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The prospect and challenges of start-up funding in Finland

A case study on

a social media based start-up

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A start-up is a company that starts operations from an idea, and it is now in the first stage of its operation. This research was conducted on a photography related social media start-up based in Finland. The digital photography market, photography related product and services market, and social media market are growing all over the world and expecting to grow with 6.1% rate between 2016 and 2021. Due to increasing photography trend in photo sharing sites, there is a massive need for photos everyday not only for big corporations but also for SMEs and even for individuals.

Like any start-up irrespective of country of origin, start-ups in Finland also suffer from the most pressing problem of fund raising. Based on a single case study which includes multiple interviews with key persons from the case company, this study found that there are country-specific and situational challenges start-ups face in Finland. The most important challenge to be faced by start-ups in the digital platform is to showcase a visible and working business model which is very difficult to overcome by the entrepreneurs in this sector. This limits the possibility of getting funding from external sources such as venture capitalist or angels, who also give much weight to the team composition. After unable to attract external fund, the case company adopted some bootstrapping financing methods to run the company without any external funding. While the company once utilised crowdfunding platform to raise funding, later they found that government regulations inhibit accepting donation-based crowdfunding from the backers. This study also uncovers that the case company undertook early internationalisation to increase the user base and varieties of content which is essential for social media based photo sharing company. They also believe this approach will enable them to draw the attention of the investors by increasing the legitimacy of the firm.

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List of Abbreviations

VC- Venture capital

CAGR- Compound Annual Growth Rate

LC- Letter of Credit

DCF-Discounted Cash Flow

EBAN-European Business Angels Network

FiBAN -Finnish Business Angels Network

FVCA- Finnish Venture Capitalist Association

BAF- Business Angels Finland

Aaltoes- Aalto Entrepreneurship Society

Hanken- Hanken Entrepreneurship Society

LUTES- Lappeenranta University of Technology Entrepreneurship Society

Boost Turku- Boost Turku Entrepreneurship Society

Ouluses- Oulu Entrepreneurship Society

CHAPTER 1 INTRODUCTION

1.1 Background

A start-up is a company that starts operations from an idea, and it is now in the first stage of its operation. Start-up companies are generally started by the founders' capital in the beginning because the founders believe their idea will work in the market and there is a demand for the product or service that they are working on. A start-up company is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing or offering an innovative product, process or service (Investopedia, 2017).

A start-up company needs rapid growth to validate their idea in the market as well as to the investors, which work as a proof of the concept to both parties. When a company cannot grow faster, they are hardly eligible for funding. Therefore, growth in the market leads growth in investment, which leads the overall development of a start-up company. To ensure the growth of the new business, a start-up needs some funding support apart from their funds to accelerate the development process to execute the idea (product) to the market. When a start-up grows faster, it can bypass the big start-ups in the market. In most cases, we can see start-ups fail due to a lack of cash to validate their concept. However, the product or service has potential demand in the market, but the investors want to see the proof of concept. Therefore, start-ups need to spend time and money to bring the concept or idea into real life. Although novices use their own funds, this is not enough to go further; thus, proof of concept is not validated in the market, and this is one of the main reasons for the failure of start-ups (Patel, 2015). According to the Walden (2014), 25% of start-ups die within the first year, 36% in the second year, 44% during the third year and the remaining 50% will fail in their fourth year, and only less than 18% succeed in their first venture. Due to limited revenue or high costs, most of these small-scale operations are not sustainable in the long term without additional funding from external sources (Investopedia, 2017). “GO BEYOND”, a Switzerland-based early stage investment company that works in close collaboration with European Business Angels Network (EBAN), explains that they get 2000 to 30000 investment opportunities every year and accept only 1000 applications for funding (See Figure 1). Among these applications 100 get chance to pitch to community, 50 go through

due diligence, and only 10-20 receive investment which constitutes 1%-2 % of final form of funding (Go Beyond, 2017)



Figure 1: Deal screening funnel
Source: Go Beyond (2017)

The start-up culture started in Finland in the late 1990s and attracted much public attention during the dot-com bubble¹. In Finland, there are many supporting sources to start an entrepreneurial journey. The four basic options that a new start-up can have assistance from include accelerator, incubator, micro-VC, and VC. From an accelerator platform, early stage start-up companies might win 10-20 thousand Euro along with other support and training. This is one of the starting points of a start-up company in Finland. Apart from the above processes, some government institutes also support start-ups by providing salaries for certain period at the beginning named as 'Starttiraha'. 'Tekes', a Finnish funding agency provides funds for new innovation to the research organisations, companies and public-sector service providers.

