Investment Process

A typical venture capital fund portfolio results in a small number of highly successful investments together with a number of less successful investments. During the assessment of whether to invest in startups or not, investors try to identify, evaluate, investigate and monitor the projects that will provide the investors with a return on investment that compensates for bearing risk (Smith et al., 2011). Deakins and Freel (2003) states that approximately 80 % of the startups in a deal flow are rejected at the screening process. As the investment process continue to due diligence, only a few startups are left in the process and the rejections naturally become less common (Deakins & Freel, 2003). This chapter will describe the evaluation process and some of the agreements that should be in place before investors decide to invest a startup company.

Figure 2.4 The investment process (based on Klonowski, 2010).

Access to information about high quality investment opportunities is crucial for a venture capital firm. The number of business proposals received by a venture capital firm is referred to as the firm's deal flow. One way of generating deals is for venture capitalists to focus on identifying deals in the desired size range, industry, stage of development and so on. When venture capital firms receive a business plan, they generally attempt to examine the potential startups unless it is immediately obvious that the deal is unlikely to occur. The participating venture capitalists list their issues and create a preliminary list of critical commercial concerns for further investigation. This document will form the basis for further analysis of the startup and the due diligence (Klonowski, 2010).

The key aspects of the initial screening process involve finding potential deal breakers as quickly as possible by investigating the startup and its commercial proposition. This assessment is based on available information such as the business plan and the initial presentation. The internal knowledge and experience in the venture capital firm is determining for which startup companies they will invest in as they often specialize in a specific industry. After the initial screening process the venture capitalists move on to the due diligence stage where preparations of financial forecasting and business valuation is conducted (Klonowski, 2010).

Investors will conduct a valuation of a venture before investing which represents the value of the startup. The valuation depends on the uncertain future growth potential for the business as opposed to the present value. Therefore, a company's value will differ in the different capital funding stages as the uncertainty for future potential somewhat decreases because the startup grows and has more predictable cash flow. In addition, for both parties, it is important to structure the ownership rights among the venture's stakeholders, as every venture has one or more classes or series of shares that can be defined as bundles of rights provided to their shareholders (Leach & Melicher, 2011).

Once the parties believe they have reached an understanding, the next step is to prepare a formal, legally binding agreement (Smith et al., 2011). This implies negotiating and finalizing the terms of the deal with the entrepreneurs. Each contract between an investor and a startup team is different, and consists of different aspects depending on the negotiations between the two parties. Negotiations of the terms of the deal must be completed and the term sheet must be signed before a formal approval can be conducted (Klonowski, 2010). Cummings states that it is widely recognized that an investor's decision to invest in an entrepreneurial venture is based on the exit potential. Therefore, many aspects of the contract with the entrepreneur will concern the future exit potentials (Cumming, 2002).

During the negotiation and deal completion there is several legal documents and constitutional documents that must be drawn or amended. Through the constitutional documents the relationship between the shareholders and the company is regulated. In a situation where there is a small number of shareholders, the shareholder's agreement may be supplemental to the firm's constitutional documents. The shareholder's agreement is one of the most important documents in venture capital contracting as it directs and guides partner's conduct. The document typically includes clauses related to management decisions and approvals, transfer of shares, standard shareholder's rights, voting control mechanisms and exit procedures among others (Klonowski, 2010).

Some terms that may be included in the shareholder's agreement is veto and control rights, drag-along rights and anti-dilution rights. Veto rights are passive rights that can be used to prevent certain actions taken by the Board of Directors, and may also be used as threatening points in negotiation, and therefore influence the exit strategy. Control rights, by contrast, are proactive rights that enables the shareholders to initiate changes for the venture and one such right is the right to replace the founding entrepreneur as CEO. A drag-along right can be an effective right to hold as the majority shareholders can force the remaining shareholders and the entrepreneur to join an exit. The anti-dilution right gives the investors the right to maintain their ownership percentage and control of the startup, but may lead to a larger dilution of entrepreneurial control (Cumming, 2002).

Investors and entrepreneurs need to consider their percentage of ownership when investing in and receiving funding. In a startup, there will typically be several rounds of raising capital from different investors. Every time a startup receives funding they have to give up a piece of their company. Typically, a startup gives up 10 - 20 % to an angel investor in the first round and 20 - 30 % to a venture capitalist in the next round. New rounds of raising capital will dilute the current percentage of ownership for all equity holders. The normal percentage of dilution is 20 - 30 % in most rounds, though it depends on the amount raised and the value of the company. Generally, for any given startup there is a lead investor together with other co-investors. The lead is normally the fund with the highest level of direct involvement with the venture and is the one most likely to serve on the startup's board of directors. With co-investors, the venture capitalist firms can pool their human capital resources together and spread the investments of their funds over larger and more diverse portfolios. Venture capitalist funds also tend to collaborate by taking turns serving as lead investors or co-investors (Smith et al., 2011).

For venture capitalists, asset allocation is one of the most important decisions to make and means allocating between different risk levels, types of firms and industries or sectors. Considering that the risk related to the market, in which the company operates, is one of the biggest enemies of entrepreneurial firms, selecting the right sector or industry is particularly important. In addition to selecting the right sector or industry there are two main types of risk, market and technical risk. Market risk is the possibility for an investor to experience losses due to factors that affect the overall performance of the entire market or market segment which they operate in. Market risk, also called systematic risk, cannot be eliminated through diversification, as it is both unpredictable and impossible to completely avoid, though it can be hedged against or mitigated by the right asset allocation strategy (Klonowski, 2010).

Technical risks, also called unsystematic risk, can be reduced through diversification or by operating with other technologies as backup. The narrowest interpretation of unsystematic risk is risk unique to the operation of an individual firm. This form of risk threatens assets and processes vital to the business and may prevent compliance with regulations, impact profitability, and damage the company's reputation in the marketplace. Most common unsystematic risks are related to errors in entrepreneurial judgment as they start the production of a product that they believe from their market research to be the next big thing. However, this may not be the case as changes and new trends are occurring continuously. Some judgments may therefore damage the company and its reputation due to poor entrepreneurial foresights (Klonowski, 2010).

Following, the next chapter will explore different exit strategies for startups, the time aspect for conducting an exit and the importance of exit strategies.

2.2.5 Exit Strategy

An exit strategy is defined by Vinturella and Erickson (2003) as:

"the component of the business plan that describes a method by which investors can realize a tangible return on the capital that they have invested in the venture. Investors consider the "how", "when" and "how much" related to converting their share of the profits of the venture to a more "liquid" form" (Vinturella & Erickson, 2003, p. 230).

The definition states that investors consider *how* to convert their shares to a liquid form referring to the liquidity event. This implies how they will get a return on their investment which could be through an acquisition, a public offering or for instance an employee or management buyout (Vinturella & Erickson, 2003). DeTienne, McKelvie & Chandler (2015) refers to Poulsen and Stegemoller who state that an acquisition and a public offering are comparable due to that they both represent significant shifts in ownership structure, a channel for raising capital, and a means of liquidation for owners.

Achieving an exit is the most important part of the venture capital process. An exit is the venture capitalists' objective to receive a return on the investment made by limited partners (Klonowski, 2010). Limited partners can be corporations, financial institutions, insurance companies or pension funds, and the venture capital firms have legal and ethical obligations to these groups. Venture capitalists do not expect to be paid dividends throughout the life of their investment as they aim to grow the value of the businesses in a long-term view (Smith et al., 2011).

The investment is considered a failure if the venture capital firm fails to return profit to its limited partners. An exit issue is often the one in which the interest of venture capitalists and the entrepreneurs may diverge most. Venture capitalists must therefore secure ways to sell their shares within the target investment holding period. To secure their ability to sell, it is an important step for the venture capitalists to agree to an acceptable and realistic exit strategy with their partners upfront. Venture capitalists know that if entrepreneurs have different views on how to achieve exit, the partnership may not work (Klonowski, 2010). There are two preferred exit routes for venture capitalists, respectively an IPO or an acquisition, which will be described in the following parts of this chapter.

Acquisition

Acquisition is considered the most likely exit out of the different possible exits, and refers to a sale to either a strategic or a financial buyer. A strategic buyer is typically involved in the same industry as the startup, while the financial buyer generally buys the startup for its investment value (Vinturella & Erickson, 2003). DeTienne et al. (2015) states that when a company is acquired, another company purchases all of the outstanding shares, making it more likely that the entrepreneur can harvest more or all of the investment. According to Peters (2009) the main reason for the high level of activity in the market for acquisitions, is that acquiring companies is considered the best way for large companies to grow. Instead of using internal resources on research and development, many big companies spend more money on company acquisitions (Peters, 2009).

An advantage with acquisitions is that they add more value to the new and combined company as it reduces duplication which may create more efficient operations. It opens up markets for both companies because the company gains new market shares, which also may result in an enhanced level of revenue. In addition, the combination of two, often competing, companies may create multiple growth opportunities as they work together as one entity. Establishing the strategy for acquisition is beneficial as it forces the entrepreneur to identify possible buyers. When looking for potential acquirers, the startup management should look for opportunities that creates synergies as these synergies are the key to value creation. With a larger chance for a potential synergy, there will be a higher probability for the potential acquisition (Vinturella & Erickson, 2003).

Some of the disadvantages for startups and their employees during an acquisition is that it may cause distress within the company. Positive efficient operations and the removal of duplicated processes may enhance the possibilities for layoffs, and there may occur higher levels of uncertainty among the employees. One of the main problems during an acquisition may be the process of consolidating the different corporate cultures, as the two ventures may have different aspects and requirements to either the environment in the office, their social policies or for instance the dress code policies (Vinturella & Erickson, 2003).

Initial Public Offering

During an initial public offering (IPO) the startup will offer shares of stocks for sale to the public. When the startup conducts an IPO, the venture goes from being a private company to becoming a public company, which is for many entrepreneurs seen as a milestone or a symbol of their achievement. An entrepreneur will commonly start to think about going public when the funding required to meet the growth of the business have exceeded the company's capital capacity (Sahlman & Stevenson, 1992). An IPO can be considered as a growth strategy rather than a liquidity strategy, due to that the offering allows the entrepreneur to extract the accumulated wealth (DeTienne, 2008).

Some of the advantages of conducting an IPO is the access to long-term capital provided from the sold stocks, as the company's earning capacity may be restricted. As conducting an IPO makes a company public it will also be more visible to potential consumers, employers and possibly buyers. If the venture sells a consumer product or service, they can often benefit from the public owned shares as more widespread of shares often implies more awareness and attraction to the product or service. This publicity can also lead to expansion through business combinations because it is easier to negotiate mergers and acquisitions (Sahlman & Stevenson, 1992).

However, some disadvantages are that the process of conducting an IPO is time consuming, complicated and expensive. In addition, by going public there will be lack of operating confidentiality because reports to the shareholders require disclosure of many facets of the company's business, operations and finances. There might also be a higher pressure on short-term performance as a publicly owned company is accountable to the shareholders. The shareholders expect a steady growth in sales, profits, market share and production innovation because the investor's return depends on the company's performance. There also exists a possibility for the entrepreneur to lose his or her control over the company if more than 50 % of the shares are sold to the public. This is especially likely if most of the shares are in the hands of few individuals who could challenge the company's management. However, if the shares are widely distributed among the shareholders, the management could still exercise control with less than 50 % of the public sold shares (Sahlman & Stevenson, 1992).

Alternative Exit Strategies

There also exist alternative exit strategies, some of them being mergers, earn-outs, liquidations and management buyouts. In a merger, two firms combine operations, more as equals, which differ from an acquisition where one company buys another. Mergers are generally for strategic purposes where potential synergies can create value, indicating that synergies are the best predictor for a successful merger. In an earn-out however, the management may initiate to buy the investor's ownership shares at a premium over their initial investment due to a consistently positive cash flow. When the arrangement meets the investor's return expectations, the investors will often be satisfied and will therefore often work out payment plans to encourage the entrepreneur to pursue this option (Vinturella & Erickson, 2003).

A different exit is liquidation, which might occur when the startup's management team closes the venture down for different reasons, for instance if the venture fails or if the owner quits. When the business has little value as a going concern, the most common liquidation option is generally implemented when the company sells its assets and stop their operations. Lastly, a management buyout can be a good strategy if the company is generating a sufficient cash flow. Then managers can take on more loans to buy back the equity held by outside investors. This exit is only a good strategy if the entrepreneur or management is reasonably certain of sufficient cash flow to handle debt and provide for a continued growth and operation of the startup (Vinturella & Erickson, 2003).

Time to Exit

The beginning of this chapter referred to an exit strategy definition by Vinturella and Erickson (2003). The definition described the following *how*, *when* and *how much* an investor considers in relation to when they convert their shares from the venture to a more liquid form. The timing of this liquidity event, the *when* is an aspect that should be clearly defined in the exit strategy. In addition, the defined exit strategy should assure the investors that they will earn a high return on their investment. As it takes a while before most startups have positive cash flows, the exit is the primary way for the investors to realize a positive return from their investment (Vinturella & Erickson, 2003).

Generally, the exit time for a fund is when the fund is predetermined to close. Venture capitalists will typically seek to exit an investment in an entrepreneurial firm within three to seven years as most funds have a limited lifetime. Venture capitalists will assist the startup companies to grow, but investors are often more anxious to exit than the entrepreneurs who generally are more focused on building long-term value (Vinturella & Erickson, 2003). Angel investors on the other hand, generally have a longer time horizon for their investments than venture capitalists. This is beneficial for startups as it provides the entrepreneur with more time to develop their startup. Angel investors' investments are normally smaller than venture capitalists', and business angels are considered to be a great resource following initial seed financing as their ability to develop the business to the point where external financing becomes achievable (Smith et al., 2011).

Return on Investment

The third and last aspect from the exit strategy definition by Vinturella and Erickson (2003), the *how much*, refers to the extent of the return on investment in liquid terms. At the point of exit the market will determine the value of the investment. When planning for an exit, a standard rule of thumb for a venture capital fund may be 20 times return on investments. A valuation of the company in terms of how much an investor can expect to achieve, can be given by a forecast of future income. Through this forecast, the financial performance is based on assumptions on most of the sales and operational measures. The financial plan describes the future levels of sales and sales growth, a successful marketing strategy, and the ability to produce the product or service at a competitive price with an acceptable margin. This is one of the reasons why investors place much emphasis on the quality of the startup's management team, as their return on investment depends totally on the team’s ability to realize the projections in the financial plan (Vinturella & Erickson, 2003).

2.2.6 The Importance of Exit Strategies

DeTienne (2008) refers to William Payne when stating that:

“Perhaps the most important piece of the initial business plan that is commonly overlooked by entrepreneurs is their exit strategy. It probably seems silly to spend much time thinking about how to liquidate your future interest in a business that doesn’t yet exist. Yet, your exit strategy impacts many directions that you might choose in growing your business. Not considering your exit strategy early may indeed limit your options in the future. Remember: It is not a matter of if you will sell, or otherwise dispose of, your interest in this business. Your only decisions are when and how” (DeTienne, 2008, p. 213).

The exit strategy will influence future decisions and behaviors for the company and its employees. Previous research indicate that decisions about a dominant strategy have a lasting imprint on the strategic direction of the venture (Boeker, 1989). Therefore, by developing an exit strategy in early stages of a company’s life, a startup will more likely be able to exit and achieve the planned and desired exit as their operational and organizational strategies are facilitated to the planned exit (DeTienne, 2008).

Providing a realistic exit strategy improves the credibility with current and future investors, and helps to reassure them in regard to their expected returns (Vinturella & Erickson, 2003). As both the business and the number and influence of stakeholders grows, DeTienne (2008) argues that there will be an increasing pressure on the entrepreneurs to develop an exit strategy. In addition, the development of a strategy for exit will impact not only the ability to exit but the routes available (DeTienne et al., 2015).

The exit will on the time of implementation often have an effect both on the entrepreneur and the investors, but it may also affect the company itself as well as the economy. In early stages the entrepreneurs are often more focused on raising the capital needed for them to start or expand their venture, which implies that their focus is not on how they might exit the company in the future. In addition, many entrepreneurs have no intention of leaving the company at all (Vinturella & Erickson, 2003).

Entrepreneurs may realize some of the venture's wealth creation during the exit. However, conducting an exit may have profound psychological implications for the founder as he or she has sacrificed time, money and energy into creating the company. Many entrepreneurs have created not just a business, but a life. In this case, an exit that allows the entrepreneur to remain involved in the company may be more appealing than other exits which would require the founder to exit or give up control (DeTienne, 2008).

During an exit the founder may be forced to exit because the investors may want a professional CEO with specific management skills who have the ability to raise more capital, expand to other product areas and increase legitimacy. Studies have found that a substantial proportion of successful high-growth firms have brought in one or more senior level executives with big company experience, or that the CEO have been replaced or willingly departed (Hambrick & Crozier, 1985). However, negative effects might occur if the founder exits as an entrepreneurial exit may diminish organizational performance, disrupt work routines and increase employee insecurity (Haveman & Khaire, 2004).

DeTienne et al. (2015) states that developing an exit strategy will become more important due to several economic reasons as the market becomes more competitive. Developing an exit strategy will be critical as it will allow founders to evaluate their personal goals and objectives and set a direction to achieve their desired exit. In the startup industry, exits facilitate for entrepreneurial recycling where entrepreneurs with their knowledge and experience may be available for other startups. For the industry and the economy, it is important for founders to exit their firms in order to be able to help and invest in new startups in order to create a more vital ecosystem within the entrepreneurial industry (DeTienne, 2008).

To conclude this chapter, DeTienne et al. (2015) refers to Price as he argues for the importance of an exit strategy as it helps the entrepreneur to set the necessary guidelines so that the business can achieve a desired exit in the future:

"... your definition of success should be used as your strategic heading. It launches you off in the right direction, helps keep you on track, but also illuminates the way you feel uncertain or feel you are off track… every stage of the entrepreneurial life cycle becomes clearer and easier

to take if you know precisely what you plan to do with the business in the end" (DeTienne et al., 2015, p. 256).

