

CASE STUDY: ROMANIAN STARTUP ACCELERATORS - STARTUP SELECTION AND EVALUATION

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Abstract

The aim of the present paper is to review and analyze the selection and initial startup performance evaluation of Romanian startup accelerators. The selection process of the most relevant six startup accelerators has been compared and analyzed in an attempt to bring a higher perspective of the acceleration ecosystem in Romania. The study provides a synthesis of current practices in the Romanian entrepreneurial environment and concludes with a series of recommendations for improvement of the application process.

Keywords

Romanian startup accelerators, selection process, performance evaluation

JEL Classification

L26, M13

Introduction

As business accelerators started to gain traction across the global business environment (Ceaușu et al., 2017), there have also been some initiatives in Romania during the past few years, as well. Even though the entrepreneurial ecosystem in Romania is in its development stages – considering number of startups, access to various funding sources, legislation, taxes and the ability of ventures to grow internationally, local entrepreneurs, business people and investors with international experience and expertise have been trying to drive the development startup accelerators for local and regional ventures (Lupea et al., 2017).

Traditionally, startup or business plan competitions and business incubators have been on the market in Romania for the last 15 years, however the ecosystem is, still, quite heterogenous. There are, currently, three big centers for startups in Romania: Bucharest and Cluj the biggest, and Iași – the runner up, with its recent dynamic development. In all these three regions there are numerous business and startup hubs, networks, conferences and meetups – all of which contribute to the development of the entrepreneurial ecosystem (Lupea et al., 2017). Among these startup assistance organizations (Ceaușu et al., 2017) there are several startup acceleration initiatives which gather the most important and experienced actors within the entrepreneurial environment in Romania.

This paper analyzes five of these, based in the two entrepreneurial regions – Bucharest and Cluj. The aim of the study is to understand the application process of startups within the

Romanian acceleration programs, understand current practices and provide a set of recommendations based on international best practices.

Literature review on startup and new venture performance evaluation

Startup performance evaluation is a debated topic, especially in high-growth industries ever since Thomas Watson, the president of IBM at that time, said that there will be a world market of maximum 5 computers - disruptive and innovative technologies and business models always challenge the current status quo of the world. The topic is of importance not only in the business environment, but also in the academic community, who tries to identify the best drivers for startup performance, as well as markers for potential failure (Karabag, 2018).

Venkatraman and Ramanujam (1986) look at three dimensions of evaluating startup performance:

- Financial performance (profitability, sales growth, earning per share) – reflecting the achievement of economic goals;
- A broader view including financial, non-financial and operations measures (market share, introduction of new products, market effectiveness, internal process outcome, employee satisfaction) – reflecting the product-market outcome;
- Organizational effectiveness (firm survival, reputation, perceived overall performance, achievement of goals) – reflecting overall perceived performance.

Building on the research of Venkatraman and Ramanujam (1986), Gerschewski and Xiao (2015) add that the dimensionality of business performance should be taken into consideration – long term vs. short term – and they recommend that the different performance dimensions should not be aggregated, but rather recognized and examined individually.

Also, a structured view on firm performance offer Hult et al. (2008), who identify three levels of evaluation: firm level, strategic business unit level and inter-organizational level. They focus especially on the inter-organizational level, where they identify measures sales based (sales volumes, ratio to foreign sales to total sales, sales growth, etc.) – indicating financial performance, and measures concerning the market share, which indicate the operational performance, according to the authors.

As it can be noticed, older entrepreneurship research is focusing on *quantitative performance metrics* such as sales growth, profitability, market share, return on investment or return on asset (Venkatraman and Ramanujam, 1986; Li and Atuahene-Gima, 2001; Cadogan et al., 2002; Combs et al., 2005; Kirca et al., 2005; Hult et al., 2008; Rauch et al., 2009; Menguc and Auh, 2008). However, in the current global business environment, where companies such as Twitter, after more than 12 years since they were founded, are still losing money, such metrics seem to not be appropriate enough to evaluate the performance of a company.