However, there are some sources to receive primary support for a start-up but these are not enough to run a business in the long term. Aistrich (2012), a Senior Lead, Business development from SITRA, the National Fund for Research and Development of Finland,

¹ Dot Com Bubble: Beginning of the rapid expansion of internet enable business or beginning of a booming period of internet. See more at: <http://www.businessinsider.com/heres-why-the-dot-com-bubble-began-and-why-it-popped-2010-12?r=US&IR=T&IR=T>

said: 'Finland has insufficient funding available for start-ups'. In his opinion, there are a few players, and most of them are private investors.

Though FiBAN (Finnish Business Angels Network) is working to develop this sector, it is not enough to meet the market needs. The channel or pipeline for the company development from start-up to growth and to eventually become a stock listed company is not working well. Kupiainen, the founder of Shark Punch Oy stated: there is "Not enough funding for start-ups. There is a big gap of availability of seed money and growth money" (Bui, 2016). Later he explained that a start-up faces a situation where a company thinks essential seed funding is available in the financial market and it will be easy to receive; however, in reality, it is harder to receive even seed funding and start-ups find there is not much money left on their own to lead the company to growth phase.

In this research, the researcher is going to study a photography-related social media start-up company. The digital photography market, photography related product and services market, and social media market have been growing all over the world. During the year 2015, global digital photography market was valued at USD 76.66 billion which is expected to reach USD 110.79 billion in 2021, with a Compound Annual Growth Rate (CAGR) of 6.1% growing between 2016 and 2021. Digital photography market is growing as a result of the growth of social networking and photo sharing sites like Facebook, Instagram, Pinterest, Tumblr, Flickr and so on. The photography related application and editing services are also surging the demand of digital photography market because now- a-days it is easy to display, store, edit and print. These easy accesses of photography influence amateurs to act like a professional photographer. Due to the mobile camera revolution consumers now can take the professional level of photos and this mobile camera business is growing over the night. All the mobile companies are introducing high quality and range of lens and supporting gears, which is also a primary reason for the growth in the digital photography market (Zion Market Research, 2016).

The social photo sharing sites are receiving billion of photos per months. Facebook reported that more than 250 billion photos were uploaded till 2013 in its site and now 350 million photos are being uploaded every day on their site. On the other hand, Snapchat also reported that their users are also uploading an average of 350 million photos every day on their site (Smith, 2013; Smith, 2016).

Digital photography is creating significant new business opportunities in different markets for companies around the globe. Due to increasing photography trend in photo sharing sites, there is a massive need for photos everyday not only for big corporations but also for SMEs and even for individuals. The fastest growing photography market is expected to be Asia-specific due to continued economic growth in the region like China, Japan, South Korea, India and so on. The developed digital photography markets such as North America and Europe are receiving benefits from this growth around the world. In 2012, Germany was the biggest digital camera market in Europe with some sales of 8.7 million units of digital camera and due to strong product penetration in the Latin America, rest of the world is also expecting to grow in the following years (Zion Market Research, 2016).

It seems that most of the prominent photo sharing companies are based in North American countries such as iStock, Getty Image and 500px, while the market of these companies spans the whole world. There are only a few companies operating from the EU countries such as UK, Germany and France and companies from Nordic countries are even negligible in number. Especially, there is no specific photo sharing platform based in Finland except Glostars Oy and Lovented Oy. Lovented Oy was established in 2013 in Espoo, Finland as an online voting community that allows users to discover and join contests hosted by people. The contents of the competition can be about animals, travelling, and sports that inspire the users. By contrast, Glostars Oy was established in September 2015 in Lappeenranta, Finland as a social media based photo sharing platform. They offer users to upload and share pictures with the people from all around the world with a philosophy “to give back to the people” for the creative work they share on the platform. Glostars’ mechanism is grounded in rewarding users based on other users’ voting. The company is in the process of introducing photo buy and sell and project-based photographer hiring. The main differences between these two companies are that Glostars is more user interactive than Lovented; it focuses on reward and recognition for users’ creativity, arranges photo exhibitions and is in the process of photo buy and sell and project-based photographer hiring. Conversely, Lovented concentrates mostly on categorical contests such as sports, travelling place rating, fitness materials, which limits it to be defined as a pure photo sharing platform. Thus, Glostars seems to be an interesting case because this is the only photo sharing start-up from Finland trying to develop their business model and searching for external funding for their business expansion.

1.2 Research problem

The purpose of the study is to explore the sources of funding, availability of relevant information for start-ups on financing and the challenges faced by start-ups to attract external funding in Finland. This problem is going to be addressed by the following research questions.

1.3 Research questions and objectives

- a. What are the available sources of information with regard to start-up funding in Finland?
- b. What are the possible sources of start-up funding in Finland?
- c. What are the most commonly used eligibility criteria followed by financing organisations for start-up funding?
- d. What is the importance of going global for a start-up based in social media? Is internationalisation a strategic decision?