2.3 Culture

The term *culture* has been described as one of the two or three most complex words in the English language. There are various definitions of the term, but the definition remains elusive and contested. Edward Tylor, who is regarded as the founder of cultural anthropology, described the term in 1889 as:

"That complex whole which includes knowledge, belief, art, law, morals, custom, and any other capabilities and habits acquired by man as a member of society" (Tylor, 1889, p. 1).

Tylor's definition is described as the earliest and clearest definitions of culture and is widely accepted by contemporary anthropologists. However, the term has more recently been defined by one prominent figure within the academic field of culture, Geert Hofstede. His research involved analyzing cultural differences and the implications these differences may have on two national capital markets. Hofstede describes the term culture as:

"It is the collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede, 2010, p. 6).

Hofstede's definition is based on his research as he states that the definition is not a complete definition. However, it covers the aspects he has been able to measure. The term includes systems of values, as values are among the building blocks of culture. In the definition, *collective programming* refers to what characterizes a given culture. These characterizations are common perceptions among members, often rooted in deeply set assumptions. They serve as guidelines for views, actions and valuations, and creates boundaries for which norms and values that are applicable within a given culture. This programming provides the members of a culture with a filter for how to interpret their surroundings, and it is learned over time. Common for all cultures are that the members have a tendency not to notice the culture as it is an invisible weave in a society (Strand, 2007).

Culture is habitually taken for granted, which implies that it can be difficult to grasp its significance. However, culture is essential, especially in this study as it examines transnational differences. This thesis will focus on national culture that is, according to cultural theory, considered to be the most influential on individuals and organizations, especially in industrialized countries (Strand, 2007). The link between culture and its effect on entrepreneurial processes is well established in academic research, particularly the effect of national culture (Zhao, Hai, & Raunch, 2012). National culture will therefore be described in the following chapter.

2.3.1 National Culture

A definition on *national culture* is made by Hodne (1995):

"A national culture is a common experienced and accepted cultural platform for the members of a nation, who through this common culture become a nation-state" (Hodne, 1995, p. 19).

To understand the term national culture, it is essential to also understand what is meant by a national identity. National identity is characterized as a group of people linked to a certain geographic area that has historical meanings to this group. National identity is acknowledged when a nation conveys a culture that is shared by the population that constitutes the nation (Hodne, 1995).

Hofstede's conceptualization of national culture has been used by a predominant number of empirical studies (Hayton, George, & Zahra, 2002). Shared values shape political institutions and social and technical systems, which reflect and reinforce values and beliefs. Cultural values indicate the degree to which a society considers entrepreneurial behaviors, such as risk taking and independent thinking, to be desirable. Cultures that value such behavior promote a propensity to develop and introduce radical innovation, whereas cultures that reinforce conformity, group interests, and control over the future are not likely to show risk-taking and entrepreneurial behavior (Hayton et al., 2002). Therefore, it is important to understand the behavioral research on national culture and how it potentially can influence entrepreneurship within a country.

2.3.2 Cultural Differences

The Global Entrepreneurship monitor (GEM) performs an annual survey which tracks rates of entrepreneurship across multiple phases and assesses the characteristics, motivations and ambitions of entrepreneurs, and the attitudes societies have towards entrepreneurial activity. The survey examines the countries' various national factors including social values, innovation levels, entrepreneurship ecosystems.

Societal attitudes provide a signal about how entrepreneurship is regarded in an economy. A nation's culture, history, policy and business environment, among other factors, can influence its view toward entrepreneurship. This can affect entrepreneurial ambitions and the extent to which this activity will be supported. GEM assesses the extent to which people think entrepreneurship is a good career choice, whether they feel entrepreneurs are afforded high status and if there are positive representations of entrepreneurs in the media (Kelley et al., 2016)

The availability of funding and entrepreneurship education, the regulatory environment and access to markets are some of the conditions that play a critical role in influencing the level and type of entrepreneurship within a country. The GEM study reveals essential cultural differences between Norway and the United States. One graph from the study includes cultural and social norms, and reveals that the US is ranked as the second-best nation with 6.8 out of 9 points. Norway on the other hand, is ranked in 32nd place with a score of 4.7 points (see Appendix A). This indicates that the culture in the US is more sufficient in regard to facilitating for entrepreneurial activity than the culture in Norway.

3 Methodology

The choice of research methodology is of great significance for the result of the thesis (Saunders, Lewis, & Thornhill, 2012). This chapter describes the methodology used to analyze and answer the research question, which in this thesis can be described as open and exploratory.

The data is collected through a combination of semi-structured and in-depth interviews with seven participants representing different perspectives on the subject of this thesis. The data collection methods for this thesis has been approved by the Norwegian Centre for Research Data (NSD). Each interview was held in Norwegian, and to ensure a high level of quality and correct interpretations a substantial amount of time has been put into the transcription and translations of the interviews.

3.1 Research Approach

The data collection method for this thesis is a qualitative research method as the study analyses the participant's meanings and the relationship between them. According to Yin (2014, p. 11) the "most important condition for differentiating among the various research methods is to classify the type of research question". As the research question is described as open, this subject needs to be explored widely in order to develop a theoretical framework covering the relevant aspects of the research question (Saunders et al., 2012). The basis of the analysis will be investors' focus on exit strategies, and how the different cultures in Norway and the United States can impact their focus on exit strategies.

The qualitative research method is interpretive, which indicates that the researchers have to interpret and understand the meaning behind the subjective and socially constructed meanings expressed about the studied subject (Saunders et al., 2012). The qualitative research method is in accordance with the inductive approach, where the thesis explores a topic and develop a richer theoretical perspective than already exists in the literature (Jacobsen, 2015).

3.2 Research Design

The research design is the general plan of how to answer the thesis' research question (Saunders et al., 2012; Yin, 2014). The open research question entails an exploratory mindset as it seeks to understand and gain insight into differences between investors' requirements regarding exit strategies. An exploratory study indicates that one will discover what is happening and gain insight about the topic of interest. The need for flexibility and adaptability to change is two of the main advantages of an exploratory research, and strengthens the fact that the research design is of an exploratory nature (Saunders et al., 2012).

3.3 Research Strategy

Saunders et al. (2012) defined a research strategy as a plan for how to answer the research question. There exist different research strategies, whereas the strategies are not mutually exclusive and can be combined if it is coherent with the chosen research design and the nature of the research question. Qualitative data is favored when trying to achieve a deeper understanding of how and why different variables interrelate (Saunders et al., 2012). This thesis' research strategy is a combination of a template analysis and a narrative inquiry, where both strategies are coherent with the inductive approach.

As mentioned, the qualitative research is interpretive and this social constructionism indicates that meanings are dependent on human cognition. Since the meanings in this research depend on social interpretation, the qualitative data is ambiguous and complex. In addition, as the meanings are derived from words and these words may have unclear and multiple meanings, it is necessary to explore and clarify these with great care (Saunders et al., 2012). Template analysis is similar to other strategies, especially grounded theory, because it is used to create clarifications of social interactions and processes in a wide range of settings.

According to King (2012, p. 426) "template analysis is a style of thematic analysis that balances a relatively high degree of structure in the process of analyzing textual data with the flexibility to adapt it to the needs of a particular study". Template analysis is often used to analyze data from individual interviews (King, 2012). Therefore, this method was highly suitable for categorizing and clarifying the collected data as it involves developing categories, and sorting data by coding and analyzing accordingly to these established categories. The coding aids to structure the data and the analytical process that consists of exploring and identifying subject, patterns and relationships. Categories can also be developed during the process of collecting data and this flexibility is beneficial as it allows alterations to the analysis according to arising information from the data collection (Saunders et al., 2012). This is especially valuable since we combine the template analysis strategy with the narrative inquiry strategy. With the combination of these strategies the participants can explain the subject in question more in-depth.

Narrative inquiry strategy is based on the participant's complete stories, as opposed to giving answers that might be limited by the formulation of the asked questions. This is beneficial because it allows for analyzing linkages, relationships and socially constructed explanations. The strategy is described as appropriate for comparative studies as it enables recognition to how separate narratives of the same phenomenon differ (Saunders et al., 2012). The narrative inquiry strategy was applied differently with different participants as it was depending on how beneficial their full story was to the study.

3.4 Data Collection

Due to the openness and exploratory research question we utilized a qualitative approach which entails collecting data that is derived from words. As the data is non-numeric we are not conducting a quantitative analysis. Qualitative data is as mentioned preferable when attempting to achieve a deeper understanding of how and why different meanings interrelate (Saunders et al., 2012).

3.4.1 Primary Data

Primary data is defined as data that has been collected specifically for this thesis purpose (Saunders et al., 2012). Given the research question, the acquired data is obtained from interviews with suitable participants.

This thesis applies the use of semi-structured interviews in combination to in-depth interviews to accommodate the research strategy. Semi-structured interviews were chosen because they offer an advantageous approach for posing complex and open questions (Jankowicz, 2011). Semi-structured interviews are described by Saunders et al. (2012) as a list of subjects and some key questions that needs to be covered, although the questions may differ between the participants. This structure makes it possible to tailor each interview for every participant, which is beneficial because the participants have varied involvements in entrepreneurial activities. This form of interview allows the interviewer to add questions and follow-up-questions during the interview to get a deeper understanding to the meanings that the participants ascribe the subject.

The interview overlap with in-depth interviews, or unstructured interviews, which is defined by Saunders et al. (2012) as an informally and loosely structured interview that may commence with one or multiple subjects, but without a predetermined list of questions to work through. The interview in this thesis had a predetermined list of questions, but the questions varied among the respondents in addition to the follow-up-questions. Every choice of structure and strategy was made to get a fuller understanding of the participants' meanings to answer the research question in the best possible way. This reflects a combined structure of both semi-structured and in-depth interviews.

The questions in the interviews were primarily focused around the relevant and presented subjects and theory (see Appendix B). Each question is formulated as open to allow the participants to define and describe the subject in question. According to Saunders et al. (2012) an open question also encourage the respondents to provide an extensive and developmental answer.

3.4.2 Preparation and Conduction of Interviews

When conducting an interview, the key to success is careful preparations. A precise plan for how to demonstrate competence and credibility to obtain confidence is crucial for several reasons. First, it is important to have knowledge about the research subject and offer the participants the opportunity to give more detailed answers. Without preparation, answers and even cultural differences may lead to misinterpretations (Saunders et al., 2012). As interviewers, we searched for and read about all the participants before the interviews, but also before preparing the interview guide. This helped us prepare the interview questions to match the participants background, in addition to his or her knowledge about the subject.

Secondly, the supply of relevant information to participants before the interview will promote credibility. A list of subjects or questions may also help to promote validity and reliability as it informs the participant about the information of interest, and gives them the opportunity to prepare (Saunders et al., 2012). When preparing this thesis, all the participants received general information about the research including the research question. In addition, they received the interview guide several days before the interview. This was beneficial because the participants were given time to prepare.

The level of knowledge and competence for us as interviewers developed for each conducted interview. This helped us to both add new significant questions and delete other questions that was insignificant to the thesis, which ensured a higher level of coverage to relevant subjects to answer the research question.

Most of the respondents were contacted through e-mail, but some were also contacted by telephone. First we introduced ourselves and the subject of our research before asking them to participate as interview candidates. Further communication concerned agreements regarding time and place for each interview in addition to sending the interview guide. Two of the interviews were held in person, one at the interviewer's workplace, and one at the Norwegian School of Economics. The remaining five interviews were, due to geographical distances, conducted through video calls on Skype. The interviews lasted from about one to two hours. After finishing the questions in the interview guide, most of the participants were eager to share information and tell stories regarding the subject which they thought the research could benefit from.

3.5 Data Analysis

The interviews were recorded using a tape recorder with permission from the participants. The interviews were then transcribed as soon as possible after finishing each interview to limit the loss of impressions and visual indications, as that may provide additional information. After transcribing each interview, the transcripts were reviewed by making sure that they were accurate and if not, we corrected the transcription errors, which is referred to as data cleaning (Saunders et al., 2012). During the reviews of each transcript, different quotes and information were labeled according to the different subjects of the research, whereas some quotes received more than one label due to overlapping categories. The data was then arranged in the different categories, which ensured the data to be organized and to facilitate the structure of the analysis.

Each participant was given the opportunity to remain anonymous throughout the research, but they all allowed their name to be used in the thesis. We found it preferable to present all the respondents and to label each quote as their knowledge and experiences would substantiate the analysis. Allowing to name the participants reduce the degree of sensitivity required to handle, process and present the data in the thesis (Saunders et al., 2012). Each participant received and signed a consent form before the interview was conducted, where the consent form was written based on a consent form from NSD's website. The consent form consisted of general information about the thesis, the interviewers, the purpose of the interview, their rights as participants and that the interview would be recorded. Due to the fact that they had to read and sign the consent form in advance, they knew that the interview would be recorded. This might have caused the participants to withhold some information or meanings about the subject. Because we did not ask any deep personal questions our opinion is that this did not influence the participants' answers significantly.

After cleaning the data, the transcripts were sent back to the participants to ensure factual accuracy. After choosing the quotes for our analysis, the quotes were translated into English. The translated quotes were then sent to the participants to ensure that we had captured the participant's actual meaning and that all possible misinterpretations were avoided.

3.6 Quality of the Research Design

When evaluating the quality of the research design there are, according to Yin (2014), four important criteria that needs to be considered. These criteria are construct validity, internal validity, external validity and reliability. Internal validity is not applicable to this research due to fact that this thesis is of an exploratory nature (Saunders et al., 2012). The other three criteria will be presented and elaborated in addition to the ethical approach regarding the responsibility of handling and interpreting the information according to the ethical guidelines.

3.6.1 Construct Validity

Construct validity is concerned with the extent to which the research actually measure what was intended in the beginning. As we try to answer the research question by collecting data from semi-structured and in-depth interviews it is possible to achieve a high degree of validity. This is because the interview guide consisted of open and probing questions that gave the researchers the opportunity to explore responses and subject from different angles. Probing questions are used to get a deeper understanding or explanation of the participant's responses that are of significance to answer the research question, without offering a biased view or judgment from the researchers (Saunders et al., 2012).

3.6.2 External Validity

External validity is concerned with whether a study's findings are generalizable, as it refers to the extent to which the findings can be applicable to other settings (Saunders et al., 2012; Yin, 2014). Since this thesis is a comparative study of Norway and the US, the findings are not transferable to other regions or countries. In addition, because of a low sampling rate with only seven participants, the result of this research study might not be generalizable. However, because the study adds research findings to existing literature it can be argued that some level of generalizability can be achieved. Furthermore, this research can be valuable to other researchers who are interested in this subject.

3.6.3 Reliability

The definition of reliability refers to whether the data collection techniques and analytic procedures would produce consistent findings if they were repeated or replicated (Gripsrud, 2010). There exist several threats to reliability and because of these threats, it is important to be methodologically rigorous when conducting the research to avoid threatening the reliability of the findings and conclusions. Any research would effort to achieve a high degree of reliability, however it often can be difficult to measure reliability in qualitative studies (Saunders et al., 2012).

Determining the reliability of research utilizing semi-structured and in-depth interviews can be difficult as the interviews are independently created to match each participant, which results in lack of standardization. In addition, the interviews are conducted at specific times and circumstances which implies that the results are difficult to replicate. Different people might have different meanings and understandings, which may cause the answers to differ no matter how many times it is replicated. Because of this, reliability will remain a weakness in this thesis' research design.

One threat to reliability is the risk of biased opinions among both researchers and participants. The researchers must therefore be aware of the possibility of researcher bias that may be caused by their behaviors and responses which can influence the answers in terms of tone of voice and other non-verbal communication (Saunders et al., 2012). As researchers, we knew the threat for research bias before conducting the interviews. Therefore, we were cautious when answering and commenting the participants when they were answering the questions. Our questions were also asked as open questions to remove the possibility for us to guide the participant towards a biased direction.

The questions were open questions about general meanings and opinions on the different subjects of the thesis. Therefore, the fear of how affecting their role within their company by exposing their actual opinions should be limited. This may have reduced the threat for participant bias which is defined as any factor that induces a false response (Saunders et al., 2012). Four of our participants were located in Silicon Valley and because of the time difference we adjusted our schedule to alter the participants as to when we could conduct the interviews. Based on these facts we would say that participant error, defined as any factor that adversely alters the way in which a participant performs (Saunders et al., 2012), would be limited to the extent of what we could affect. Regarding research error, which alters the researcher's interpretation (Saunders et al., 2012), we would say that this was also limited because every translated quote was sent to each participant for approval to ensure correct translations and interpretations.

It is difficult to achieve reliability in qualitative research studies because the collection of data from the different participants may not be replicated, as the participants' interpretations and opinions can change over time. However, because of this we have taken the possible and necessary measures to limit the different threats, and our opinion is that the reliability is as high as possible due to the nature of this thesis and research design.

3.6.4 Ethical Approach

According to Saunders et al. (2012), ethics refer to the behavior standards that guide the conduct in relation to the rights of those who become the subject of the work, or affected by it. The ethical rules consist of principles that describe research ethics and ethical standards that are intended to guide one's research behavior. In this thesis, the subjects are the seven participants as they all have given us the approval to use their full names.

By using a consent form, which was signed by each participant, we secured that all participants had full information about their rights as participants and about the use of data collected from the interviews in advance. They were informed that the interviews would be recorded to secure that all the information could be reproduced correctly, and were also given the full right to resign from participating at any time. After the interview, each of the participants received both the full transcripts in Norwegian and the translated quotes to eliminate translating errors and misinterpretations. By receiving the transcript and the translated quotes they were given the opportunity to approve or not approve their own quotes and statements. Due to this, all statements and quotes in this thesis are approved by the participants.

4 Findings and Discussion

A country's entrepreneurial activity is dependent on the country's cultural fit, tolerance for failure, infrastructure that supports developing companies, intellectual competence, efficient capital markets and the willingness of big businesses to purchase from small companies. These aspects will during this section be discussed on the basis of our collected data from seven in-depth interviews. Our main focus will be on investors' focus on exit strategies and the factors that might influence this focus. In addition, we will discuss if the Norwegian and American investors' requirements for exit strategy differs.