More recent research on startup and new venture performance evaluation is focusing on more *qualitative aspects of the business*. One of the most underlined factors impacting startup performance seems to be related to *the founder* of the venture. The characteristics of the founder, such as education, prior experience, age and expertise (Wu, 2007; Arvanitis and Stuchi, 2012; Prasad et al., 2015; Miozzo and DiVito, 2016) are critical aspects for the new venture performance, since they translate into strategic assets for the business by developing strategies and coordinating the resources. Furthermore, the capabilities of the founder serve as critical resources towards the creation of the competitive advantage and the early growth of the startup (Protogerou et al., 2017). However, research shows that proactiveness (the ability to seek and identify opportunities and take appropriate initiative) has a limited impact on performance – too much will affect the focus of the entrepreneur and unnecessary

prolong time-to-market (Shan et al., 2016). Research, also, shows that founder-manages ventures are associated with higher financial performance and are more likely to survive an initial public offering (He, 2008).

Human capital has become a paramount asset to startups and new ventures, since it a high-quality manpower is able to quickly absorb market and technology knowledge and, also, create and transfer such knowledge into technological information in order to foster innovation, thus achieving performance (Romjin and Albaladejo, 2002).

Besides the available human resources within the startup, recent entrepreneurship research points towards to dimensions important nowadays for the performance of startups: the business model and the approach towards to business, in other words framework and process. In recent years, *the business model* chosen by some successful startups has changed the way some industries conduct business (Uber, AirBNB, Dropbox, etc.), even though the business idea in itself was not very novel or innovative. Futterer et al. (2018) show that a well-designed business model is an enabler of venture performance. This is building upon the research of Zott et al. (2011) who considered that innovation regarding business modeling has become a cornerstone of startup performance.

The approach towards business is emphasized in the research concerning effectuation vs. causation as key of firm performance (Futterer et al., 2018). Studies show that effectuation has a positive impact on performance (Read et al., 2009). Approach towards business is also taken into consideration when looking at the entrepreneurial and market orientation of the startup. The entrepreneurial orientation evaluated the velocity with which a new venture explores the new opportunities offered by the market, while the market orientation deals with the implementation of the marketing concept. Both of these are directly related to firm performance. Furthermore, the ties and access to the external environment, such as social and business networks, resources and information available to the venture as a result of its location and business network structures, contribute to the manner in which the two orientations influence performance (Boso et al., 2013). The connection between the two orientations is given by fact that high marketing capabilities have a greater impact on new venture performance as the entrepreneurial orientation (Martin and Javalgi, 2016), since the entrepreneurial approach fosters a high appetite for risk-taking, which reduces the survival prospects of a startup, hence its performance (Hyytinen et al., 2015).

Another important aspect affecting firm performance is *innovativeness* – a high innovation speed is an impact factor to performance. According to the research of Shan et al. (2016) innovativeness has a negative relationship to innovation speed, as well as a high risk-taking appetite, which reduces the innovation speed.

In conclusion, startup performance may be evaluated by quantitative metrics, however, nowadays business environment circumstances ask for a broader perspective on performance evaluation and a more qualitative approach. The resources of the entrepreneur, the willingness of external partners to collaborate, the design of the business model and the innovation speed the venture are becoming key elements of business performance. This is ever more important since research shoes that startup resources on their own do not influence directly performance, but only through the dynamic capabilities, meaning the ability of the startup to integrate, build and reconfigure internal and external resources and competencies as means to address changing business environments (Wu, 2007).

Methodology

This literature review on how startup and new venture performance is evaluated is meant as a support for further research on how startup accelerators evaluate the performance of startups they support. The present paper is presenting the manner in which the most relevant Romanian accelerators evaluate startup performance in order to accept them in the acceleration program.

The selection of the startup acceleration programs was made using the following criteria:

- Location: Romania;
- Type of startup support organization: startup accelerator;
- Activity: the acceleration program had at least a startup cohort within the last 12 months before the publication of the article (June 2018);
- Admission: the acceleration program has at least an application form as admission to the program.

The startup accelerators selected for the study are located either in Bucharest or in Cluj county, two of the most entrepreneurial dynamic regions in Romania. The research was conducted using publicly and online shared information by the startup acceleration programs.