1.4 Thesis outline

This thesis is developed with several chapters providing details of the theoretical background of the research, findings and conclusions and recommendations following the introduction in Chapter 1. Chapter 2 will cover Literature review. Chapter 3 is the prospect of start-up funding in Finland, Chapter 4 methodology section where case selection, data collection, data analysis, validity and reliability issues will be discussed. Chapter 5 is the essential part of the research where the all the findings of the case company will be presented focusing on the case company's development approach, funding approach, internationalisation strategy and competition analysis. Finally, in Chapter 6 discussion and implication of the results and conclusion will be discussed.

CHAPTER 2 LITERATURE REVIEW

2.1 Definition of start-up

The term “start-up” has been cited around with increasing frequency over the past few years to describe scrappy young ventures, mobile apps and huge tech companies (Robehmed, 2013). In general term, a start-up is a newly established business. According to Merriam-Webster², a start-up means “the act or an instance of setting in operation or motion” or “a fledgling business enterprise.” The American Heritage Dictionary³ suggests it is “a business or undertaking that has recently begun operation”. According to Business Dictionary⁴, “a start-up is in the early stage in the life cycle of an enterprise where the entrepreneur moves from the idea stage to securing financing, laying down the basic structure of the business, and initiating operations or trading.” However, according to the practitioners, “A start-up is a company working to solve a problem where the solution is not obvious, and success is not guaranteed” (Linehan, 2015). According to Blank (2012), a start-up is an “organisation formed to search for a repeatable and scalable business model”. Due to the limitation of resources in start-ups, a start-up always needs to leverage on intangible assets like human capital, experience, knowledge and networks to achieve the goals (Evald, Klyver, and Christensen, 2011). In the view of burgeoning debate on the definition of start-up, some governments have also defined it since the definition has clear implications for policy maker’s way concerning tax policy and other issues. For example, Indian government has defined a start-up as an entity which is in the first five years of its operation from the date of its incorporation/registration with a turnover for any of the financial periods not exceeding Rs 25 crore and if it is working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property (Ayyar, 2016).

² Definition of start-up: <https://www.merriam-webster.com/dictionary/start-ups>

³ Definition of start-up: <https://ahdictionary.com/word/search.html?q=start-up>

⁴ Definition of start-up: <http://www.businessdictionary.com/definition/startup.html>

2.2 Challenges of social media start-ups

Every start-up has some problems in the beginning, and they need to overcome these difficulties. In recent years, few industries are dominating the world economy and social media is one of them. There are some critical issues that all the social media companies face. Social media expert and writer Peters (2016) has identified some of the significant challenges encountered or experienced by the social media start-ups which are discussed below:

Social media is all about authentic or reliable connection with the audience. A new company always finds it challenging to be authentic to their audiences. Connecting with audiences is the biggest issue for any business; it is the first and foremost concern that a company needs to find the solution to this problem. Once a company successfully reaches its target consumers and becomes reliable to them, it is the first job done for the enterprise. If a company cannot reach the audiences, then it is the million-dollar question how they will survive.

In order to survive and reach the audience, a company has to have proper social media marketing strategy. Without social media marketing plan, now a day it is impossible to reach the target groups because people of all ages and professions are using social media. Therefore, a company's social media strategy should work as a roadmap of the overall marketing strategy. A company cannot withdraw its social media campaign for a period and then start again to reach the destination. If a startup wants to reach its target audience very quickly in an efficient way, it must have a good social media strategy. In the strategy, a startup also needs to focus on how the campaign is working. Is it reaching the organic audiences⁵ or not?

In the booming years of social media marketing, it was easy to reach the organic audiences, but those numbers are now declining. Therefore, there is a need to focus on the technique that a startup is following and there should be a plan B for the business as well.

⁵ Organic audiences: The users who click the adverts to see what the advert is all about. See more at: https://www.facebook.com/help/285625061456389?helpref=uf_permalink

Managing social media is time-consuming and a hectic matter for a creative manager. Consistently high-quality contents are emerging. Therefore, the company also has to think creatively to fulfil the need of the market and in some situation, need to be different from the market trend or have to show something out of the box to attract more audiences.

It is also a big problem to maintain content quantity as well as the quality. It is not always that high quality of content can overcome the noise in the social media by only posting some contents or many contents on a daily basis to create the hype in the media. Some cases, this tactic might work, but for most of the cases, it may irritate the followers. At some stage, followers unfollow the site, which means, by over-posting the company is losing the audiences.

The content posted on the company webpage or blog may not always reach the mass audience. Therefore, there is a new marketing challenge of how to reach the bigger audience. There is a new idea in the market to promote with big brands or through influencers to draw attention to the whole audience. Also, there is a challenge to make sure to have a maximum number of shares of the post of the content. More shares mean more reach to the people without much effort on part of the company.

However, there is one more challenge to keep the audiences in the start-up's site to follow or keep trust in the company. Therefore, the biggest problem is how to receive the data to analyse the user's behaviours and the social trends and act accordingly. Now-a-days many useful tools are available in the market to find the result of those problems, but it also requires a skilled person to operate. It is also a challenge to visualise the contents; a good content might not work or reach the expected level due to poor visualisation.