Investors' main goal is to achieve a high return on their investments. For an entrepreneur, it is essential to acquire knowledge and competence, but most important a sufficient amount of funding from investors. In order to connect the entrepreneurs' and the investors' goal an exit in the near future is necessary. There are different possible exit routes and strategies and the most common exit strategies are acquisition and IPO.

Culture is an essential aspect when studying differences between American and Norwegian investors. Silicon Valley is known for having a successful entrepreneurial environment, while the Norwegian market is based on traditional industries. The success within the entrepreneurial environment in Silicon Valley has evolved from the entrepreneurial spirit in the American culture, financial recognition of success, access to competence and science, and fair and open capital markets. In Norway, there is a positive trend with more media publications about entrepreneurs and entrepreneurial activity which contributes to more awareness and possibilities for the startup industry.

In the following we will study the cultural effects on entrepreneurs and investors as we believe culture is fundamental in any environment. Then we will discuss the differences in availability of capital and the investment process in Norway and Silicon Valley. The next chapters will consist of discussions regarding the different available exit strategies including advantages and disadvantages, in addition to consequences regarding having an exit strategy or not. At last, we will discuss the potential for the Norwegian startup industry as we consider some initiatives to be implemented. During this discussion, the primary task is to answer the thesis' research question.

4.1 Culture

The GEM study (2016) revealed that the United States is ranked the second-best nation regarding the country's cultural and social norms. Norway on the other hand, was ranked at 32nd place (see Appendix A). This implies that the US is highly sufficient in facilitating the culture for entrepreneurial activity while Norway still has some challenges, but also possibilities to reach a higher level.

To evaluate a country's national culture, it is important to understand the term as it is considered to influence both individuals and organizations. The national culture may affect several aspects of entrepreneurship, both entrepreneurs, investors and entrepreneurial. In order to evaluate the cultural effects, one should be aware that the culture is habitually taken for granted. This implies that it can be difficult to understand the culture's significance on the business environments. In this chapter we will analyze and discuss the implications of some cultural factors that distinguishes the two nations, in addition to some similarities.

4.1.1 Cultural Effects on Startups

Silicon Valley is known for having a culture of openness, free exchange of ideas and people with a desire to create and develop new technology and establish new ventures. The region is home to one of the world's leading technology universities, Stanford University, in addition to many of the world's largest high-tech corporations which is argued to attract a critical mass of both nerds and investors. Numerous of young people with interest and knowledge about technology has relocated to Silicon Valley. This has contributed to making the region a leading ecosystem for high-tech innovation and scientific development in addition to forming the region's distinctive culture.

The entrepreneurial evolution in this area has taken place since the 'birth of Silicon Valley' when William Hewlett and David Packard established their electronics company in their garage in Palo Alto in 1939. In recent years, as of 2015, there was approximately \$34 billion venture capital invested in California, compared to roughly \$25 billion in the rest of the US (NVCA, 2016b). This implies that California including Silicon Valley, is exceptional and unlike any other areas in the US.

"*It is much more acknowledged in Silicon Valley that tech startups is an asset sector where it's possible to earn money - it is the future of business*"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

The culture in Silicon Valley is facilitated for entrepreneurial activities as the common mindset is that entrepreneurs will have a substantial effect on creating economic growth. The respondents interviewed in our research state that the pay-it-forward mentality is more prominent in Silicon Valley compared to Norway, were both entrepreneurs and investors help each other without expecting to get anything in return.

In Silicon Valley, startups within the technological industry is referred to as the future as they will create new job opportunities, useful gadgets and systems for the next generations. The common mindset is that entrepreneurs will provide the essential technology and sustainable solutions needed to meet future economic challenges. There are several examples of new technologies solving problems regarding sustainability, one example being Elon Musk and his company Tesla Motors. Tesla hopes to revolutionize the world by accelerating the adoption of electric cars to improve the environment, in addition to researching and developing solutions on energy storage.

"*There is a lot of faith in the American market towards entrepreneurial startups (...) here one will look for the luminous entrepreneur who will lead them to the promised land*"

Arne Tonning, Partner, Alliance Venture

In Norway, the cultural development towards entrepreneurial activity and startups is not as prominent as it is in Silicon Valley. Several of the respondents claim that Norwegian entrepreneurs are not viewed as the economy's heroes like they are in Silicon Valley. According to the GEM report, Americans consider being an entrepreneur a good career choice, and entrepreneurs are afforded high status. The report confirms that in the US, entrepreneurs and entrepreneurship is positively represented in the media. Fredric Staksrud Hansen claims that startups in Norway are mostly viewed as hobbies and not as an income generating profession.

"In Norway, entrepreneurship is just a fun side project you do with your buddies, while here (in the US) they (investors) say that "entrepreneurs are important and that we must contribute from early stage" (...) Here they do it because they "pay it forward". One should help each other to create something important and create new value. That's what drives the society"

Fredric Staksrud Hansen, Founder and CEO, Unisound

The GEM report (2016) ranks Norway in third place in regard to Norwegians perceived opportunities to start a company, which indicate that there a few barriers to start a company in Norway. However, Norwegians perceived capabilities are ranked in the bottom five, being 55th of the total 60. In addition, the study reveals that Norway is ranked at the bottom in regard to entrepreneurial intentions. This result implies that the Norwegian people do not believe they have the required skillsets and knowledge to start a business. One explanatory reason to why Norway is ranked at the bottom regarding entrepreneurial intentions may be that Norway has a low unemployment rate and generally high employment safety. This could indicate that people are unwilling to indulge in high risk startups when they are employed in safe and secure jobs.

This substantiates Fredric Staksrud Hansen's statement as Norwegians do not see entrepreneurial activity as an income generating profession. The other respondents' statements correspond with the results from the GEM report in regard to Norwegians low intentions to establish a startup. The report states that Norwegians do not view their capabilities to run a startup as high enough to possibly achieve success. Arne Tonning states that Norwegian entrepreneurs are not quite sure what it takes to acquire funding from investors. This implies that Norwegians do not have the needed knowledge and competence to establish a startup.

"I think it is more immature in Norway, so one wouldn't exactly know what it takes to be fundable. I think many of the cases that isn't funded in Norway probably wouldn't be funded here either"

Arne Tonning, Partner, Alliance Venture

From this report, we see that there are significant differences between Norway and the US, whereas the US is ranked higher when it comes to perceived opportunities and entrepreneurial intentions. However, this research includes all of the US and we believe that Silicon Valley differ from the US in a positive manner. This implies a great difference between Norway and Silicon Valley.

In Silicon Valley, the tolerance for failure seems to be considerably higher than in Norway. It seems to be more accepted to fail as entrepreneurs start a business knowing that failure is a possible outcome. The cultural effects on entrepreneurial activities are positive as it allows for startups to try, not being afraid to fail. American entrepreneurs seem to have a greater understanding regarding the experience and knowledge they will acquire from the process of starting a venture which might make them better suited to try again. Research shows that people who are willing to try again after failing, are more likely to succeed the second time (Lafontaine & Shaw, 2016).

"*There is a more general openness towards failing (in the US). Here people are more aware that if you are starting a business you will probably fail, and probably very quickly (...) It's not the focus on failing that's important, it is the knowledge you acquire along the way that may help you succeed in the future*"

Tarjei Husøy, Founder and Lead Developer, Megacool

In Norway, the acceptance for failing seems not to be incorporated in the culture in the same extent as in the US. The GEM report (2016) captures the fear of failure within the participating countries, were Norway is ranked as number 37 out of 60 countries. There exists less fear of failure in the US being ranked as number 46. These numbers include the US as a whole, and based on the respondents' statements and the excessive amounts of startups established each year in addition to the number of failures, we believe the fear of failure to be lower in Silicon Valley.

"*In Norway there is more risk aversion towards failing. It is very personal if you have failed as people would wonder "are you going to try again, didn't you just fail pretty badly?"*"

Tarjei Husøy, Founder and Lead Developer, Megacool

Silicon Valley has developed a culture over several decades that promotes entrepreneurship. Today, entrepreneurs based in Silicon Valley are considered as heroes as startups have had a substantial effect on economic growth throughout the years. In Norway, few people consider running a startup as a full-time job, and most Norwegians do not have any intentions of becoming entrepreneurs. There is also a greater fear of failing in Norway as opposed to Silicon Valley. These might be some of the reasons why being an entrepreneur in Silicon Valley is more attractive than in Norway.

4.1.2 Cultural Effects on Investors

Culture can have an effect on investors and the environment investors work in. We will discuss how culture affect the industries in which the investors operate, before evaluating culture's effect of their mentality, view on risk and their willingness to invest in startups.

It is argued that a large share of investors working in Silicon Valley has an experienced technical background from either working in tech companies or an educational background within technology. They often have both knowledge and experience which is considered necessary when investing in startups. Many American investors are former entrepreneurs who are still developing and operating their companies, and some are starting new companies in addition to investing in startups. Former entrepreneurs who have had a successful exit that continue investing in new startups is often referred to as angel investors. This type of investments can be seen in relation to the pay-it-forward mentality which is prevalent in Silicon Valley.

In Norway, investors have traditionally invested in industries they are familiar with, such as shipping, fish farming and oil and gas. The tech industry, including apps, wearables and IoT is for many Norwegian investors unknown, and several of the interviewed respondents claim that Norwegian investors do not have much experience with these kinds of technology companies. Though, all countries specialize in different industries based on their expertise and the countries' available resources, and this is not exceptional for Norway.

"There are few investors in the early stage technology companies (in Norway), and that's primarily because it is not where most of the investors have knowledge and personal experience. Everyone will invest their money where they have the best opportunity to identify where it will have a positive gain, so it's really quite natural"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

The respondents claim one of the differences between Norway and Silicon Valley is that in Norway there is a lot of economists working in the venture capitalist firms, while in Silicon Valley the venture capital firms consist of mostly engineers and serial entrepreneurs. Several respondents claim that both economic and technological knowledge and expertise is beneficial, and that there should be complementary expertise within the venture capital firm's management team. A report from NVCA (2016a) states that competent and intellectual capital creates growth. As many Norwegian investors have an economical background, they often do not have the necessary knowledge or competence to invest in the types of startups that American investors tend to invest in. Though, Norwegian investors may have better qualifications when it comes to investing in traditional Norwegian industries.

"There are differences (between Norwegian and American investors) regarding the investor's knowledge when contributing to the startup they have invested in. There is currently more competent investors in most businesses in the US compared to Norway"

Bjørn Alsterberg, Consultant and Angel Investor

Most of the interviewed respondents operating in Silicon Valley and some of the respondents in Norway, addressed the lack of competence as a determining factor for the low entrepreneurial activity in Norway. There exists a potential for improvement in the Norwegian startup industry as competent capital is a factor that can contribute to extract the potential within the startup. A report from DNB (2016) about startups and growth states that 77 % of the participating entrepreneurs in the survey said that competent investors are crucial or a big advantage for their startup. As some of the respondents' state that there is a lack of competence in Norwegian venture capital firms, the venture capital firms should focus on creating teams of investors with the necessary knowledge and expertise, especially within technology. Rune Rinnan, who operates in Norway, is very focused on the fact that their firm will never invest in something they do not have available knowledge about.

"We don't believe in investing in companies where we don't have competence or access to the necessary competence"

Rune Rinnan, Founder and Managing Partner, Televenture

The culture in Silicon Valley is facilitated for investors to acquire the needed competence, experience and knowledge regarding technological startups as the environment has been developed over decades.

Several of the respondents argue that American investors do better valuations and invest significantly more money than Norwegian investors. Some argue that they are better capable of allocating their assets which is beneficial as they may reduce risk and earn higher profits.

"Yes there is (a clear difference between Norwegian and American investors). The American investors invest at an earlier stage. They invest a lot more. They have very different valuations. They take more risk. There is a lot more money involved"

Fredric Staksrud Hansen, Founder and CEO, Unisound

Studying the differences between Norwegian and American investors' knowledge and competence, it is important to evaluate the differences in investors mentality, their view on risk and their willingness to invest in startups. Mentality may be used to describe how investors think and act.

"The Norwegian investors are like sheep. They admit it themselves. They invest when other investors invest"

Fredric Staksrud Hansen, Founder and CEO, Unisound

Investors in Norway are by a couple of the respondents claimed to act as sheep as they only want to invest in companies that other investors already have decided to invest in. This could be explained by the fact that they see other investors investments as a validation, as others believe in the product or service the company provides. Then they see a potential for a future profit which they want to be a part of. In the last decade, there have been several cases of situations like this, also in the US where several investors have over-invested in startups. These over-investments and the hunt for unicorns will be discussed further in chapter 4.1.3 Cultural Trend.

"Here (in Silicon Valley) the mentality is clearly that the primary concern is the growth, while in Norway there has traditionally been a huge focus on earnings and positive results"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

Most of the respondents claim that investors in Silicon Valley are more capable of eliminating risk at an early stage by focusing on testing prototypes in the market and evaluating the metrics. Thereby, they may reduce the risk at an early stage. As investors in Silicon Valley focus on metrics in a larger extent than Norwegian investors, they are reducing risk by for example demanding a specific number of consumers before investing in the startup. As an example, if the number of consumers willing to pay for the product is high enough, this indicate that the startup will be able to sell the product or service when the company is launched. That was for instance the case with Fredric Staksrud Hansen and Unisound as they got funding directly after signing with a big customer.

"The Americans are probably better to evaluate market risk, which is a form of risk reduction. In Norway there is a higher share of investments in fundamental technology, and it is often more time consuming to reduce technical risk. Therefore, as things happen so fast in the US you are dependant on the ability to reduce the risks very early which implies that they reduce market risk to gain value in a short period of time"

Arne Tonning, Partner, Alliance Venture

The respondents claim Norwegian investors almost solely focus on technology instead of metrics such as customer base and growth, which indicates that they have to be able to reduce technical risk in a larger extent than investors in Silicon Valley. Technical risk is as mentioned in the theory, risk that is unique to each company, that can be reduced by ensuring that the technology or the product will function as intended. However, technical risk is problematic as it takes more time and capital to ensure that it will function as intended due to multiple testing in laboratories, for instance. Traditional Norwegian industries have been characterized by involving a high level of research and development and high costs. These markets have been volatile, which may have made Norwegians more risk averse towards investing. Therefore, it might be beneficial for Norwegian startups and investors to focus less on fundamental technology and follow American investors by focusing more on metrics trying to reduce risk at an early stage.

There are some differences between the willingness to invest in startups in Silicon Valley and Norway. Since investors in Silicon Valley have more competence and experience, they also have more knowledge about risk and ways to reduce risk at an early stage. It seems like American investors have developed a mentality and willingness to invest in startups which exceeds the Norwegian investors willingness, though this might be due to their different levels of competence. It may also be because the culture is not as developed in Norway, and that investors in Norway invest in other industries than investors in Silicon Valley.

"Here (in Silicon Valley) people invest in anything as long as they have the money"

Fredric Staksrud Hansen, Founder and CEO, Unisound

4.1.3 Cultural Trend

Due to the success of big tech companies such as Google, Facebook and Airbnb, American investors' ambitions to "pick the winner" has become more prevalent in Silicon Valley. This is because the investors who have had success by earning a lot of money are those who were in on the good deals. A startup company that have a successful exit, either by being acquired or by going public, is an investors dream. All investor hope to invest in a "unicorn" which is characterized as a startup valued at $1 billion or more.

"Over the last five to ten years (in the US) there has been an increased hunt for the unicorn, as they try to anticipate who the next Facebook is, or who the next Google is"

Arne Tonning, Partner, Alliance Venture

This enlarged focus on unicorns have contributed to investors putting money into cases that already have a high valuation hoping it will become the next unicorn. The respondents argue that investors often act as sheep when hunting for the next Unicorn as they invest in the same deals and companies. In some cases, this has led to overvalued companies without sufficient revenues that are reluctant to conduct an exit as they might earn a lower valuation than previous estimates. This problem is mentioned by several of the respondents who also claim that American startups raise more capital than necessary as raising capital has become a goal itself.

"It seems like raising capital has become a goal itself, however, it is actually a mean to reach another goal"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

An example of this trend in the US is the startup Square Inc., which received a valuation of $6 billion in 2014. When going public in November 2015, the company received a valuation approximately half, being valued at $2.9 billion. This exemplifies that the hunt for unicorns has increased valuations to unrealistic high levels. It is evident that public investors are growing more skeptical of the enormous valuations that venture capitalists are putting on private technology companies.

This form of over-investing may result in dilution among investors as there will be more investors investing in each company. It may also affect the startup as they might have to give up more control over the company. It is common to acquire funding from existing or new investors when reaching a milestone and to operate on this given amount of capital to reach the next set milestone. However, if the entrepreneurs get too much available money to spend in one round of funding, it may result in lack of motivation to reach the next milestone.

However, some of the respondents claim there has been a decrease in these unrealistic high valuations the last years which indicates that the American investors are moderating their investments. This is claimed by the participants to be positive as the unrealistic expectation misleads the investors and the market, in addition to inflict a lot of pressure on the entrepreneurs to perform.

"This has led to an overheating, but we have seen a correction stabilizing the growth over the last year"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

In Norway, this is generally not the case as most technological companies are not overvalued. The willingness to invest in startups is argued to have increased over the last couple of years. The respondents see a change occurring as both private investors and people in general are more aware and interested in startups and the possibilities available in this industry.

"Things are changing. People understand that we have to rethink. It's starting to become very cool (to invest in startups)"

Rune Rinnan, Founder and Managing Partner, Televenture

Several of the respondents claim the Norwegian culture is changing as investing in startups has become more accepted. The number of private investors investing in startups is increasing, as some former entrepreneurs are now investing capital earned from previous successful exits into new startups. This has been practiced in Silicon Valley for decades as angel investors have knowledge about creating and operating startups, in addition to their real passion for new technology and startups.

In Silicon Valley and other entrepreneurial environments there are well-known role models who are argued to have influenced people's desire to become entrepreneurs. Some of the role models succeeding in Silicon Valley are Bill Gates, Steve Jobs and Mark Zuckerberg to name a few. During the last couple of years there have been some role models appearing in the Norway as well. Some examples are Johan Brand (Kahoot), Kim Humborstad (Zwipe), Kjartan Slette (Unacast), Are Traasdahl (Tapad) and James Lorens (Bergen Bio). These entrepreneurs have contributed to raising awareness towards entrepreneurship in Norway.

