

Silicon Valley isn't the start-up utopia we thought, research finds

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Silicon Valley—considered the world's hub of technology and innovation—can breed inequality and sameness among budding entrepreneurs, according to new research.

Behind the multi-million-dollar deals and tales of start-up utopia, Silicon Valley's "uneven" investment landscape is in fact a barrier to many budding businesses, says the study from the University of Stirling and Georg-August-University Göttingen.

But the researchers suggest other countries could still learn from the more discerning entrepreneurial ecosystem that bred giants such as Apple and Google, to be more selective in backing [start-ups](#).

While it is not uncommon for Silicon Valley investors to invest millions of dollars into relatively early stage companies, the multi-million-dollar deals come at a price, according to the research findings.

Those who make it in Silicon Valley are arguably already successful—or have deep pockets and resources—leaving many potential [entrepreneurs](#) sidelined, claim the researchers, Dr. Michaela Hruskova and Dr. Katharina Scheidgen. This makes the region "a double-edged sword for entrepreneurs," they argue.

Their study, which drew on 63 qualitative interviews with entrepreneurs and investors in the U.S. and Germany, found that Silicon Valley entrepreneurs are typically expected to self-fund the company until they can demonstrate a considerable traction with customers—through sales revenue or user numbers.

This is in stark contrast to the entrepreneurial ecosystem in Berlin, also a leading start-up hub, which tends to only require a strong team with an investment-worthy idea, but where investment activity and start-up numbers are much lower.

Investing in a company after it has gained business traction means the risk of failure is lower and return on investment will likely be higher, the authors argue. It also means the start-ups must get more creative in

building their company and leveraging resources before they can secure investment.

Dr. Michaela Hruskova, Lecturer in Entrepreneurship in the University of Stirling Management School and co-author of the study, said, "Our research shows that Silicon Valley represents the Olympic Games of the startup world. It is a place that rewards the fittest, a place for those entrepreneurs, innovators, and change makers who have, in a lot of ways, already succeeded.

"Unlike their UK and European counterparts, Silicon Valley entrepreneurs need to achieve significant traction before they even approach investors, often using a founder's personal savings, to first build a product and generate sales. This uneven playing field is a double-edged sword for entrepreneurs. It fosters inequality, particularly among those entrepreneurs from disadvantaged socioeconomic backgrounds, and can lead to homogeneity among start-ups."

Dr. Hruskova added, "But there are lessons to be learned for other countries from Silicon Valley's more discerning entrepreneurial ecosystem. Start-ups there are forced to adopt creative ways to bootstrap their company. A little bit of improvisation can go a long way in entrepreneurship."

The research appears as the book [chapter](#) "Demystifying Silicon Valley: Unequal Entry Thresholds between Entrepreneurial Ecosystems," co-authored by Dr. Katharina Scheidgen and Dr. Michaela Hruskova, in *Entrepreneurial Ecosystems in Cities and Regions: Emergence, Evolution, Future*, published by Oxford University Press and available [here](#).

More information: [Demystifying Silicon Valley: Unequal Entry Thresholds between Entrepreneurial Ecosystems](#).

Provided by University of Stirling

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