A general thought in the market that in social media there is a silver bullet of growth and engagement. In reality, it takes a lot of time and works to create a user-base or follower-base and brand advocates. The growth or users' engagement depends on various factors. Therefore, it needs to focus on the right factors on which the company's goal depends. A success coach Kathy Eckhardt said, "OVERWHELM! New (and old) entrepreneurs are hit with so much information about what is necessary and imperative to put themselves out there that it is difficult to discern what is right for any particular business" (Nicole, 2016).

The challenges of start-ups are not only to reach the potential users but also to compete with other players in the market. A genuinely new ground-breaking business idea introduced by a start-up company that has never been thought before in the market is expected to take the market lead, but that might be challenged by someone else directly or indirectly in the market. The start-up might see someone else putting hands in their expected dollars or market share. So, it is the primary challenge for a start-up to convince the customers that they are better off spending their money with the start-up. Convince the customers could be a hard gig for the venture in that early stage. Candice Galek, CEO of Bikini Luxe suggested start-ups should find a way to be different or at least to market differently to win some of the market shares (Social Race Media, 2016). Spending money and gathering funds are the main challenges in a start-up. Start-ups run on a shoestring budget, even a start-up with the huge budget must report for every penny it spends. The founders find it disadvantageous to implement the start-up's strategy this way. Product development, marketing and so on- all cost money, but start-ups should discovery the way to overcome it (Nicole, 2016).

A start-up cannot think that their ground-breaking idea will automatically bring money to their pocket. Sales of a product or services require a combination of skills and knowledge of the customer need. In other words, they must have knowledge or experience about the specific needs and demands of the target market. A new company also needs to think how they can keep their customers in their pipeline. They need to build the trust and credibility in their customer's heart as well (Ganesan, 2016).

2.3 Sources of information for start-ups

Starting a start-up company depends on some key factors. Among them, information is the most valuable input for the start-up. Information is the key to success for any endeavour, especially for a new venture. More or less, every business has some practice for information search, but it is crucial for a new entrepreneur to have a tendency to seek information concerning a particular agenda or interest. A practical decision mostly depends on the better understanding and reliability of the information. Information search enables a company to know the detail of a particular matter, increases understanding and opens up new opportunities available in the market. Information can be gathered from friends or relatives, other entrepreneurs, accountants, bookkeepers, bankers, lawyers, attorneys, generally available books, magazines, manuals (Cooper, Folta and Woo, 1995) and now-a-days from

different websites, forums, blogs, and communities. Information sources can also be classified as professional and personal. Professional sources include accountants or bookkeepers, bankers, lawyers, attorneys while private sources comprise friends or relatives, other entrepreneurs, generally available books, magazines, manuals (Cooper, Folta and Woo, 1995) and different websites, forums, blogs and communities. Opportunity can be recognized from common information sources like mentors, informal industry networks, by participating in professional forums. Ozgen and Baron (2007) found that entrepreneurs recognize opportunities through mentors, informal trade networks and participation in professional forums. Gathering information and using them in decision making increases the level of experience to figure out the right information for a useful purpose. In some cases, it is a once-in-a-lifetime activity for experienced entrepreneurs because they gather from their previous experience. Experience has a good and a bad side as well. Mostly the experienced entrepreneurs spend less time in reading, thinking and talking than their less experienced counterparts (Kaish and Gilad, 1991). Cooper, Folta and Woo (1995) found that less experienced founders engaged in a significantly greater search with less formal sources or personal sources such as family, friends, and other business owners rather than formal way. They also found that experienced entrepreneurs engage into greater search with the professional sources for information.

A novice entrepreneur must gather information that helps him or her to recognise the opportunity and must try to collect the resources for the business all in an iterative process from which they can learn about the business and the process of entrepreneurship as an entrepreneur (Stevenson, 1989). It is hard for an entrepreneur to take a decision; thus, they need to have some previous knowledge of the subject, or they need to gather information. Entrepreneurs seek information, which constitutes a significant task for efficient decision-making. According to Kirzner (1993, 1973), the primary role of the entrepreneur is to find the opportunity to take advantage of economic imbalances in the way of information searching or recognising that others do not consider.

2.4 Sources of start-up funding

Every entrepreneur needs initial capital to run the start-up in the initial stage. These new start-ups need infusions of capital over the time for business development and expansion. There are some sources of funding for early stage companies, but mostly they include angel investors and venture capital (VC) investors (Denis, 2004). Obtaining external funds from formal investors like the angel or venture capital investors is difficult in the start-up phase due to the lack of available information of the company. As a new venture, it is common that there will not be enough information for outsiders to investigate the status of the new venture, which raises the question of information asymmetry⁶. Investors sometimes think that the new start-up might not have enough experience or expertise to use the funds properly or they might use them unwisely, which is also a direction to moral hazard⁷.