An increase in the number of role models in Norway may contribute to more attention paid towards startups, which might increase the possibilities for startups to become commonly known. This could be beneficial when operating a startup as it might create strong personal relationships with customers which could increase revenues from sales. Some examples from Silicon Valley are LinkedIn, Über, Lyft and Snap. In Norway, Kahoot has become well known, both nationally and internationally, but there are still possibilities to increase the number of well-known startups in Norway. One advantage of having successful national startups is that founders who has had successful exits might be interested and willing to invest both capital and knowledge into new startups, as they would want to pay it forward.

"We see that there are more entrepreneurs now who have "earned their fortunes in tech" and therefore are willing to put their money back into the ecosystem they know (...) They (some Norwegian investors) are now reinvesting in other companies in Norway"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

The respondents argue that there is an increase of successful entrepreneurs and role models in Norway, and that it is becoming more acknowledged to establish startups and have entrepreneurship as an income generating profession. As most of the respondents claimed, it is important to grasp the increasing startup establishments that is happening in Norway today. Arne Tonning claims that this should be ensured by collaborations between all players involved in the entrepreneurial environment.

"I see that there is a wave of entrepreneurs in Norway, which is very good. There is a lot of enthusiasm and energy (...) Here everyone must play a role (entrepreneurs, investors, infrastructure, government etc.) in order to make the best out of this wave"

Arne Tonning, Partner, Alliance Venture

With an increase in the number of successful startups, there will most likely be an increase in the number of investors. If investing in startups become more accepted and profitable, people in general and investors will start investing "for fun" hoping to be part of something big.

"No one wants to miss the party"

Bjørn Alsterberg, Consultant and Angel Investor

The ongoing trend in Silicon Valley, referring to the hunt for the unicorn, may also evolve in Norway in the future. This trend can in some extent compare to the real estate market a couple of decades ago. One respondent addressed the fact that twenty years ago, he would not have believed that anyone would earn their fortune in the real estate market. Though today, a lot of people have received great returns from investing in real estate. The opportunities in the startup industry is present to be developed in the future. Most of the respondents claim that they already see an increased willingness to invest in startups in Norway today as more investors believe it is possible to receive high return on their investments.

4.2 Availability of Capital

Starting a new company is a process where acquiring a sufficient amount of capital is essential in order to grow. Capital can be acquired from several different sources. Some of these sources, such as angel investors, seed funds and venture capitalists, may have ambitions and expectations about a future exit where they receive a return on invested capital. In the following, the differences in available funding in Norway and Silicon Valley in startups' different stages, will be addressed.

4.2.1 Early stage

Early stage funding is important for startups in order to expand and grow prior to become profitable. Apart from self-financing and funding from family and friends, governments might support entrepreneurs with soft money in early stage, as well as tax rebates and research grants. From the collected data, we find that there are significant differences between Norway and the US regarding governmental support. In Norway, Innovation Norway plays a key part in early stage financing. However, in the US, government funding is argued to be close to non-existing, where self-financing and funding from family and friends play an important role in early stage.

"I applaud Innovation Norway. It is amazing how they have helped us with a lot of our companies. Innovation Norway has definitely been an important contributor to many startups"
Rune Rinnan, Founder and Managing Partner, Televenture

Innovation Norway is by many respondents argued to play an important role in the Norwegian startup funding scene. By providing capital in a very early stage they contribute to enable entrepreneurs to start a business more rapidly. However, some state that Norwegian startups that acquire funding from Innovation Norway receive funding at an earlier stage and on a less solid ground than American startups that have to search for capital in the private market. This might indicate that governmental institutions like Innovation Norway provide funding to startups that would not have received funding in the private market at such an early stage.

"The strategy (from Innovation Norway) in the very early stage is a bit like "let the thousand flowers bloom", because it is very difficult to identify who will succeed"
Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

Innovation Norway is an initiative funded by the government and their vision is to help local ideas become global. However, Gro Eirin Dyrnes points out that, though Norwegian startups receive funding early, the amounts are relatively small. With these small amounts, they are able to fund a larger number of startups, but it is unclear if Innovation Norway's prominent role is a result of lack of other investors in early stage. In Silicon Valley, there is some soft money available, but it is far less prevalent than in Norway. Due to the lack of soft money in Silicon Valley, American startups are more dependent on private resources and financing from family and friends.

"Compared to Norway, entrepreneurs in the US typically start off in the garage"

Fredric Staksrud Hansen, Founder and CEO, Unisound

Angel investors are another important source of funding in early stages. They contribute to fill the gap in early stages of financing of startups. According to the respondents, their role is far more prominent in the American entrepreneurial scene than in Norway.

"There has been a significant difference between the Norwegian and the American angel investor map. In the recent years, the Norwegian angel market has improved, and the private investor market in Norway has started focusing on early stage (...) For many years the angels in Norway has been completely absent, but in the US, the angels has been an important player as of investing in startups"

Arne Tonning, Partner, Alliance Venture

According to several of the respondents, there is no lack of private capital in Norway as there are many individuals with high fortunes. However, private investors have traditionally not invested in startups, and especially not in typical tech startups. It is therefore argued that there is an existing funding gap in startups' early stages. The reason why investors are not investing in tech startups is argued to be their lack of competence in the tech industry. As discussed, Norwegian investors have generally invested in traditional industries where they have the most competence.

"People who have earned money in shipping, tend to invest in shipping. People who have earned money within banking, invest in banking. People invest in something they are familiar with"

Bjørn Alsterberg, Consultant and Angel Investor

In Silicon Valley, angel investors are often former entrepreneurs who have had successful exits. These angels live by the pay-it-forward mentality and are eager to contribute to the development of new startups, both with knowledge and competence. The mentality and culture of investing in new ventures in Silicon Valley has been developed over several decades. This is generally not the case in Norway, as most of the few angels who operate in Norway have limited experience from starting a venture. It is claimed that Norwegian angels typically have a background from traditional Norwegian industries, and that many invest with inherited money.

Silicon Valley angels are also argued to have more industrial knowledge within the field of entrepreneurship. This implies that they contribute with more intellectual capital than angel investors in Norway. Although the number of Norwegian angels is limited, it is argued that there is available private capital in Norway. The main issue seems to be the mentality in which private Norwegian investors traditionally have invested in other markets which are considered to have lower risk. This trend is however, according to the respondents, moving in a positive direction as there are more investors investing in Norwegian startups.

"The culture is starting to change (...) It has become cool to invest (in startups)"

Bjørn Alsterberg, Consultant and Angel Investor

4.2.2 Growth stage

In order to develop and grow, startups need to acquire more formal capital. One possible source of this capital is seed capital, which is categorized as early stage venture capital investing in an earlier stage than traditional venture capital funds. Regarding seed funds, there are some differences between Norway and Silicon Valley. In Norway, the government plays an important role by partly funding the seed funds. This collaboration contributes to reduce risk taken by private investors.

Another form of capital funding in growth stage is venture capital which is considered a professional and more formal market for entrepreneurs seeking funding. In Silicon Valley, there are numerous venture capitalists and more than 300 venture capital firms operating. In 2015, more than 3 500 companies received funding from venture capitalists in the US, where over 1 400 of these companies got funding for the first time (NVCA, 2016b). In Norway on the other hand, there are only a few active venture capital firms.

The American and Norwegian market for seed and venture funding are very different in market size. The Norwegian investor market consists of about a handful active venture capital firms, especially compared to the US, where there are approximately 800 active firms operating in over 1 200 funds (NVCA, 2016b). However, in the US there is an even higher number of startups seeking funding. Some of the respondents' claim that it is more difficult to raise capital in Silicon Valley because the high degree of competition. One report states that there were 0.51 venture capitalists per startup in Silicon Valley in 2014. In comparison, in Utah there are 1.65

venture capitalists per startup (CB Insights, 2015). These numbers indicate that there is high competition in regard to acquiring funding from venture capitalists in Silicon Valley. This may be one of the reasons why investors in Silicon Valley operate with the strict use of metrics.

“Venture investment is sort of an elite sport”

Arne Tonning, Partner, Alliance Venture

It is important to note that there are significant differences within The US as approximately 57 % of the entrepreneurial capital is located in Silicon Valley area. In California in 2015, almost 1 800 deals got funding, and as much as over 1 300 of these were located in Silicon Valley (NVCA, 2016b). Some of the respondents argue that the rest of the country is quite similar to Norway and the rest of the world.

In Silicon Valley, there is a dynamic market with a high number of investors, creating a sufficient ecosystem. American investors follow metrics and have specific requirements when looking at potential startups to invest in. In Norway on the other hand, there are few angels, seed investors and venture capitalists, and consequently there is less dynamics in the entrepreneurial financial market. Due to the lack of investors there is a lack of co-investing in startups which leads to an increased possibility for the first investor to remain the lead investor in several rounds of fundraising. Consequently, Norwegian investors take on a high level of direct involvement with the startup. In Silicon Valley, this is not the case as different investors take lead in the different rounds.

“In Norway there is a gap in growth stage. That’s because the market is wondering what’s wrong if you as a lead investor in the first round don’t lead the next round. In the US, it is natural that there is another investor who is lead in the next round. This has got to do with the dynamics of the market, the mind-set in Norway, and the fact that there are few players (...) I think there are some gaps in various stages in the Norwegian capital market”

Arne Tonning, Partner, Alliance Venture

Arne Tonning summarizes the issue regarding lack of dynamics in the Norwegian market. The main problem seems to be the small number of investors but there is also a problem regarding the Norwegian mindset. When asking the Norwegian investors, they agree that taking large shares in startups is a problem and that it might be destructive for the startups. This will be discussed further under 4.4 Exit Strategy.

Another difference between Norwegian and American investors is their way of funding the startups. While American investors often transfer the entire amount agreed upon when deciding to invest in the startup, Norwegian investors typically transfer one share of capital at a time. The entrepreneurs then have to reach the next milestone in order to receive the next share of funding.

"We invest gradually when the startup companies reach certain milestones"
Øivind Enger, Partner Investment Advisor, Sarsia Seed

Rune Rinnan agrees with Øivind Enger stating that Televenture also invests the next amount of capital when startups reach specific milestones. Though, Rune Rinnan believes it is important that the funding strategy does not cause fear or unpredictability as the entrepreneurs should not spend much time worrying about finances. He also points out that Norwegian investors, himself included, do not invest enough when they have the opportunity and that they probably should think bigger. One of the advantages with investing the whole amount initially could be that startups would be able to take a leap burning money early on to determine if they will succeed or not. This is problematic in Norway with the form of milestone funding as that prolongs the process preventing the startup to determine their success in early stage.

4.2.3 Funding gaps

"We typically take 20 - 80 % shares in startup companies"
Rune Rinnan, Founder and Managing Partner, Televenture

"We own shares of anything between 10 - 50 %. In some companies, we own more than 50 %, so we have no upper limit (...). But it is a bad sign if we own 50 % or more"
Øivind Enger, Partner Investment Advisor, Sarsia Seed

The theory states that a startup normally has to give up 20 % of their shares to the investor when acquiring funding. Generally, the Norwegian investors do not follow these metrics when investing in a startup as they often take larger percentages of shares. They argue that the larger proportion of shares gives them more control and a higher degree of flexibility with their investments. However, they admit it can be a disadvantage for the startup, but argue that to receive a significant return they have to take larger shares. They also argue that the American investors, operating with several investors as co-investors, is a disadvantage due to the fact that it is time consuming. This could be because there would be multiple sets of paperwork to conduct for every investor, which could prolong the process.

There are significant differences between the American and Norwegian investors according to our respondents as American investors follow a systematic process, while Norwegian investors evaluate each case individually. When taking large percentages of shares, it is argued that investors can make it difficult for the startup to raise new rounds. This might be because the startup becomes less attractive to new investors as they have given up large percentages of shares to current investors. If the startup cannot raise a new round of funding, the lack of financial resources can have significant impact on the survival rate and further development. Being unable to acquire the needed capital is one of the main reasons why startups fail, so it is vital for the startup not to experience these difficulties.

"*When investors take 75 % in the startup, then they have already destroyed the company"*

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

Gro Eirin Dyrnes argues that good investors, with knowledge and experience within their field, generally do not take large shares because they know that can make the startup uninteresting to other investors. If they cannot follow up on further rounds of investments, the startup will not be able to scale up. She questions if investors should consider having for instance 2 % of the shares of a company that could be a great success, rather than 75 % in something that might not be a success. It is evident that the Norwegian market is affected by the lack of dynamics. An increase in the number of Norwegian investors in addition to more competence would be beneficial for the market dynamics and the available funding possibilities for startups.

"It would have been an advantage if there were more competition between investors"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

4.2.4 Trend

A report from DNB (2016) shows that it has been a negative trend since the financial crisis in 2008, both for seed and venture investments in Norway.

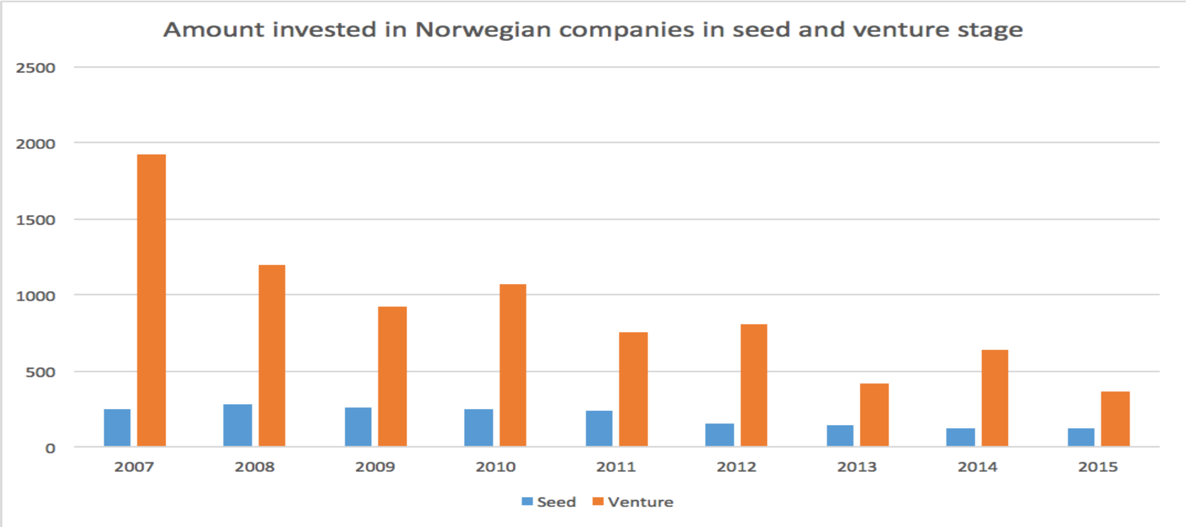

Figure 4.1 Amount in million NOK invested in companies in seed and venture stage (DNB, 2016).

There has been a reduction in venture capital investments of approximately 60 %, both in volume and quantity since 2009. Seed investments have been reduced to about half. However, several of the respondents' state that the trend in Norway is positive in regard to angel investors.

"Now we are beginning to see several successful angels with technology backgrounds who are starting to invest in tech. The market is absolutely starting to mature, but both the amount invested and the number of investors are significantly different in Silicon Valley compared to Norway"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

There are some positive cultural trends, though the Norwegian government decided to reduce the investment regarding growth financing through the state-owned investment company Investinor with NOK 1.25 billion. This decision was made during the negotiations regarding the next year's national budget. Since 2009, over a third of invested growth capital in Norway has been invested from Investinor, and in the second half of 2015 more than 48 % of the growth capital came through this fund. However, after disagreements between the coalition parties, Høyre and Fremskrittspartiet have yield to the pressure from Venstre and Kristelig Folkeparti. When presenting the modification of the national budget in December 2016, the parties stated that Investinor will keep its mandate to invest in growth stage companies until further notice. Part of the reasoning for Investinor to keep the total of NOK 1.25 billion is the need for venture capital to growth stage companies as private capital would not able to replace Investinor's investments.

Reducing the investments with NOK 1.25 billion would have a great impact on the growth capital market in Norway, and the decision to reduce the investments could have created discontent within the entrepreneurial environment in Norway. The government state that they will focus on investing in early stage, but as several of the respondents argue, the availability of capital in early stage is quite good in Norway. In growth stage on the other hand, there is a lack of capital, and the government could co-invest with investors in this stage to contribute to increased market dynamics. It is conceivable that the expert environment Investinor has built up since 2009, consequently could have been scaled down considerably if the capital disappeared.

Though the availability of capital in Norway is quite good in early stage, there are few angel investors investing their capital and competence in Norwegian startups. It should be questioned why this is the case, as there was a total of 125 000 dollar millionaires in Norway in 2015. It is evident that there is a potential for private investors investing in startups in Norway. In growth stage, there is a lack of both capital, competence and dynamics in Norway. This implies that there is a need for growth funding from both private investors and the government. Gro Eirin Dyrnes summarizes the availability of capital in Norway in regard to startups in the following quote.

"It would have been preferable with more business angels and greater competition between venture capitalists because then they would have to move quicker. It would also be beneficial with a lot more money for growth because rapid growth requires a lot of external money. You cannot make it on organic growth or earnings. So, I would recommend more money and more expertise in all phases. It is clearly a positive development, but Norway is still quite immature"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

In Silicon Valley, there seems to be lack of money in early stage as American startups start off in the garage based on own savings and funding from friends, family and fools. This is the case despite of that there are more angel investors in the San Francisco Bay Area investing in startups, and that the pay-it-forward mentality is quite prominent. In growth stage the available capital is quite good in Silicon Valley, though the competition is a lot harder than anywhere else as there are lots of startups competing for the available capital.

4.3 The Investment Process

In this chapter, we will discuss some similarities and differences between Norway and Silicon Valley and investors' requirements to startups, before comparing investors' roles in startups in the two countries.

