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Study: Lack of capital not a 'death sentence' for start-ups

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A new study from North Carolina State University is turning the conventional wisdom about technology start-up companies on its head, showing that ventures with moderate levels of undercapitalization can still be successful and that a great management team is not more important than a top-notch technology product when it comes to securing sufficient amounts of capital.

"Our research shows that undercapitalization is not a death sentence for start-up ventures," says Dr. David Townsend, an assistant professor of management, innovation and entrepreneurship at NC State who co-authored the study. "There are things a venture can do to survive and succeed." Basically, Townsend says, start-ups that fall short of their fund-raising goals can take steps to minimize their cash outflows in order to stay viable.

Undercapitalized ventures "need to engage in management strategies focused on reducing their costs. For example, outsourcing certain development tasks and accounting responsibilities or exchanging services with other companies - saying we'll build your Web site in exchange for a year's worth of accounting services, etc.," Townsend says.

The study also found that there is little evidence to support the long-standing tenet that a great management team is the most important part of a venture company when it comes to securing investment in a start-up. The study shows that a venture with an "A," or top notch, management team and an A technology is likely to meet its capitalization goal. But the researchers were surprised to find that the combination of a "B," or less than ideal, management team with a B technology was also quite successful in meeting capitalization goals. Ventures that had an A management team but a B technology, or vice versa, were usually underfunded.

Townsend explains that B management teams with B technologies are probably more successful at meeting their capitalization goals because they are aware of their shortcomings, and modify their capitalization targets accordingly. For example, these B teams may minimize management salaries or restrict their marketing budgets.

Similarly, Townsend says the evidence implies that A management teams with B technologies, or vice versa, often fall short of their capitalization targets because they have not modified their fund-raising goals - and as a result investors don't buy in at a sufficient level to fully fund the venture's intended strategies.

Source: North Carolina State University (news : web)