Due to information asymmetry and the moral hazard problem obtaining external funds becomes difficult for entrepreneurs. Though the entrepreneur understands the quality of the business, the investors may find difficulty in evaluating its potential. In other words, the investors may disagree on the value and the future success of the business what the entrepreneurs believe in. The investors think that once there are enough fund entrepreneurs might not use them wisely, especially, they may use or misallocate them for personal benefits, which increases the probability of moral hazard (Denis, 2004). While information asymmetry and moral hazard reduce the possibility of external funding, Hellmann and Puri (2000) find that entrepreneurs have high possibility to get funds from VC investors with their innovative product or process, rather than imitator firms. Investors can evaluate the entrepreneur's ability and the quality of the enterprise to reduce the information asymmetry and the moral hazard problem, which might increase the possibility of external funding for start-ups. Hurst, Lusardi (2004) and Nanda (2009) think entrepreneur's wealth and experience can increase the possibility of external financing. Sometimes owner's personal wealth plays a crucial role to obtain external credit (Avery, Bostic and Samolyk, 1998).

⁶Information asymmetry: One party has better information than other. See more at: <http://www.investopedia.com/terms/a/asymmetricinformation.asp>

⁷ Moral Hazard: A situation where a party involves in risky project by knowing that the other party will bear the cost of risk. See more at: <http://economictimes.indiatimes.com/definition/moral-hazard>

Receiving a formal investment from an angel investor or a VC is not easy in the initial stage for a novice enterprise. So, they need to find the early stage funding from an informal source of financing. Vos et al. (2007) think that entrepreneurs might like to receive funding in this situation from their connected investors. The informal financing includes entrepreneur's friends, relative's neighbors, and colleagues and personal networks. The problems of moral hazard and information asymmetry are less in the informal financing because the social obligation among the parties is high as they live in the same society and know each other for a long time, which increases the trustworthiness (Shane and Cable, 2002).

Business sector is an essential element for external funding; some industries at a certain point in time start booming and play a vital role in the development of a country. For example, at the beginning of the Dot Com Bubble, there was a high possibility to receive external funding for start-ups from that sector. Kaplan, Sensoy and Strömberg (2009) found that business line and transferable assets have more value than human capital, which means investors should concentrate more on overall business than the management.

2.5 Start-up financing cycle

A start-up company searches funds from many different sources. These sources include own capital of the entrepreneurs, friends and family, angel investors, accelerator programs, seed capital, crowdfunding, public funding, bank loan and venture capital investors. Over the time, the traditional fund-raising options have changed significantly all over the world. Now the venture capitalists are also focusing on investing from seed funding to series A to Series C, and in some cases, they are supporting the accelerator program as well. This sudden shift of financing has been accompanied by the development of alternative financing scopes like crowdfunding and some other different funding approaches in the market. This study is going to identify the most commonly used fund-raising approaches in different stages of a start-up's lifecycle.

Cardullo (1999) in his book "Technical entrepreneurship: Enterprise formation, financing and growth" emphasized on business formation, financing and growth of a company and nicely visualized the financial lifecycle of a start-up company (see Figure 2). This study will follow most of them under start-ups.