4.3.1 General Similarities and Differences

Most of the respondents acknowledge that investors base their investment decision on the entrepreneur and the startup's management team over other aspects of the startup. This is the case in both Silicon Valley and Norway. One respondent argues that investing in a startup is like entering a marriage. As in a marriage, the person you marry is important for future happiness. However, most important is the entrepreneur's knowledge and stamina during the development and operation of the startup. All the respondents acknowledge the tough job entrepreneurs do, and state that not everyone is capable of indulging in this kind of work. Due to this, the interviewed investors claim that when investing in startups they invest in people.

"Ideas are commodities; execution is not"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

Gro Eirin Dyrnes' statement implies that anyone can have an idea, but one have to be able to develop the business, execute and deliver what is necessary to create a great company. Rune Rinnan supports Gro Eirin Dyrnes and substantiates with the following statement.

"If I have to choose one thing to look for, then it is the management team and the entrepreneur's execution capabilities. I'd rather have a very good entrepreneur who delivers, than outstanding technology"

Rune Rinnan, Founder and Managing Partner, Televenture

Another focus from investors is the startup's potential. All respondents claim that potential is one of the most important factors when investing in a startup. If there is no potential, there is no reason for funding the startup as most investors are first and foremost looking for investments that will create future returns. However, potential can be difficult to establish in early stages as there is a lot of uncertainty in regard to future cash flows. The potential is dependent on several factors, some being the entrepreneurs and the investors' competence, the future demand for the product or service and the future potential value of the company.

Overall, the respondents seem to have less focus on the technology than the team and the potential. Though Norwegian investors are focused on entrepreneurs, the respondents claim that they focus more on the technology than the product. This differ from Silicon Valley where the investors are argued to be more consumer oriented. However, for Øivind Enger who operates in Norway, the investment decision relies on the technology. He also claims the technology must be patentable as it is considered to be the most secure way to ensure protection of a company's technology.

"The value of our portfolio companies depends on if the technology is patented and that one through technical and clinical developments can demonstrate that it works"
Øivind Enger, Partner Investment Advisor, Sarsia Seed

Sarsia Seed is mostly operating in the industry of Energy/Cleantech and Biotech/Life Science, and their focus on technology may differ from investors who invest in other technological and IT-companies. Regarding the demand for patents, the investors who own significant shares in the company might recognize the value of legally owning a patent. Some reasons for demanding patentable technology may be that the patent can be used as an exit strategy in the future. If the startup were to fail, they might be able to sell the patent and hopefully reduce their loss.

In general, most investors desire to work with remarkable and hardworking entrepreneurs and will generally invest in people before product or potential. However, every investor wishes to invest in an extraordinary entrepreneur with unique technology and a big business potential.

4.3.2 Similarities and Differences in Requirements

The practices when investing in startups differ between Norway and Silicon Valley in terms of standardization and structure regarding negotiations, contracts and agreements. In Silicon Valley, term sheets are commonly used as a requirement before financing a startup as they outline the conditions and terms for the agreement.

"The venture capital model in the US is built upon term sheets, for better or worse. Everything is much more professionalized"
Rune Rinnan, Founder and Managing Partner, Televenture

When investors in Silicon Valley consider investing in startups they evaluate the companies using metrics. As there is a large investor and startup environment in Silicon Valley, the investors have their niches which they invest in in terms of industry and size. The metrics they commonly use for tech companies are earnings, the number of users or the growth of users. Investors in Silicon Valley seem to have a significant focus on these metrics, and they will generally not consider funding a startup if the entrepreneur cannot demonstrate the necessary numbers of users or user growth.

"Here (in the US) it is whether you fit into the framework or not that will determine if you have a chance or not, in addition to having a great solution to a validated need"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

By using term sheets and metrics, American investors operate with a standardized process when screening potential startups. Using term sheets is argued to save time because startups have to fulfill the investors specifications listed in the term sheets before potential negotiations start. Some of the respondents argue that investors in Silicon Valley are more efficient during their screening process and when deciding to move further with the due diligence because they use metrics and term sheets.

"Many of the American venture funds would never deviate from their strategy and their requirements when investing. If I see something cool that I believe in, I might renounce on many of these requirements. They would never do that in the US"

Rune Rinnan, Founder and Managing Partner, Televenture

In Norway, it is argued that investors operate with fewer metrics and less standardization as they evaluate each case individually. This might be due to rate of business proposals they receive through their deal flow's as the entrepreneurial market in Norway consists of a smaller number of startups. Though, Norwegian venture capital firms receive a sufficient rate of deals which they attempt to examine unless it is immediately obvious that the deals are unlikely to occur. As in the US, many of the cases are rejected at the screening process.

"In Norway the investors consider if the case is a good one, if it is talented people and if they have capital for it. From this they try to find a solution"

Arne Tonning, Partner, Alliance Venture

Some of the respondents who operate in Norway are negative to the excessive use of term sheets and metrics as it may reduce the diversification of startups in their portfolio. It is claimed that

Norwegian investors prefer to evaluate each case individually because then they can disregard on some of the criteria and measures if they find the case itself interesting. One Norwegian investor argue that using term sheets might be a disadvantage for entrepreneurs as they do not possess much knowledge or experience dealing with term sheets. Their lack of knowledge might be a disadvantage when negotiating terms with investors.

Based on the respondents' statements, there is a difference between the investment process in Silicon Valley and Norway. In Silicon Valley, it is more professionalized and standardized as investors operate with term sheets and metrics that will determine if the they consider a startup an interesting case or not. In Norway investors are less focused on metrics and evaluate each case individually.

4.3.3 Investors' Role in Startups

Acquiring capital from venture capitalists involve entering a relationship as the investment usually commit the two parties for years. As discussed, the dynamics in Norway and Silicon Valley are different, partly because there is a small number of venture capitalists in Norway that entrepreneurs can contact when trying to raise capital. When acquiring capital from a venture capital firm, one of the investors' most precious assets is time. Venture capitalists provide experience and competence, so spending time with investors wisely is important as they can provide great insight and knowledge from the given industry. Different investors will take different roles in a startup as some will be active owner while others will have less requirement towards involvement. It is argued that Norwegian investors are very active owners.

The respondents claim there are clear differences between Norway and Silicon Valley in regard to investors' involvement in startups' daily operations. Due to the small number of venture capitalists in Norway it is not a very competitive market. The investors seem to have more bargaining power over the startup which results in the venture capitalists taking more control over the startup both in regard to developing strategies and controlling the management team. In addition, they often acquire a large share of the company which causes the entrepreneurs to have less ownership.

"We are extremely active owners. We are hyperactive (...) Some say that we are too active, but we believe that we have something to say"

Øivind Enger, Partner Investment Advisor, Sarsia Seed

Investors in Silicon Valley typically leaves it up to the entrepreneurs to run the startup, but offer the entrepreneurs help and assistance when needed. The respondents in Silicon Valley argue that American investors do not take charge over operations and developing strategies in the same extent as Norwegian investors. Both interviewed entrepreneurs, Tarjei Husøy and Fredric Staksrud Hansen, explained that they issue a weekly or quarterly report to update their investors. In addition, Tarjei Husøy states that their investors have contributed with connecting them to people in their network and offered access to conferences where they have had speaker slots.

"The general attitude of (American) investors is that "This is your company; you are the one who is in control and the one who know how to manage it. We are here with available resources if you need any help""

Fredric Staksrud Hansen, Founder and CEO, Unisound

The relationship between American investors and entrepreneurs is argued to be beneficial for both parties. In Silicon Valley most entrepreneurs get to keep the everyday operation, while the investors can follow up and have a general overlook on the business and operations, contributing with their expertise when the entrepreneurs' knowledge falls short. The respondents argue that, opposed to Norwegian investors, American investors acknowledge in a larger extent that the entrepreneurs are important to the startup and that they should be the ones running the company. They also argue that in the US, the consensus is that it is better for both parties that the entrepreneur runs the company. It is considered suspicious if the startup is not directed by founding CEO.

"As entrepreneur in the US you have much more power and the investors have a weaker position. We believe that this balance is different in Norway where the investors are more active in early stage (...)"

Tarjei Husøy, Founder and Lead Developer, Megacool

Some of the participants claim that the best venture capitalists are those who let the entrepreneurs run their business themselves. This seems to be part of the Silicon Valley culture that has been developed since the 1960s, whereas Norway is still in the early stages.

"I think the most successful US (investors) recognizes that founders must have a big say in running the company, and respects that it is the entrepreneurs who make the decisions and not the investors. I am not sure if that is the case in Norway"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

There are differences between in which areas of expertise entrepreneurs prefer the investors to contribute and which areas investors believe they should be assisting when investing in a startup. From the DNB report (2016), it is evident that entrepreneurs in Norway ideally want to have investors who can contribute with their competence, preferably within the areas of business development, networking and internationalization. The report shows that Norwegian investors want to share their expertise with the entrepreneurs, but there are some differences to which areas the investors believe they can assist, compared to what the entrepreneurs have requested. 64 % of the investors believe their expertise within business development is essential compared to 42 % of the entrepreneurs. 36 % of the investors believe their competence within the field of management is important, while only 9 % of the entrepreneurs believe that the investors should contribute within this area of competence.

Despite the different practices associated with investing in startups, and differences between investors roles in managing a startup, most of the investors interview in this research said that one determining factor before investing is the drag-along right. As mentioned in theory, most investors demand to hold this right as the majority shareholders can force the remaining shareholders and the entrepreneur to join an exit.

"In all our investments we insist on a drag-along clause – a right to sell the whole company. That's extremely important"

Øivind Enger, Partner Investment Advisor, Sarsia Seed

Having a drag-along right entails that the investors have the right to sell the company despite the entrepreneurs disagreeing. Being able to force an exit is important for investors in order to receive the best possible return on their investments. Entrepreneurs often build strong relationships to the startup as they have sacrificed time, money and energy establishing their business. Therefore, they might not have the same wish to exit the company. Some of the investors explained that they have experienced disagreements with entrepreneurs regarding the drag-along right when entering an agreement, and as a result the investors backed out of the deal.

"We need to have a significant share, a shareholder agreement and an influence that enable us to kick out the management team when we see that they are not performing"

Rune Rinnan, Founder and Managing Partner, Televenture

In regard to the control right, where the shareholders can initiate changes for the venture by for instance replacing the founding entrepreneur, there generally exists some big differences between Norway and the US. In Norway, it is argued that the investors often want to replace the management team with others who are more experienced. There might be several reasons why the investors want to replace the managing team, and some argue that it might be because of the entrepreneur's lack of experience, the need for other skillsets when scaling a business or changes in personal situations. The control right is simply for the investors to ensure their right to replace the CEO or the entire team in case something happened.

"We have replaced the management team in 90 - 95 % of our portfolio companies, and there have not always been total agreements with the founders about this"

Øivind Enger, Partner Investment Advisor, Sarsia Seed

When investors replace management, it may come as a shock to the founder. After having developed an idea, established a business, raised funding and worked hard to achieve milestones, the founder expects to be involved in the further development of his or her company. A founder might not want to step down to take on a different task within the startup and could therefore be forced to leave the company altogether. As mentioned, the DNB report states that the biggest difference in the survey was the fact that 36 % of the investors want to assist the startups with management, while only 9 % of the entrepreneurs express that they need this form of assistance (DNB, 2016). This can be explained by the fact that entrepreneurs do not want to renounce their role as the CEO. It is clear that investors and entrepreneurs have different perceptions regarding the need for the investors expertise of management.

In Silicon Valley, replacing the management team is not considered desirable, and is somewhat suspicious received by venture capitalists, according to Arne Tonning.

"*A company that replaces the management and that's not entrepreneurial driven is somewhat suspicious received in the venture community here (in the US)*"

Arne Tonning, Partner, Alliance Venture

As discussed, investors in Silicon Valley believe the managing team is of great importance to a startup. When investing in startups American investors have strict requirements towards the startup's management team as no amount of good ideas can overcome a fundamentally flawed team. In early stages of any startup, the mentality among the American investors is that a startup is all about the people. These are the ones who will have the motivation and energy needed to develop and create a great product or service. However, when a startup goes through different phases scaling the venture, each transition requires substantially different types of skill sets. Navigating the startup through these stages is difficult for any individual, and in these situations, American investors look at the possibility to replace the CEO and founder within the company structure by hiring a new CEO.

Norwegian venture capitalists seem to possess more power than investors in Silicon Valley because they take more active roles in the startup in addition to taking a significantly larger percentage of shares in each company. In Silicon Valley, however, the investors receive continuously updates from the entrepreneurs while giving them the freedom to make their own decisions regarding the startups' operations. Investors in both environments have focus on the drag-along right as it allows them to force both other investors and the entrepreneurs to exit. Another difference is the control right, which Norwegian investors believe is very important as they need the opportunity to replace the management team. The American investors however, are more skeptical about this as they believe the team is the main reason for investing in the firm as they who have the motivation and passion to develop the company.

4.4 Exit Strategy

As stated in theory, investors' requirements towards exit strategy is necessary as their primary goal is to achieve high return on investment. However, the interviewed respondents' statements contradict in some extent with theory as not all investors and entrepreneurs have a clear focus on future exits. Most of the interviewed respondents claim that the investors do not focus on exits, especially in the initial rounds of negotiating funding. Though some investors state that it is a requirement, there seem to be a somewhat ambiguous focus towards exit among the respondents.

4.4.1 Investors' Focus on Exit

Early Stage

Early stage investors, both angels and seed investors, seem to focus less on exit strategy in the initial negotiation stage. The focus is primary on the team, the product and the startups' potential. However, investors are considerably different from each other as they have individual preferences and requirements regarding potential investments in startups. One reason why investors do not focus on exit strategies in early stages may be uncertainties for the future. Early stage investors expect several rounds of investments from other investors in later stages, which may imply that the first investors will be diluted and therefore, as an early stage investor, may not have a high impact on the future exit.

"We know there will be several rounds of raising capital later on, so we can't consider the exit strategy (...) other investors will be involved in determining the exit"

Bjørn Alsterberg, Consultant and Angel Investor

Though some investors do not consider the exit strategy in early stage, other investors include this in the shareholder agreement. Among the contents of such an agreement, some aspects can be negotiated, however, some investors are clear on the fact that the exit strategy must be included. The agreement is then also signed by the entrepreneurs, who are imposed to follow this exit strategy.

"*The (exit) is stated in the investment agreement (...) we build to sell*"

Øivind Enger, Partner Investment Advisor, Sarsia Seed

However, not all investors negotiate exit strategies in early stages when investing in a startup. Several of the investors points out that the exit strategy is important, but they do not spend much time negotiating the exit in this stage. Normally, the entrepreneurs should understand that there will be an exit within the fund's set timeframe. Øivind Enger states that they include the drag-along right in their agreements, which entitles them to force both entrepreneurs and other investors to exit. Although the investors do not negotiate the exit strategy in early stage, the investors will generally argue that the exit becomes more prominent as the startup develops and enter growth stage.

"Exit is not very important when investing in startups at an early stage. But when you are raising venture capital, then you should have an exit strategy in order to attract investors"

Bjørn Alsterberg, Consultant and Angel Investor

Growth Stage

"We don't invest without having discussed the exit strategy. The exit strategy is one of the most important things we consider when investing in a startup"

Rune Rinnan, Founder and Managing Partner, Televenture

Being a venture capitalist investing in startups in various stages, time to exit often differs from angel and seed fund's time perspectives. Venture capitalists often operate with a narrower window for investments, implying that they will exit within a shorter period of time than early stage investors. Venture capitalists usually invest when the startups are in growth stage, which indicates that the exit may be in the near future.

"The exit becomes more evident as the company matures"

Rune Rinnan, Founder and Managing Partner, Televenture

When investing in a startup, investors do a valuation based on how much they believe the venture will be worth in the future. Based on this valuation, investors decide on the amount of capital to be invested in the current round of fundraising. In early stage the valuation might be more uncertain due to market risk, technical risk or other elements of uncertainty, as previously discussed. When investing in growth stage, some of the risk factors could be eliminated, as the focus in growth stage has shifted from developing a product to production and operation management, and therefore the exit potential is more certain. In this stage, there is more time available to focus on and consider the potential exit routes and start preparing it. Therefore, when investing in growth stage, the focus on exit strategies might be more prominent.

Comparing Bjørn Alsterberg and Rune Rinnan's statements, angel investor Bjørn Alsterberg does not have a clear focus on the exit as he invests in early stage. Rune Rinnan as a venture capitalist on the other hand, states that he does not invest without discussing the exit strategy.

4.4.2 The Exit Potential

Though the exit strategy seems to become more prominent in the later stages of startup funding, one can argue that all investors, regardless of the stage they invest in, focus on exit in regard to the startup's future potential. As established, all investors consider the startup's potential when investing as they focus on return on their investment. This potential implies the investors' expectation for future returns, or in other words, the startup's valuation in terms of future value.

"In the US, there is more focus on targeting a buyer by having an exit strategy"

Fredric Staksrud Hansen, Founder and CEO, Unisound

As stated, the valuation of a startup in early stage is set based on the investors expected return when conducting an exit. Due to this, focusing on the exit strategy could be beneficial. If the exit strategy is partly discussed or planned, it could be easier to work towards the desired exit. For instance, if this exit strategy is to conduct an acquisition, the startup can initiate contact with several strategic industrial partners in early stage and hopefully enter an agreement to cooperate with them. This could lead to continuous cooperation throughout the development process, and these strategic partners could contribute to make the startup relevant and desired towards other potential buyers, or they could be potential acquirers themselves.

"A startup needs to think ahead because the exit strategy is a very long process. Considering relevant industrial partners and how the startup can work with them early on is important. It is important in order to develop an interest that could contribute to a potential acquisition. Because, in reality, this is how American startups get acquired"

Arne Tonning, Partner, Alliance Venture

Arne Tonning argues that big companies in the US often buy technologies or companies they have been cooperating with. Therefore, the exit strategy is related to startups' go-to-market strategy and partnering as well as long-term collaborations. Focusing on this in early stage could be vital for the startup. Arne Tonning argues that strategic partnerships are key to successful exits. In addition, working closely with several industrial partners could create multiple potential buyers which can increase the valuation as it could result in a bidding war.