Case Study

In order to understand to which extent startup accelerators impact the performance of startups it is important to understand how they measure performance. In order to achieve this, the selection process needs to be analyzed and evaluated – in this case, it meant to examine the type of information and achievements the startup accelerators require from the startups for admission.

Table no. 1 provides an overview of the startup accelerators taken into consideration in this case study. The *selected Romanian accelerators* have a good track record, meaning they have at least one startup cohort who graduated the acceleration program, at least one startup accelerated by them has raised investments during or post-graduation and they are preparing a new cohort admission in the near future (less than 6 months from the publication of the current article).

Table no. 1 Relevant startup accelerators in Romania

| Criteria | Startup Accelerator Name | | | | |
|--------------------------------|--|---|---------------------------------------|---|--|
| | Spherik | Aspire | Tech-Angels | Digital Catalyst Fund | Techcelerator |
| Participants | Tech-savvy founders | CEE region founders with social entrepreneurship focus | Tech savvy founders | New media and digital market place entrepreneurs | Tech savvy founders |
| Selection process | Application form Interview | Application form | Application form | Application form | Application form Interview |
| Duration | 5 months | 6 months | ongoing | ongoing | 7 months |
| Type of support offered | Mentoring Bootcamps Networking Specialized business resources | Bootcamp Mentoring Consulting Workshops Training Funding | Investment Expertise Networking | Funding Network Bootcamp Specialized technical expertise | Mentoring Bootcamp Networking Funding |
| Investment | 1% equity (negotiable) | N/A | up to 200K per team | 50K per team | First round: 25K for 6% |
| Location | Cluj | Bucharest | Bucharest | Bucharest | Bucharest |

Source: Authors’ own contribution

Most of the successful accelerators (Ceausu et al., 2017) in Romania are technology focused or demand a strong technology business component from the startups they admit into the program. This focus is grounded on Romania’s technological talent availability and competitive education in this area.

Startup selection and initial performance evaluation

Analyzing the application forms of the startup accelerators in Romania eight dimensions have been identified that are taken into consideration in the admission evaluation (Fig. no. 1). Besides the obvious contact information, social media handles and profiles are asked for, suggesting the online presence, profile and activity have become important aspects for the entrepreneurial endeavor. Three out of the five analyzed accelerators require company information, such as company description, and only one has as an eliminatory condition the requirement that the applicant has an already incorporated company. For the same program, also the age of the company is an important criterion.

The main sections, to which most questions are dedicated are the market information, product, sustainability and team sections. These sections require from the applicants not only descriptive, qualitative answers, but also quantifiable metrics such as market size, number of users, month over month user / customer growth rate, time to market, current income, monthly burn rate or number of employees.

The business model or revenue model along the alternative streams of revenue and the current partnerships or the network the applicant has access to seem to be key aspects to which accelerators dedicate attention. The team section explores areas such as expertise and experience of founders, the roles of the team members in the startup, commitment of the team and current team results. All applications require references for the applicant or the team.



Fig. no. 1 Admission evaluation criteria of Romanian startup accelerators

Source: Authors' own contribution

The motivation section surveys mostly the expectations of the applicant with regards to the acceleration program and only a couple of them also require an insight into the motivation for the product development.

Conclusions

The recent research on startup and new venture performance review brings us to the conclusion that in current business and technological context the initial premises of a startup, meaning, resources (both human and financial), external factors or business environment, access to networks, etc., does not have a prescriptive effect on the future performance of the new venture. A far greater impact has the manner in which the founder decides to act and the agility of the company to navigate through the dynamic business environment. This calls for future research as to better understand what how this agility may be trained and attained within startup acceleration programs.

With the literature review conclusions at hand, the evaluation of the application process of Romanian startup accelerators brings two main findings in the foreground:

- the requirements for admission into the acceleration program focus on the understanding of the applicant / founder with regards to the market and the own product, the development stage of the technology / product and on the selected business model, and not so much on the capabilities of the founders and their ability to pursue the venture, and
- there is little interest given towards how applicant will approach the development of the startup – the entrepreneurial orientation.

Further research is needed to better understand two dimensions – first of all, how does the present application process impact performance of startups within the acceleration program and post-graduation and, secondly, how the application process may be improved as to obtain better fitted startups for the acceleration process.

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