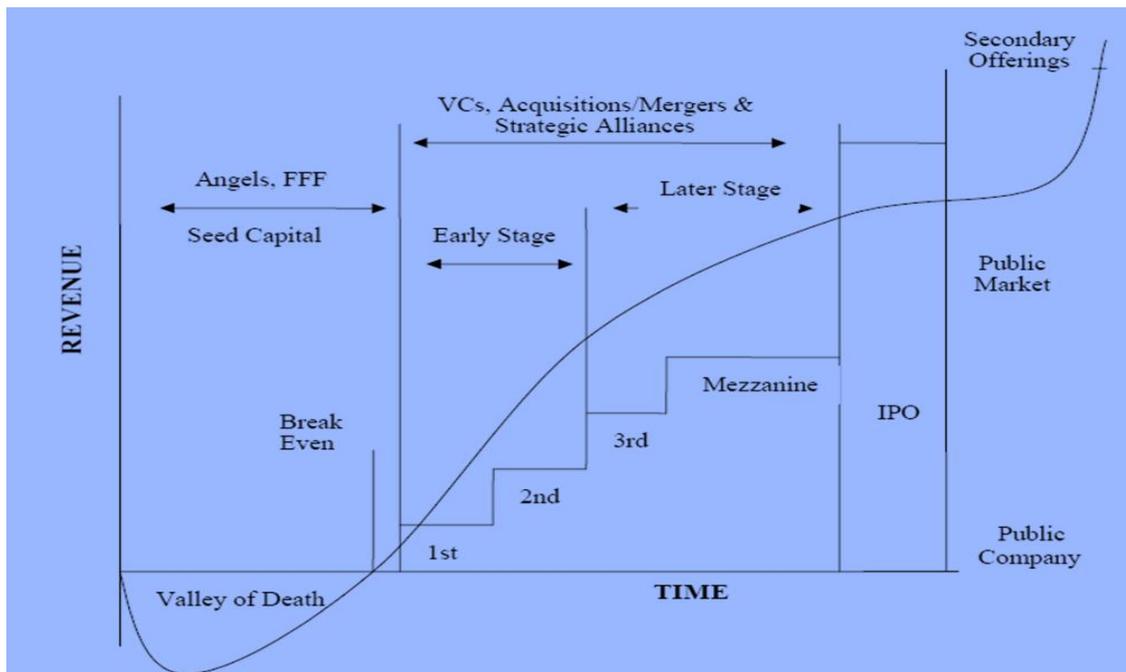


Figure 2. Financing lifecycle. Source: Cardullo (1999)

2.5.1 Pre-seed stage: In pre-seed stage, funds are allocated for research or development of a concept or idea before the start-up phase of a company (Cusmano, 2015).

2.5.2 Friends and family and networks: In the next stage, friends and family and own network of the entrepreneurs are the most reliable sources of external funding. Usually, they do not look for collateral, and those funds can be gathered by a simple contract of a nominal return (Rao, 2010). In general, the professional investors want to see a start-up already have some commitments to show their credibility. If friends and family members do not believe in the business concept of the start-up, then there is a question of how the outsiders can have trust in the idea and invest in it. Therefore, it is clear that funding from friend, family and close networks are the primary source of external funds for a novice company (Zwilling, 2014).

2.5.3 Seed capital: The start-up or other early stage business receives funds for product development or for initial marketing to validate the product in the market. In this stage, companies mostly set up the business to start selling products commercially (Cusmano, 2015). In other words, the essential capital that is required to start a company and validate the product in the market need to be gathered. This seed money can be received from private

individual, business angel, super angel and early stage venture capital firms. In Europe, a start-up can receive seed capital from Euro 250K to Euro 1 million (Startupxplore, 2017).

2.5.4 Accelerator: The accelerator program or model was developed and implemented in the USA by Y Combinator (an American seed accelerator) in 2005. Accelerators are similar to VCs and angel investors; they rely on the start-ups success to recoup their financial investments and generate profits. However, most of the accelerators around the globe are looking for new way of generating revenue. Therefore, they introduce new business models which include monetizing events, workshops, mentorship, and office space. In this way, a start-up can solve their primary requirements to start a business, and this is a part of the program to keep the start-up alive. Now-a-days accelerators can be found all around the world. The leading areas of accelerator include USA and Canada region with a total of 111 accelerators investing \$90.3M in 2968 start-ups and the Europe invested \$41.0M in 2574 start-ups by 113 accelerators (Gust, 2015a). The accelerator program started in the Europe during the year 2007, and then they grow over time (see Figure 3).

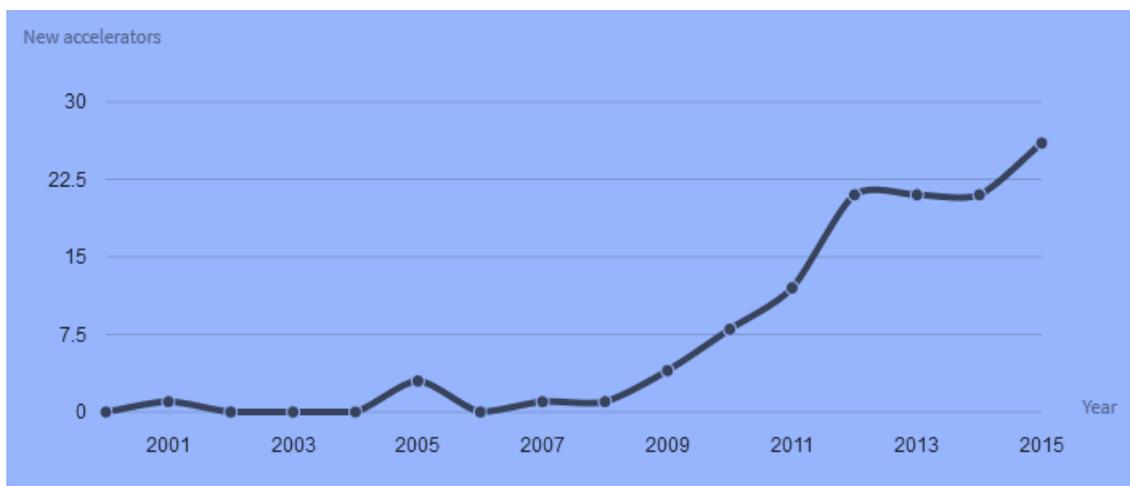


Figure 3: Evolution of the accelerator industry in Europe. Source: Gust (2015a)