"The key to achieving a good valuation regarding exit is to get in the position where one has alternative buyers"

Arne Tonning, Partner, Alliance Venture

4.4.3 Entrepreneurs' Focus on Exit

"We are very clear about the fact that we want an exit as this is not something we want to do forever"

Tarjei Husøy, Founder and Lead Developer, Megacool

Both entrepreneurs interviewed in this research are aware that there will be an exit in the near future. They state that they are not going to work with this startup for the rest of their lives and have a plan to exit within a few years. Fredric Staksrud Hansen argues that entrepreneurs working in Silicon Valley have different mindsets regarding exit strategy than entrepreneurs working in Norway.

"In Norway they focus on building a company, while here (in Silicon Valley) they start an exit case"

Fredric Staksrud Hansen, Founder and CEO, Unisound

The differences between Norway and Silicon Valley regarding exit might be caused by numerous factors, for instance difference in culture, competence or mindset. As previously mentioned, the culture in Silicon Valley and Norway is significantly different. In Silicon Valley, it is more common and accepted for entrepreneurs to fail, but also to use the experience from failing to start over. Tarjei Husøy states that there is a "go big or go home" mentality in Silicon Valley which might indicate that everyone is aiming for an exit. However, he states that his team has not focused on an exit strategy and that they do not have a specific strategy for exit. Instead, they have been focusing on developing their product and company. When asked about how long they expect to run their company, Tarjei Husøy seems to share the American mentality and states that they are not expecting it to be more than five years. Fredric Staksrud Hansen substantiates this claim when stating that entrepreneurs in Norway wants to build a business, while entrepreneurs in Silicon Valley start an exit case, referring to a company that has a plan to exit in the near future.

The ecosystem for entrepreneurial activity is more developed in Silicon Valley than in Norway, and there is a larger number of investors, big companies and other acquirers in the US compared to Norway. This indicates that the potential for startups to conduct an exit in the US is greater than in Norway. Several of the respondents argue that the potential buyers are mostly located in big cities which could be a reason why exits are not as prominent for Norwegian entrepreneurs. This is supported by the Creandum Nordic Technology Exit Analysis stating that United states is the dominating exit route for big exits from all the Nordic countries (Creandum, 2016).

"When working in a venture capital firm in Bergen, you might have to go to Oslo to raise capital, and to New York, London or Paris to do an exit"

Bjørn Alsterberg, Consultant and Angel Investor

Regarding investors' requirements for exit strategies, the interviewed entrepreneurs state that exit has not been a focus in the initial negotiations with the investors. Though exit is not an important aspect during negotiations to acquire funding, Fredric Staksrud Hansen states that they already know that one of their investors plan to do a follow-up investment in their next round of fundraising, but after that they will go for a buyout. This indicates that the next round of funding probably does not suite the venture fund's metrics as the required investment can be of a too large amount.

In regard to the management team, it can be argued that it is important to discuss the exit strategy early on to prevent disagreements. Fredric Staksrud Hansen substantiates this when stating that their team members have different opinions regarding their desired exit strategy. If the team is unable to sort out the disagreements, it could lead to several problems as an investor exit could lead to a complete sale of the startup. This could result in the founding team not being able to continue running the venture. Bjørn Alsterberg confirms that he has experienced situations where the founding team has disagreed on the exit strategy as some team members wanted to sell while others wanted to continue operate the company. These situations could however be prevented if the team had discussed the exit early on.

Focusing on exit in early stage might not be beneficial in regard to the development of the venture. Some argue that running a business, delivering high-quality products or services and creating a great workplace environment should be the entrepreneurs' main focus in order to achieve success. In addition, focusing on the consumer and the market could benefit the company in the long run as it can determine if the company succeeds.

"We believe the startups should focus on their product, go-to-market strategy and to build the company. An entrepreneur would have to be very experienced to be able to focus on both building the company and the exit strategy simultaneously"

Arne Tonning, Partner, Alliance Venture

4.4.4 Exit Preferences

When asked about exit preferences, the respondents mention the two most common types, respectively acquisition and IPO. The interviewed investors state that they do not prefer one exit type over another, but argue that the IPO window is somewhat unpredictable which indicates that an acquisition is the most likely exit. In the US in 2015, there were conducted 77 venture capital backed IPOs and 360 M&As indicating that an acquisitions is a more common exit strategy. Generally, the respondents state that it is complicated to plan for a specific exit, and that the set exit strategy often does not play out as planned. Conditions regarding the market are rapidly changing, so being able to deviate from the initial strategy is vital for achieving success.

“M&As and IPOs are preferred exits”

Arne Tonning, Partner, Alliance Venture

This thesis focus on acquisitions and IPOs and the investors’ preferences regarding these exit strategies. Further the focus will be on the differences in which the respondents believe it is important to plan for a specific exit strategy in early stage. We will first discuss the two exit strategies before comparing them in regard to the respondents’ statements.

Acquisition is the most common exit strategy. For a buyer, there are several reasons to acquire a startup, and the most common reasons are to boost their company’s current performance, to hold a premium position as a company and to reinvent the business model to fundamentally redirect the company. Acquiring an innovative startup can also be favorable to companies instead of spending money on research and development. Entrepreneurs, and especially investors, know that companies need to acquire innovative startups to maintain their position. Therefore, an acquisition is a natural and likely exit for a startup.

“Selling a company rarely generate a good value, but to be acquired can generate a good value”

Arne Tonning, Partner, Alliance Venture

A prerequisite to successfully exit a company through an acquisition is the market size of potential buyers. Both the startup and the investors should prefer several potential buyers as this may result in a bidding war that could drive up the price and increase the investor's return on investment. The acquisition activity reached an all-time high in 2015, both in regard to the total value of deals and the number of mega-deals, which refers to deals that exceeding $5 billion. Out of the 360 M&As conducted in the US in 2015, 87 had disclosed values of $17 billion (NVCA, 2016b). Due to the increasing number of deals together with the high value, it is conceivable that acquisition is a desired exit strategy for any startup.

In the US, there are far more big companies acquiring smaller companies than in Norway due to the Norwegian market size. Øivind Enger argues that American companies are acquired for a significantly higher value than Norwegian companies, and he is under the impression that Norwegian companies are known for being sold at a cheap bargain, especially Norwegian startups within pharma technology. Øivind Enger believes this is because there are no

Norwegian acquirers within the pharma industry which implies that they have to approach foreign buyers. When investors look for companies to acquire their funded startups, both Øivind Enger and Gro Eirin Dyrnes believe that Norwegian investors might be somewhat impatient as they lack experience from conducting exits. Gro Eirin Dyrnes argues that it might be due to Norwegian investors' level of competence, while Øivind Enger thinks this is caused by lack of capital in Norway, which he argues is not the case in the US.

Being sold at cheap bargain could be one reason why some investors may prefer other exits than acquisitions. However, Øivind Enger states that acquisition is Sarsia Seed's preferred exit strategy as he argues that the IPO window is unpredictable. Though he does not exclude IPO as a possible exit strategy, he states that Sarsia Seed often aim for their portfolio companies to be acquired by a foreign strategic acquirer which often turn out to be an American company.

IPO is another common exit strategy as it is a great way to raise capital from the stock market and for investors to exit in order to realize their return. IPO is also argued to be beneficial in regard to publicity as it can encourage and enlighten people about their product or service. Though IPO is a common exit strategy, it is a complex, expensive and time consuming process. Since the preparations for an IPO takes time, some uncertainties exists when the IPO window opens and closes. It might not be facilitated for the startup to do an IPO when the company is ready.

There are few companies that go public each year compared to the total number of exits. As stated in the introduction, in 2012 there were 700 000 exits in the US (DeTienne et al., 2015). NVCA (2016b) reports that 183 companies went public in the same period of time in the US. In comparison, 17 companies went public in Norway as of December 15th 2016. The respondents claim that it may be easier to go public in Norway than in the US. One of the reasons to why it might be harder to go public in the US is argued to be that the US has the most demanding capital market in the world, partly based on their investor protection. Therefore, American venture capitalists generally do not expect a high share of their portfolio companies to go public as it is an expensive and time consuming process.

"We plan to do an IPO for a couple of the companies in our portfolio, which is great, but we don't anticipate most of the companies to do an IPO"

Arne Tonning, Partner, Alliance Venture

Investors' focus on exit strategies could change as the startup goes through different stages. Øivind Enger believes that the main focus is always to do an acquisition, and that the focus towards an acquisition is greater as the startup reaches growth stage. Øvind Enger believes one reason may be the difficulties raising capital in later stages as a potential investor in growth stage might expect the startup to have a potential buyer. Gro Eirin Dyrnes on the other hand, believes that the focus towards an IPO becomes more relevant in later stages. She claims early stage investors focus on acquisitions as they understand that they do not have the ability to follow up on the investments and will most likely not be part of an IPO. Gro Eirin Dyrnes believes that it is more relevant to consider going public as the startup reaches growth stage.

There are clearly some differences between the respondents' perceptions regarding focus on exit in various stages. Both Øivind Enger and Gro Eirin Dyrnes state that the exit strategy seems to become more clear as the startup grows and comes closer to a potential exit. Though, it is difficult to conclude on which exit is more relevant for investors in each stage based on their various statements.

The exit is the investor's way to get a return on their investment, but the entrepreneur's preferred exit might depend on the level of involvement the founding team wants to have in startup. As mentioned, an IPO will open for the investors to exit and realize their return while the entrepreneurs can continue operating the venture. When being acquired the entrepreneurs might not be able to continue operating the business depending on the agreement with the acquirer. As previously discussed, the investors often include the drag-along right in the shareholder agreement when investing in a startup to make sure they can sell the whole company when exiting. When an entrepreneur has a long-term plan with the business and wants to continue being involved in the business, going public seems to be a better strategy for the entrepreneur.

The American market is in some extent changing as big investments go into startups that have been valuated too high when being acquired. Studies show that 70 - 90 % of acquisitions fail to meet the long-run financial goals they were set up to fulfill. Deal-making can be more complicated than executives predict, and many acquisitions fall short of expectations because the executives incorrectly match respondents to the strategic purpose of the deal, failing to distinguish between deals that might improve current operations and those that could dramatically transform the company's growth prospects. As a result, companies often pay the wrong price and integrate the acquisition in the wrong way (Christensen, Alton, Rising, & Waldeck, 2011). However, the American market has started to adjust, as previously discussed.

The entrepreneurs and investors do not express specific preferences regarding acquisition or IPO as an exit strategy, but an acquisition is a more common and likely exit route. Each startup is different and needs to be evaluated individually, and so must each exit case.

"If the public market conditions are good and that is where we will get the best return, then we choose to do an IPO"

Rune Rinnan, Founder and Managing Partner, Televenture

An IPO is argued to be the natural choice of exit strategy if the market conditions are good, but when the conditions are not, the exit will often be an acquisition. As there are many contributing factors to the choice of exit, and those factors might not be evident when investing in a startup, it seems reasonable that the focus on exit increases as the startup grows and reaches later stages of fundraising. The specific exit plan will therefore be planned and customized to each individual startup as time passes.

On the other hand, it is possible to start planning for an exit early on. If a startup wants to be acquired, and knows of potential acquirers, they can build an exit case from the beginning by developing a product or service specifically targeting the acquirer. As it is uncertain how a situation unfolds, aiming at different buyers could be preferable as selling a company rarely generate a good value, while being acquired often does. If the case is good, one might have a bidding war which could drive up the price of the startup. By having only one potential buyer, the startup does not have any bargaining power and will possibly not receive a good price. Therefore, starting to work with potential strategic partners early on may increase the chance to be acquired.

An article written by Giot and Schwienbacher (2007) states that empirical evidence has showed that venture capitalists preferred a trade sale to an IPO in the European market. One of the reasons was that going public is more expensive and time consuming than an acquisition (Giot & Schwienbacher, 2007). The interviewed investors, both Norwegian and American, seem to have acquisition as their main exit strategy. Their answers seem to coincide with Giot and Schwienbacher's research in terms of having acquisition as the most likely exit, but the respondents state that if the IPO is possible, they will most likely try to take the company public.

4.4.5 Time to Exit

When asking both the entrepreneurs and the investors, most of them claim they do not focus on the exit strategy, and that there are no requirements towards exit-strategy in an early stage. On the opposite side, when asking about their time perspective, both entrepreneurs and investors have a set time perspective for an exit and a plan for approximately *when* they will exit. This indicates that they do not discuss the strategy, nor focus on it in the negotiations in early stage, but they have all thought about a potential exit strategy.

As stated in theory, timing is part of the exit strategy as both venture capitalist funds and seed funds are set up for a specific time period. The respondent's response to expected timeframe correspond with theory stating that a venture capital fund is typically set up for approximately 7 to 10 years. Though funds normally are set to operate for a specific number of years, the funds operate with the possibility to extend their time period with a couple of years as the assets in these funds are illiquid and cannot immediately be converted into cash. The interviewed investors have all extended the funds they operate with today or their previously funds, and some explain the reasons to be that they prefer more time in order to increase the possibilities to receive a higher return. Though, the respondents argue that having a shorter time perspective makes it is easier to attract required capital to the funds as the investors believe that they will gain the return in the near future. However, having the ability to extend the fund with a couple of years could lead to better exit opportunities.

4.4.6 Differences between Norwegian and American Investors

Studying the differences between Norwegian and American investors regarding their focus on exit, the main differences are numbers and metrics. American venture capitalists invest in companies that fit their metrics regarding size, numbers and potential while Norwegian investors treat each potential investment as individual cases. In the US, many companies exist for the venture capitalists to compare the potential startup’s valuation. This makes it easier for an investor to evaluate the cases out of their deal flow. In Norway, there are few comparable companies and the deal flow is also smaller than in Silicon Valley. From the interviews, we found that Norwegian investors invest in a larger percentage of their deal flow than American investors, which might be due to their smaller rate at which they receive business proposals.

Several of the respondents, both those operating in Norway and those operating in Silicon Valley, state that there is lack of dynamics in the investor environment in Norway. They argue that this might be a reason why the market for financing of startups is not as sufficient in Norway as it is in Silicon Valley. In the US, there is a great diversity of investors, both angel investors, seed investors and venture capitalists, who contribute to a functional dynamic in the market. As Norway is a small country with a relatively small number of investors, it is difficult to achieve such dynamics.

"It's difficult for a venture capitalist fund to operate in Norway. It has got to do with localization, deal flow, that there are people with the right competence in the area and that there is someone nearby who can buy their company"

Bjørn Alsterberg, Consultant and Angel Investor

Being a small country with limited potential buyers, Norwegian startups have to approach foreign countries to find acquirers. Startups operating in Norway may therefore have a disadvantage as they are localized far from potential acquirers. Due to this localization issues, the Norwegian entrepreneurs might also be less likely to have strategic partners that could be potential buyers.

"Who is buying the startups and who pays well? It is the big tech companies and they are located in the US. They do not buy Norwegian companies that they have never heard of. They buy the ones they have heard of or worked with"

Arne Tonning, Partner, Alliance Venture

Arne Tonning states that the exit strategy is a long process and working with strategic partners is beneficial in regard to planning for an exit. Norwegian startups might have potential buyers located in Norway or other countries, but startups in Silicon Valley have an advantage as most of the big companies are located there.

"This is where (in Silicon Valley) it is most likely to do an exit"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

It is argued that American investors' prerequisite to achieve a successful exit is better than Norwegian investors. Compared to Norwegian investors, American investors seem to be more patient as they hold on to portfolio companies longer in order to wait for the right exit. Some of the respondents argue that one of the reasons is that American investors in general are more experienced and work in a more structured market with significantly more potential buyers. They also have numerous examples on which their expectations are based on and are able to compare different cases as exits happen on an everyday basis in the US. Norwegian investors do not have a similar basis of comparisons, nor do they have sufficient knowledge of potential buyers and what price to expect. As a consequence, the respondents claim Norwegian startups are sold at somewhat lower prices. Some argue that the lack of capital in the Norwegian market is why Norwegian investors try to get an exit at an earlier stage than American investors. The respondents also argue that Norwegian investors are less ambitious regarding the exit as they could become nervous if they do not see an exit in the near future.

Regarding specific requirements toward the entrepreneurs, there seem to be few differences between Norwegian and American investors, even though there most likely are general differences between all individual investors. In early stage, investors in both countries do not focus on specific exit strategies in terms of deciding to aim for an IPO or an acquisition. Generally, the investors do not expect the entrepreneurs to present an exit strategy when seeking financing from an investor in either countries. The exit seems to become more clear as time passes in both countries. The American investors are in general better at connecting startups to strategic partners in early stage that could be potential buyers. Generally, there seem to be few obvious differences between investors in Norway and the US regarding their requirements in early stage.

4.5 The Potential

This section will focus on the Norwegian market for entrepreneurial activity today, including its future potential. Further, we will assess some incentives that could be beneficial to increase entrepreneurial activity in the Norwegian market.

4.5.1 The Norwegian Market

Most of the respondents see a change occurring in Norway with increased private investments in startups. This entails more startups, more investors, more role models and more attention, which may contribute to more available capital in this market. Today the market is not sufficient according to the respondents interviewed in our research. However, they all believe Norway has a great potential due to the positive changes in Norwegian's mindset and the Norwegian culture.

"It has changed rapidly since I started my first company in 2012. Then no one invested (in startups) in Norway. Today, there are more business angels and early stage investors"

Fredric Staksrud Hansen, Founder and CEO, Unisound

Statistics Norway (SSB) showed that expenses for research and development in Norway in 2015 exceeded NOK 60 billion, increasing 12 % since 2014. This number gives an indication that the Norwegian industry is aware of the fact that research and development is important to ensure further innovation. This may also imply that the increased focus has in fact attracted more investors to invest in startups. The highest growth percentage of these expenses are found in the small businesses with less than 15 employees, which grew from 20 % to 25 % between 2014 and 2015. SSB claims that this increase may be due to the increase in tax credit programs for research and development during the last couple of years. One example is SkatteFUNN which helps to reduce costs when starting a company (SSB, 2016a).