According to the above line chart between the year 2009 to 2015, the European accelerators grew consistently due to both private and public interest. On the other hand, investments in the start-ups fuel the growth of accelerator companies in the region. Accelerators help the start-ups to grow which lead to job creation through innovation. This new thought of helping hand for start-ups can solve the critical problems of the local society and even global issue as well. There are many supporting works going on for the accelerator program around the world. The European Union (EU) and the local governments within the EU are intimately

working to straighten their startup ecosystems. The EU commits an annual €850M worth of funds into EU startup ecosystems. Where specifically targets funds of 80M for the FIWARE Accelerator Program to support web entrepreneurs, SMEs, and start-ups during the year 2014-2015 (Gust 2015b).

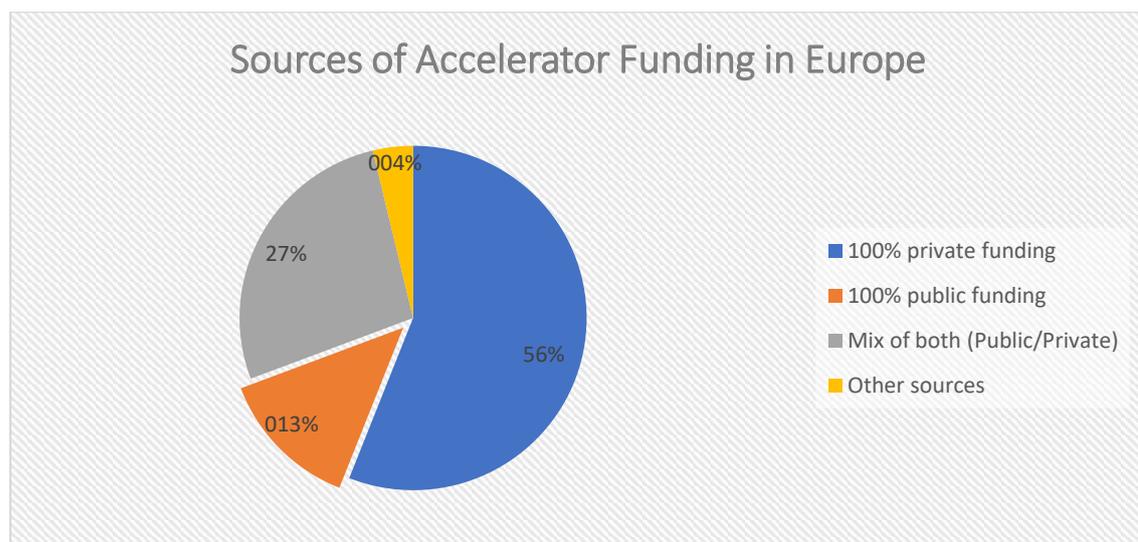


Figure 4: Sources of Accelerator Funding in Europe, Source: Gust (2015b)

The figure 4 clarifies the major accelerator funding sources in Europe. The chart shows that 56% of EU accelerators are funded by private investors whereas 27% of accelerators receive a mixed of public or private funding and around 4% receive funds from other sources. Only 13.27% accelerators received 100% public funding.

2.5.5 Crowdfunding: Over the last few years, crowdfunding become popular in many countries. It is becoming a part of the norm for many investors although it still represents a very insignificant share of financing for start-ups. One useful and attractive characteristic of this instrument is that, its focus on financing a specific project rather than a whole company or business. There is a variety of forms of crowdfunding, ranging from simple donation crowdfunding to equity crowdfunding. Although, in the beginning, it was used in particularly by non-profit organizations and the entertainment industry, over time it has become an alternative source of funding across many other sectors, including for-profit businesses. Currently donations, rewards and pre-selling represent the most prevalent forms of crowdfunding in which funding is raised by private companies in exchange of non-financial benefits to investors. While these forms are currently more predominant, in near future lending and equity-based crowdfunding will dominate the industry. Small start-ups

lacking a collateral or a credit history to access traditional bank lending can have access to peer-to-peer lending. Furthermore, equity crowdfunding can be a complement or a substitute for seed financing for entrepreneurial start-ups that face severe difficulties in raising funds from traditional sources. Crowdfunding is essentially a technology-driven platform in which investors gather to support start-ups. While technological development has enabled crowdfunding to be widespread within a short period of time, its emergence as a new phenomenon and its new form especially based on the digital platform also generates great concerns about transparency and protection of investors among regulatory bodies in many countries all over the world. Especially for equity-based crowdfunding (Cusmano, 2015).