SkatteFUNN is a governmental program for tax incentive scheme designed to stimulate research and development in an innovative industry (Forskningsrådet, 2016). The number of approved applications to SkatteFUNN increased with 15 % in both 2014 and 2015 (SSB, 2016a). This might imply that there could be an increase in innovative startups. The respondents argue that SkatteFUNN is an important incentive to the Norwegian entrepreneurial environment. In addition to SkatteFUNN, Norwegian startups have the possibility to apply for early stage funding from Innovation Norway which is an important contributor to promote entrepreneurial activity.

Some of the respondents notice that there is not a lack of private capital in Norway, but a lot of the private capital is invested into the real estate market. In 2015, approximately NOK 500 million was raised in private equity firms in Norway (NVCA, 2016a). However, from the last quarter of 2015 until the third quarter of 2016, roughly NOK 400 *billion* has been invested into the real estate market (SSB, 2016b). There is a lot of capital in the Norwegian real estate market compared to the market for startup funding as startup investments account for approximately 0.125 % of the real estate investments. In other words, there is a big potential for investments in startups and entrepreneurial activity in Norway. It is argued that changes in incentive schemes would contribute to move capital from investments in real estate into entrepreneurial activities.

"It's a positive trend, more and more people see this as an industry to invest in and more people have acquired the needed competence, in addition to increased attention in the market"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

The DNB report (2016) claims that a total of 64 % of Norwegian investors who already have invested in startups in growth stage wants to reinvest. Additionally, 36 % of investors who previously have not invested in growth stage companies, want to invest in this type of companies. This is positive for Norwegian startups, as it indicates increased intentions towards investing in startups. More investments might contribute to an increase in Norwegian people's intentions to establish a startup in the Norwegian market which would be beneficial as Norwegian's intentions to establish a startup are very low.

4.5.2 Measures to Increase the Norwegian Entrepreneurial Activity

As discussed throughout this thesis, there should be more focus on facilitating for changes in the national culture and mentality in order to increase entrepreneurial activity. That might lead to more innovative solutions and startups. The economy should recognize the work and the contribution entrepreneurs make towards the national economic growth and creating new jobs and job opportunities. DNBs report (2016) addresses the fact that 10 % of all private jobs disappear each year, and that new companies are crucial to secure employment. According to SSB (2016a), jobs in newly established companies stands for approximately one fourth of the job creation in Norway.

According to statistics, more than 1 million Norwegians dream about starting their own venture (DNB, 2016). As mentioned, the main reasons for creating a company is to be their own boss, the wish to realize a great idea and then to gain possible increase in revenue (Bergo, 2007). This implies that the desire to create a company is already present among the Norwegian people. However, there still exists determining reasons and factors which keep them from establishing companies.

One reason that may prevent Norwegians from establishing a startup might be the fear of failure, as previously discussed. It should be more common and accepted for people to have startups as their profession. If people are openly talking and educating others about their faults and failures, it could be more acceptance in a community to fail. Another reason may be the lack of different role models who have succeeded creating great startups. As Tarjei Husøy's states below, one of the reasons behind all the hard work they put into Megacol is to help the Norwegian community understand that being an entrepreneur is possible and an exciting career path.

"Some of our motivation for doing this is to help normalize engaging in startups"

Tarjei Husøy, Founder and Lead Developer, Megacool

It is argued that Norwegians do not have the necessary knowledge and competence regarding entrepreneurial activity and it should be facilitated for more education. Experienced entrepreneurs and investors should promote entrepreneurial activity by sharing their expertise. As most respondents' state, there is a lack of competent capital in Norway, especially in growth stage helping startups grow in order to become profitable companies. Though, there is an increasing number of Norwegian entrepreneurs who have earned their fortune on successful exits who continue investing in new startups. These investors possess valuable knowledge about the entrepreneurial environment. By sharing their expertise, they could contribute to establish and develop the industry and the innovative ecosystem needed in Norway.

"It has to be facilitated to increase the knowledge of monetary strong people about the technological startup industry"

Gro Eirin Dyrnes, Director, Innovation Norway and
Chairman of the board, Nordic Innovation House

More attention towards entrepreneurial activity, including knowledge about new technology, trends and the risk aspects would be beneficial to attract more capital to invest in startups. An increase in the number of investors investing in startups might lead to an increase in co-investments which could help reduce the experienced high risk. This could result in a spiral effect that would lead to more entrepreneurial activity. Generally, it should be more common with co-investments in both governmental and private investments. The respondents argue that if would be beneficial if the government engaged in co-investments with private investors promoting private investors to invest in startups.

"Innovation Norway should consider stricter requirements on co-investments as private investors is a validation of relevance and potential follow-up investment. This will stimulate the startup ecosystem, which will be very important"

Gro Eirin Dyrnes, Director, Innovation Norway and Chairman of the board, Nordic Innovation House

The current tax system in Norway promotes investments in real estate rather than entrepreneurial activity. Several of the respondents claim there should be established incentives to make investing in entrepreneurial activity as lucrative as it is in real estate today. This involves having competent and risk willing capital available for further investments in startups.

"There should be established means to stimulate so that the private capital does not go into real estate and other areas. Either through tax incentives or incentives to invest in funds"

Arne Tonning, Partner, Alliance Venture

There have been disagreements in regard to which measures should be implemented in the current Norwegian tax system to facilitate for more investments into innovative startups. One option for the Norwegian government is to implement an incentive program based on the British model, called Enterprise Investment Scheme (EIS). In the UK, investors who invest in unlisted companies may have the right to receive a tax credit of 30 % of the share's value up to £1 million. The result has been that a considerable amount of capital has been moved from other investments into innovative startups. The Norwegian government have argued that they need further assessments before deciding on a desired implementation of an incentive program. However, in December 2016 the government parties agreed to assess a scheme for an incentive program based on the British model which will be considered at the revised national budget in the spring of 2017. It would be beneficial for the entire Norwegian entrepreneurial ecosystem if the proposal is approved as it will facilitate for more investments into innovative startups and fill a gap in the market for financing of startups.

Several of the governmental parties have signalized an increased focus on measures directed towards startups and entrepreneurial activity. In addition to a measure similar to EIS, the measures involve investment deductions (KapitalFUNN), changes in taxation of options, strengthening of SkatteFUNN and improved social rights for self-employed people. Most of the respondents argue that these incentives will contribute to more entrepreneurial activities.

The proposed incentive KapitalFUNN is based on some of the foundations of SkatteFUNN and EIS. It would involve a deduction from taxable income for independent investors of up to 25 %

of the invested amount during the investment year. It would apply on investments up to NOK 1 million, but it would be limited to growth companies in the initial years of startup. This could make it more beneficial to allocate capital towards investment into startups and it would potentially attract substantial amounts of capital.

Incentives and measures could contribute to make it easier to create a startup. However, the effect of these incentives will vary depending on the implementation. For the entrepreneurs, there are also different incentives and measures that could be implemented. Some of them may be exemption from employer tax, strengthened social rights and reduced bureaucracy. As our respondents points out, the Norwegian culture towards entrepreneurs is vital for entrepreneurial activity which implies that we should applaud those who try, those who fail and those who try again.

"... we are humans. We need recognition, applause and monetary incentives, but also incentives on all the other things; that it's facilitated, it's accepted, it's cool and that you are viewed as a contributor to the society"

Rune Rinnan, Founder and Managing Partner, Televenture

5 Summary

The objective of the thesis was to examine the local conditions in Norway and Silicon Valley, where we focused on financing of startups and the importance of an exit strategy. In addition, we studied how culture within the environments affect both financing of startups and investors' focus on exit strategy. We limited the scope because it would be too comprehensive to compare Norway to all of the US as there are big differences within the country. Therefore, by comparing Norway to Silicon Valley, which is one of US' most advanced entrepreneurial environments, we were able to see some clear differences.

Due to the openness and explorative nature of the research question, a qualitative approach was applied. The collected data consists of seven interviews which are characterized as semi-structured and in-depth interviews. The selection of respondents consists of highly competent individuals within the field of entrepreneurship and financing of startups, and they have all contributed with various and valuable perspectives from their knowledge and experience within the subject.

During the analysis of the collected data, several interesting observations occurred. Since the entrepreneurial culture has been developed over several decades in Silicon Valley, there is a more facilitated culture there than in Norway. Today, the heroes of the Silicon Valley community are the entrepreneurs as they are viewed as the future of business and the ones who will contribute to higher economic growth. However, in Norway, startups are mostly viewed as hobbies or side projects which indicates that the culture for entrepreneurial activity is not as present as it should be to reach higher levels of entrepreneurial activity. With the developed culture in Silicon Valley, the market for knowledgeable investors and fearless entrepreneurs has evolved. American investors seem more willing to invest as they have a lot of knowledge and experience from the startup community, and in addition, the entrepreneurs in Silicon Valley have less fear of failure than Norwegian entrepreneurs.

Studying the differences between the availability of capital in Norway and the US, it is clear that the availability of capital in Norway is quite good in the very early stage, especially in regard to government funding. Angel investors are though far more prominent in Silicon Valley than in Norway, but there seems to be a gap in the very early stage in Silicon Valley as entrepreneurs bootstrap their startups using personal funding. In growth stage, there is clearly a gap in the availability of capital in Norway. There are few big investments made in growth stage and Norwegian investors typically invest smaller amounts than American investors. In Silicon Valley, the availability of capital is good in growth stage, and the market is more dynamic.

As American investors possess great competence and experience within their field, and operate with metrics and term sheets, the market in Silicon Valley is professional and structured. The Norwegian market is less structured as there are few venture capital firms who operate with less use of metrics as each potential investment is most often considered individually. One big difference between Norwegian and American investors is the number of shares and the role they take when investing in a startup. Norwegian investors tend to take large shares and more prominent roles, which can make the startup uninteresting to future investors. As the Norwegian investors are more active, they often utilize their control and drag-along rights. In Silicon Valley, the investors are generally more focused on the fact that it is the founder’s company and respect and trust them enough to make the right decisions. Though, they are able and willing to contribute with knowledge and help if necessary.

The study indicates that most investors do not focus on exit in early stage, but as the startup grows both the entrepreneurs and the investors generally start focusing on a specific exit strategy. Though most investors do not focus on a specific exit strategy when investing in a startup, they often start planning for an exit in early stages by evaluating the company in terms of how much they potentially will get in return when conducting an exit in the future. Some also focuses on entering strategic partnerships in early stage with potential acquirers which could be seen as an exit strategy. The respondents do not have preferences in terms of conducting an IPO or being acquired, but they all state that an acquisition is the most likely exit. There are some inconsistent in the respondent's statements regarding focus on specific exits in early stage and growth stage as some believe an IPO is a conceivable strategy in early stage but not in the growth stage, while others have the opposite conception. Both the investors and entrepreneurs have a timeframe for when to conduct an exit, but the respondents state that there are some differences between American and Norwegian entrepreneurs as they argue Norwegian entrepreneurs have less focus on exits.

Different sources and reports substantiates the respondents’ claims that there is an increased entrepreneurial activity in Norway. This is substantiated from increased amounts spent on research and development and the increase of approved SkatteFUNN applications over the last couple of years. To increase the future entrepreneurial activity in Norway, there are different measures which can be implemented. This may include facilitating the culture for startups with increased acceptance for failing, more public role models and increased knowledge and competence about entrepreneurs and innovation. Some other measures could be suitable tax incentives as SkatteFUNN and KapitalFUNN, but also other possible incentives to increase fund investments. However, as most of the interviewed respondents claim, a developed culture that facilitates entrepreneurial activity is essential to increase the focus on entrepreneurial activity and to ensure that entrepreneurs are viewed as contributors to the community, which is essential to increase startup establishments.

5.1 Conclusion

Which requirements do investors have regarding exit strategies when investing in innovative startups, and are there any differences between investors' requirements in the US and Norway?

As investing in a startup is considered a high-risk investment, and the investor's goal is to achieve a return on investment, one should expect investors to focus on exit strategies because return relies on a successful exit. Theory states that it is important for an investor and an entrepreneur to agree upon an acceptable and realistic exit strategy upfront. However, our research reveals that early stage investors generally do not have requirements towards a specific exit strategy when investing in an innovative startup. Some include exit and drag-along right in the shareholder agreement, but generally, early stage investors do not discuss or negotiate the exit. Investors investing in growth stage on the other hand, seem to focus on the exit strategy as they do negotiate their issue with the entrepreneurs before investing.

There seems to be few differences between Norwegian and American investors' requirements towards exit when investing in a startup. The investors do not focus on a specific exit strategy in terms of deciding to aim for an acquisition or IPO in early stage in either countries. Generally, the investors do not expect the entrepreneurs to present an exit strategy when seeking financing from an investor. The exit seems to become more clear as time passes in both countries. Though the American investors seem to be better at connecting the startups to several strategic partners and potential buyers in early stage. Generally, there are few obvious differences between investors in Norway and the US regarding requirements towards exit strategies.

5.2 Limitations

In this chapter, we will discuss some limitations of this thesis, as the extent of this thesis represents a central limitation, given how the data sample is comprised of seven in-depth interviews. This is however considered to be relatively good sample in qualitative studies. These interviews permit personal opinions about two different environments which do not necessarily reflect reality in addition to complicating the generalization of results. The lack of time and available resources can also be mentioned as limitations for this thesis. The subject regarding financing of entrepreneurial activity is enormous and could be studied from numerous perspectives. The environments are very complex and with limited time the thesis focuses on one subject and may not include all aspects that might influence the results.

Due to gaps in the literature and lack of research regarding exit strategy there are limitations in order to create a rich and substantial theory section. Therefore, the theory refers to a limited number of references on this subject. However, the lack of literature was one of the reasons for wanting to conduct this research as we would get the opportunity to expand the understanding of existing literature and research about the importance of exit strategies.

The interviewed respondents are operating in various areas of the entrepreneurial ecosystems, both in Silicon Valley and Norway, as founders, angel investors, seed investors, venture capitalists or consultants. It would be interesting to conduct interviews or do a quantitative research with multiple respondents with different backgrounds from both Norway and Silicon Valley, in order to secure better validation of the respondents' answers. However, we were satisfied to interview respondents with several different roles even though we did not conduct multiple interviews from respondents in each role.

In order to ensure that the respondents had insight into both the Norwegian and the American market we interviewed Norwegians based in Norway and in the US. Though we assured that the respondents were familiar with both markets, it might be a limitation not interviewing any Americans. However, Americans would most likely not have knowledge about the Norwegian market and would therefore not be able to compare the two countries. Therefore, in order to compare the two markets in the best possible way, we decided to use Norwegian respondents.

The respondents have different backgrounds and different views on the subjects addressed during the interviews. In some subjects they were quite unanimous, while in other subjects they had very different ideas and perceptions. This makes it more difficult to comprehend the collected information in order to generalize the results. However, their different opinions on the topics contributed to an interesting discussion in our analysis.

We have limited the thesis to focus on Silicon Valley as a cluster as there conceivably are big differences within the US. Therefore, the thesis does not reflect the US as a whole.
The study's limitations are however an opportunity to make suggestions for further research, and we will therefore give some examples of other possible research studies.

5.3 Further Research

In order to further examine the research question it would be interesting to collect data and conduct a quantitative analysis comparing investors and entrepreneurs in Norway and Silicon Valley in regard to their focus on exit strategies. Based on collected data one could study if the entrepreneur's focus on exit strategy in early stage had a significant impact on the success rate on their exits and their valuations. Such research could provide an indication to see if there are any differences from those who focus on exits early on and those who do not in regard to success rate on exit.

For further research it would also be interesting to study and compare different environments besides Norway and Silicon Valley to determine whether or not cultural aspects and location play an important role regarding financing of startups and focus on exits. That would demand a significantly larger data sample. It would be preferable to conduct both a qualitative and quantitative research approach as the interviews could substantiate the quantitative data. Collecting data from multiple companies and environments would be preferable as is would provide an in-depth understanding regarding the different environments.

Considering further research, both the lack of capital in growth stage and the availability of competence in Norway would be interesting aspects, as several of the respondents claimed that there is a lack of available funding in growth stage and competent capital which could make it difficult for startups to expand and grow. Deeper knowledge and underlying reasoning as well as possible measures that can be done to change these conditions may be of significant interest.

It would be interesting to see if more funding from Norwegian investors and the government in growth stage would facilitate for companies to grow bigger and to have more successful exits.

Another interesting aspect would be to study the startups funded by Innovation Norway and their survival rate. Today it is easy to get funded by Innovation Norway, but only 30 out of 100 startups are still active five years after establishment (Innovasjon Norge). If Innovation Norway had focused more on their startups having strategic partnerships and a focus on exit in early stage, it would be interesting to see what that would do to the companies' survival rate.

As the respondents, state that they do not focus on a specific exit, it would be interesting to see if an IPO or an acquisition could generate a higher return on investment than the other. It would also be interesting to see if there are any consistency in the rate of return "choosing" one or the other exit strategy. Further research could focus on which types of companies and industries that would benefit from conducting the different exits. This would most likely depend on numerous factors, and it would be a complicated research, though it would be interesting as entrepreneurs could aim towards a specific exit strategy in early stage, and investors could generate higher returns on their investments.

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7 Appendices

Appendix A – GEM report

Table 23: Cultural and social norms, 2015 (Weighted average: 1 = highly insufficient, 9 = highly sufficient)

Rank	Stage	Economy	Value
1	5	Israel	7.4
2	5	USA	6.8
3	4	Lebanon	6.3
4	5	Canada	5.9
5	3	Ecuador	5.8
6	5	Switzerland	5.8
7	3	Indonesia	5.8
8	4	Malaysia	5.8
9	5	Estonia	5.7
10	2	Philippines	5.7
11	5	Netherlands	5.7
12	3	Thailand	5.5
13	1	India	5.5
14	1	Vietnam	5.4
15	5	Ireland	5.4
16	5	United Kingdom	5.3
17	4	Turkey	5.3
18	5	Portugal	5.2
19	4	Panama	5.2
20	3	Colombia	5.2
21	4	Chile	5.1
22	4	Mexico	5.0
23	3	China	5.0
24	3	Peru	5.0
25	4	Kazakhstan	5.0
26	5	Sweden	5.0
27	5	Korea. Republic of	4.9
28	4	Argentina	4.9
29	5	Taiwan	4.8
30	4	Latvia	4.8
31	5	Australia	4.8
32	5	Norway	4.7
33	1	Burkina Faso	4.7
34	1	Cameroon	4.7
35	2	Botswana	4.7
36	5	Finland	4.5
37	5	Spain	4.4
38	4	Poland	4.4
39	3	Guatemala	4.3
40	4	Barbados	4.3
41	5	Germany	4.2
42	5	Luxembourg	4.1
43	5	Belgium	4.1
44	3	Romania	4.1
45	3	Tunisia	4.1
46	3	Macedonia	4.1
47	4	Brazil	3.9
48	3	Egypt	3.8
49	1	Senegal	3.8
50	5	Japan	3.8
51	5	Puerto Rico	3.8
52	2	Iran	3.7
53	3	Morocco	3.7
54	4	Uruguay	3.6
55	5	Greece	3.6
56	5	Italy	3.5
57	3	Bulgaria	3.5
58	4	Slovakia	3.5
59	3	South Africa	3.4
60	5	Slovenia	3.4
61	4	Hungary	3.2
62	4	Croatia	2.6

GEM 2015/16 Global Report

(Global Entrepreneurship Research Association, 2016; Kelley et al., 2016)

Appendix B – Interview Guides

Bjørn Alsterberg - Angel Investor and Consultant

1. Briefly, tell us about your role in Bergen Teknologioverføring and what you do today.
2. How would you generally describe the Norwegian market for financing of startups?
    1. How would you describe the availability of capital in the Norwegian market for financing of startups? Does the capital availability differ between different types of investors?
3. How would you describe the Norwegian market for financing of startups related to risk aversion and investment strategy compared to the US market? Have you seen any changes or trends regarding this?
4. Based on your experience, are there any gaps in the Norwegian capital market for startups? If so, how does these gaps affect venture funds' investments and startups' funding possibilities?
5. What can you say about the methods Norwegian investors use to evaluate startups?
6. Based on your knowledge, which requirements do investors have when evaluating a potential startup to invest in? Do these requirements differ between different types of investors?
7. Generally, which requirements do investors have regarding exit strategy when financing a startup?
8. What exit strategy would you say is the most common in Norway?
    1. Based on your knowledge, do different types of investors prefer different exit strategies? If so, which exit strategy do they prefer? What do you think may be the reason?
    2. Have you experienced disagreements between investors and entrepreneurs regarding the exit strategy? Have you experienced that entrepreneurs have had different thoughts about the exit strategy than the investor?
    3. Would you say Norwegian entrepreneurs' general opinion is regarding the importance of a clear exit strategy?
9. What can you say about Norwegian versus American investors' time perspective for conducting an exit strategy?
10. Based on your impression, what are the most common reasons for Norwegian startups to establish their venture in Silicon Valley rather than in Norway?
11. Which differences do you believe exists concerning investors role in startups in Norway versus the US?
12. What differences do you think exists between investors' requirements towards startups in Norway and the US?
13. Which similarities and differences do you believe exist between Norwegian and American investors in regard to their requirements towards exit strategies?
    1. Would you say that entrepreneurs in Silicon Valley and Norway have different views on the importance of a clear exit strategy? Please explain.
    2. What can you say about investors time perspective for conducting an exit strategy in Norway versus the US?
14. What can you say about the differences between Norwegian and Americans regarding their willingness to invest?
    1. Would you say that there are cultural differences between Norway and the US in regard to startup funding (investors' behavior, appetite for risk and investment strategy)? Please explain.
15. Based on your knowledge, can you briefly highlight the most positive and negative about the markets for startup funding in Norway and the US?
16. What measures do you think should be done to encourage more venture capital and investment in Norway?
17. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Gro Eirin Dyrnes – Consultant, Innovation Norway and Nordic Innovation House

1. Please, briefly tell us about your role in Innovation Norway and Nordic Innovation House.
2. How would you generally describe the Norwegian market for financing of startups? Compare to the US.
    1. How would you describe the availability of capital in the Norwegian market versus the American market for financing of startups? Does the capital availability differ between different types of investors?
3. How would you describe the Norwegian market for financing of startups related to risk aversion and investment strategy in relation to the US market? Have you seen any changes or trends regarding this?
4. Based on your experience, does it exist gaps in the Norwegian capital market for startups? If so, how does these gaps affect venture funds' investments and startups' funding possibilities? Compare to the American capital market.
5. Based on your knowledge, what are the most common reasons for Norwegian startups to establish their venture in Silicon Valley rather than in Norway?
6. Can you say something about how American versus Norwegian investors valuate startups?
7. What differences do you see regarding investors role in startups?
8. Based on your knowledge, what are investors' main requirements to a startup during an evaluation of a potential investment?
    1. Do these requirements differ between different types of investors?
    2. What differences do you think exists between investors' requirements in Norway and the US?
9. What requirements does US investors generally ask regarding exit strategy during the evaluation of a potential investment?
10. What exit strategy would you say is the most common strategy in the US?
    1. Based on your knowledge, does different types of investors prefer different exit strategies? If so, what exit strategy? What do you think the reason may be?
    2. What similarities and differences do you see between Norwegian and American investors in regard to exit strategy requirements?
    3. Would you say that entrepreneurs in Silicon Valley and Norway have different views on the importance of a clear exit strategy? Please explain.
11. Can you say something about investors time aspect for conducting an exit strategy in Norway versus the US?
12. What can you say about the differences in willingness to invest between Norwegian and American investors?
    1. Would you say that there are cultural differences between Norway and the US in regard to startup funding (investors' behavior, appetite for risk and investment strategy)? Please explain.
    2. Based on your experience what differences do you see in the mentality of Norwegian and American investors?
13. Based on your knowledge, can you briefly highlight the most positive and negative about the markets for startup funding in Norway and the US?
14. What measures do you think should be done to encourage more venture capital and investment in Norway?
15. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Øivind Enger - Partner Investment Advisor, Sarsia Seed

1. Briefly, tell us about your background and what your role in Sarsia Seed (Sarisa) is?
    1.1. When was the fund Sarsia established, and when will it close?
    1.2. How has the return on the fund been so far?

1.3. What is the expected return when the fund is closed?
1.4. Is it possible for you to say something about how the fund stands in relation to the expected return?
2. How do you define a Norwegian seed company?
2.1. Which stage of startups do Sarisa invest in?
2.2. Which industries are you investing in?
2.3. Generally, can you say something about what expectations and demands you have for the entrepreneur and the startup team?
3. Tell us about Sarsias deal flow.
3.1. Do you actively seek startups you are interested in based on for example the industry the startup company operates in, or do you only consider the companies that you receive a presentation from?
4. How do Sarsia evaluate startups?
4.1. What rate of return do you operate with and how great can the variations be in the required rate?
5. How would you describe the Norwegian market for seed capital related to risk aversion and investment strategies?
5.1. Have you experienced any changes or new trends regarding this?
6. Generally, how would you describe the Norwegian market for financing of startups?
6.1. How would you describe the availability of capital in the Norwegian market for financing of startups?
6.2. Based on your experience, does there exist gaps in the Norwegian capital market for startups in early stages? If so, how does these gaps affect seed funds' investments and startups' financing possibilities?
6.3. What differences do you think exists between Norway and the United States regarding capital availability for startups?
6.4. What do you think are the biggest differences concerning funding opportunities for startups based on what stage they are in, in Norway versus USA?
7. What is Sarsias main requirements for a startup company during an evalutation of a potential investment?
7.1. Are the requirements different in the startup's different stages? Please explain.
7.2. What differences do you think exists between investors' requirements in Norway and the United States?
8. Which requirements does Sarsia set regarding exit strategy when investing in a startup? Are there variations in these requirements, and what are the reason for these variations?
8.1. Have Sarsia a preferred strategy for exit?
8.1.1. If yes, what is it and why is it a preferred strategy?
8.1.2. If no: what is the reason for the variation of applied exit strategies?
8.2. Based on your knowledge and your experience, how do you assess the differences in Norway and the US regarding requirements for exit strategy?
9. When Sarsia invest in a startup business, what is the time aspect for conducting an exit?
9.1. In how many of the companies Sarsia has invested in have you conducted an exit?
10. What investment share does Sarsia have of its deal flow?
10.1. What are the common causes to not get funded for startups seeking financing from Sarsia?
10.2. What requirements are often not met?
10.3. Have disagreements between Sarsia and a startup company regarding exit strategy been a determining reason for you not to make an investment?
11. What differences do you see between Norwegian and American investors regarding risk aversion related to financing of startups?
12. To what extent would you say that Norwegian venture fund invests in startups in early stages?
13. What would you say about differences in investment culture between Norway and the United States?
13.1. Would you say that these cultural differences affect investors (investors' behavior and investment strategy) concerning the financing of startups? Please explain.

14. Would you say that different types of investors have different requirements for exit strategy? Why? Please explain.
15. What would you say are the advantages and disadvantages of being funded by a business angel versus a venture fund in early stage?
16. During the startups' various stages of raising capital, does investors set different requirements for exit strategy?
17. What measures do you think should be done to encourage more venture capital and investment in Norway?
18. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Fredric Hansen – Founder and CEO, Unisound

1. Briefly, tell us about Unisound and the current situation for the company.
    1. Can you tell us about Unisounds funding process so far?
    2. Can you tell us about your investors (StartupLab, NTNUAccel and Bridge 140) and the role and importance they have had for Unisound?
2. Why did you establish Unisound in Silicon Valley?
3. How did you experience the process of raising capital?
    1. How did you come in contact with different investors?
    2. How much time would you say that you spent raising capital?
    3. Were you in contact with investors who chose not to invest in Unisound? What do you think the reason may be for them not to invest?
4. How would you describe the financing process for startups in the US versus Norway? What similarities and differences do you see?
5. How have your investors valuated Unisound?
    1. Are you satisfied with the agreement you have made with your current investors?
6. How do you evaluate the capital availability between different types of investors in Norway versus the US?
7. Would you say that there exists gaps in the capital availability in the US? Compare with Norway.
8. What requirements did your investors set for you as an entrepreneur and for Unisound? Compare the different investors requirements (StartupLab, NTNU Accel og Bridge 140).
    1. What do you think was the determining factors that made your investors invest in your startup?
    2. What would you say are the biggest differences in investors requirements to startups in the US versus Norway?
9. What exit strategy does your investors have?
    1. Did your investors ask or demand a specific strategy? If so, what do you think the reasons for this strategy were?
    2. Did you have another wish for exit than your investors?
    3. What time aspect does your investors have for conducting the exit?
10. What differences do you see between Norwegian and American investors regarding their requirements for exit strategy?
    1. What do you think the reasons for this is?
11. Would you say that entrepreneurs in the US and Norway have different views on the importance of a clear exit strategy?
12. What can you say about differences in investment culture between Norway and the US?
    1. Would you say that there are cultural differences between Norway and the US in regard to funding of startups (investors' behaviour and investment strategy)? Please explain.
    2. What can you say about the culture of high-risk investments in Norway versus the US?

13. Based on your experiences, what differences do you see between the mentality of Norwegian and American investors?
14. What measures do you think should be done to encourage more venture capital and investment in Norway?
15. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Tarjei Husøy – Founder and CTO, Megacool

1. Please, briefly tell us about Megacool and the current situation for the company.
    1. Can you tell us about Megacool and its funding process so far?
    2. Briefly tell us about your investors and the role they have had for Megacool.
2. What were the main reasons for establishing in Silicon Valley?
3. How did you experience the process of raising capital?
    1. How did you come in contact with different investors?
    2. How much time did you spend raising capital?
    3. Were you in contact with investors who chose not to invest in Megacool? What do you think the reason may be for them not to invest?
4. How would you describe the financing process for startups in the US versus Norway? What similarities and differences do you see?
5. How have your investors valuated Megacool?
    1. Are you satisfied with the agreement you have made with your current investors?
6. How do you evaluate the capital availability between different types of investors in Norway versus the US?
    1. Would you say that there are gaps in the capital availability in the US? Compare to Norway.
7. How would you compare investment willingness between Norwegian and American investors? Do you see any differences between investors appetite for risk?
8. What requirements did your investors set for you as an entrepreneur and for Megacool?
    1. What do you think was the determining factors that made your investors invest in Megacool?
9. Did your investors require a clear strategy for exit? Please explain.
    1. Does your investors have a time aspect for conducting the exit?
    2. Have you considered a potential exit strategy for Megacool? If so, what strategy and when will you conduct the exit?
10. Would you say that entrepreneurs in the US and Norway have different views on the importance of a clear exit strategy?
11. What can you say about the differences in investment culture between Norway and the US?
    1. Would you say that there are cultural differences between Norway and the US in regard to funding of startups (investors' behaviour and investment strategy)? Please explain.
    2. What can you say about the culture for high-risk investments in Norway versus the US?
12. Based on your experiences, what differences do you see between the mentality of Norwegian and American investors?
13. What measures do you think should be done to encourage more venture capital and investment in Norway?
14. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Rune Rinnan – Founder and Managing Partner, Televenture

1. Briefly, tell us about Televenture and your role in the company.
    1. What time aspects do you have for your company's funds?
2. What can you say about Televenutre's deal flow?
    1. Do you actively seek startup businesses you are interested in based on for example the industry the startup company operates in, or do you only consider the companies that you receive a presentation from?
    2. What is Televentures investment share of deal flow?
3. How do Televenture evaluate startup businesses?
4. How would you generally describe the Norwegian market for startup investments? Compare with the US.
    1. How would you describe the availability of capital in the Norwegian market versus the American market for financing of startups?
    2. Based on your experiences, does there exist gaps in the Norwegian capital market for startups? If so, how does these gaps affect venture funds' investments and startups' funding possibilities?
5. How would you describe the Norwegian market for seed capital related to risk aversion and investment strategies as opposed to the American market?
    1. Have you seen or experienced any changes or new trends regarding this?
    2. What can you say about the willingness to invest between Norwegian and American investors?
6. What is Televentures most determining requirements to a startup during an evaluation of a potential investment?
    1. What differences do you think exists between investors' requirements in Norway and the US?
    2. What is the most common reasons for startups seeking funding from Televenture to not get funded?
7. What requirements does Televenture ask regarding exit strategy during the evaluation of a potential startup funding? Are there any variations in these requirements, and what may be the reason for these variations?
    1. Does Televenture have a preferred exit strategy? Why?
    2. During startups' various stages of raising capital, would you say that investors have different requirements towards exit strategy?
    3. Based on your knowledge and your experience, how do you assess the differences in Norwegian and American investors regarding requirements for exit strategy?
8. When Televenture invest in a startup, what is the time aspect for conducting an exit?
    1. In how many of the companies Televenture has invested in have you conducted an exit? What types of exit has been implemented?
    2. Has disagreements between Televenture and a startup regarding exit strategy been a determining factor for not funding the company?
9. Would you say that there is general cultural differences between Norway and the US regarding financing of startups, investors behaviour and investment strategy? Please elaborate.
10. Based on your knowledge, can you briefly highlight the most positive and negative about the markets for startup financing in Norway and the US?
11. What measures do you think should be done to encourage more venture capital and investment in Norway?
12. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?

Arne Tonning – Partner Investment Advisor, Alliance Venture

1. Please, briefly tell us about Alliance Venture and the fund Alliance Venture Spring.
    1. What is the time aspect for closing the fund Alliance Venture Spring?

    2. What is the expected return on the fund when it is closed?
    3. Is it now possible for you to say something about the funds actual return in relation to the expected return?
2. What can you say about Alliance Venture's deal flow?
    1. Do you actively seek startups you are interested in based on for example the industry the startup company operates in, or do you only consider the companies that you receive a presentation from?
3. How do Alliance Venture evaluate startups?
4. How would you generally describe the Norwegian market for financing of startups? Compare with the US.
    1. How would you describe the availability of capital in the Norwegian market versus the American market for financing of startups?
    2. Based on your experiences, does it exist gaps in the Norwegian capital market for startups? If so, how are these gaps affect venture funds' investments and startups' funding possibilities?
5. How would you describe the Norwegian market for seed capital related to risk aversion and investment strategies as opposed to the American market?
    1. Have you seen or experienced any changes or new trends regarding this?
6. What is Alliance Ventures most determining requirements to a startup during an evaluation of a potential investment?
    1. What differences do you think exists between investors' requirements in Norway and the US?
7. What requirements does Alliance Venture ask regarding exit strategy during the evaluation of a potential startup investment? Are there any variations in these requirements, and if so, what may be the reason for these variations?
    1. Does Alliance Venture have a preferred exit strategy? Why?
    2. Based on your knowledge and your experience, how do you assess the differences in Norway and the US regarding requirements for exit strategy?
8. When Alliance Venture invest in a startup, what is the time aspect to conduct an exit?
    1. In how many of the startups Alliance Venture has invested in have you conducted an exit? What types of exit has been implemented?
9. What is Alliance Ventures investment share of deal flow?
    1. What are the common causes for startups seeking funding from Alliance Venture not to get funded?
    2. Have disagreements between Alliance Venture and a current startup regarding exit strategy been a determining factor for not conducting an investment?
10. Would you say that venture capitalists and business angels have different requirements for an exit strategy? What do you think the reasons for this is?
    1. Do you see any differences between venture capitalists and business angels in the US and Norway in regard to exit strategies?
11. During a startups' various stages of raising capital, would you say that investors have different requirements to exit strategy?
12. What can you say about the differences in investment willingness between Norwegian and American investors?
    1. Would you say that are cultural differences between Norway and the US in regard to startup funding (investors' behavior, appetite for risk and investment strategy)? Please explain.
13. Based on your knowledge, can you briefly highlight the most positive and negative about the markets for startup financing in Norway and the US?
14. What measures do you think should be done to encourage more venture capital and investment in Norway?
15. Are there any aspects of the thesis' topic you feel that we have not asked about, or is it something you want to tell us more about?