2.5.6 Business angels: Business angels have become the most important sources of external financing for start-ups. They are high net worth individuals and they invest their own money in the novice companies that are not listed yet. There is no family connection in this type of investment, and with a return, the angels typically receive a minority equity stake or convertible debt, and they involve as an active advisor to the company (Mason, 2008). The Angels become the most suitable actors for the entrepreneurial businesses ecosystem; they are considered the main player of fulfilling the so-called “funding gap” between the demand and supply of early stage capital due to their capability (Mason and Harrison, 2000; Johnson and Sohl, 2012; Capizzi, 2015). The business angels provide not only capital but also non-monetary resources such as advice and mentoring, technical knowledge, and personal relationship, networks and management experience (Harrison and Mason, 1992; Politis, 2008). They provide an amount the start-up needs in the early stage, which starts from USD100K-300K (Jeng and Wells, 2000; Carpenter and Peterson, 2002). Even though the importance of business angels as a source of finance for start-ups is significant, there is not enough statistics that accurately measures the size of the business angel market. Most of the angel investors are not in the list of country level data known as networks like Business Angel Networks (BANs) or British Business Angel Association (BBAA). From the annual report on the business angel market in the United Kingdom for the year 2008/2009 created by Mason and Harrison (2010), it was found that the invisible angel investor market is the biggest market of angels and the smallest angel market is listed on the BBAA and BANs (see Figure 5). That means the start-up funding could be much easier if those invisible investors were listed on any network.

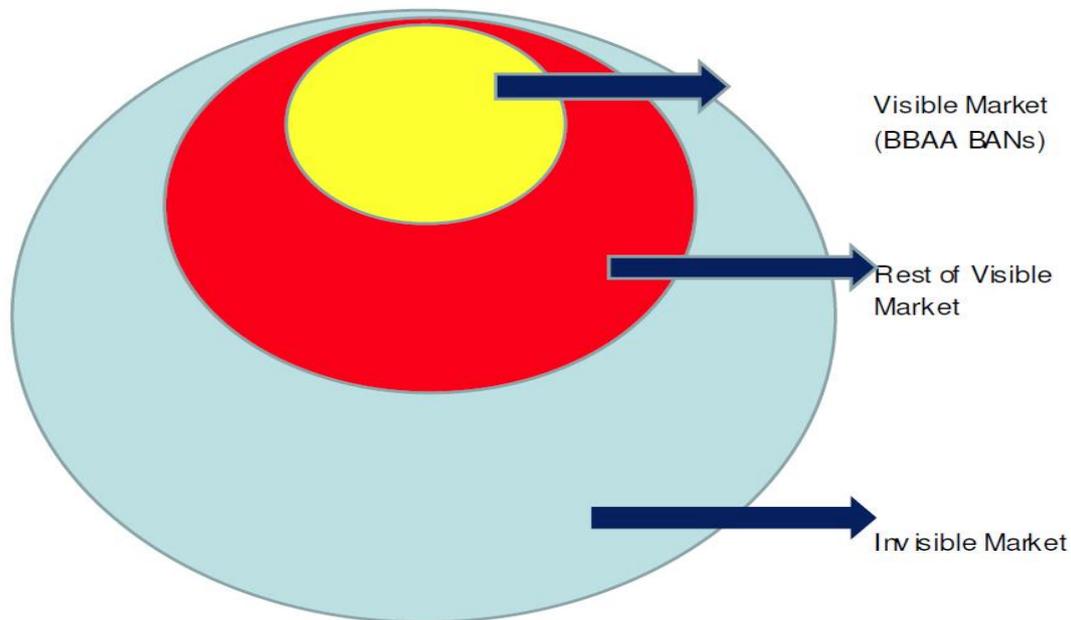


Figure 5: The Visible and Invisible Business Angel Market

Source: Annual report on the business angel market in the United Kingdom: 2008/09

2.5.7 Venture capital: In real life, a venture capital (VC) finances a small number of start-ups, typically, between 5 and 30 (Cumming, 2001). VCs carefully screen firms, structure contracts to strengthen incentives, and monitor firms (Kaplan and Stromberg, 2001). A recent study suggests that European VC has grown vigorously in terms of volume invested but apparently had not much influence on growth and employment of their portfolio firms (Bottazzi and Da Rin, 2002). The study concludes that the quality of European VC is a much more urgent issue than sheer quantity. This raises the question of how incentives in VC investing are determined. The skills needed for successful VC investing are challenging and time-consuming to acquire (Gompers and Lerner, 1999) and are thus likely to be a major constraint in the development of an active VC industry that is able to promote the professionalization of new firms. When more start-ups with high potential appear and demand for VC support increases, VCs might be tempted to acquire more firms at the cost of quality. This tendency makes them more similar to banks, which do not offer managerial support but tend to finance a much larger number of firms (Kanniainen and Keuschnigg, 2003).

2.6 Valuation methods for start-ups companies

The important matter for VC funding is not only how much they source but also the price they pay for the equity as financial capital to the start-up. The valuation assessment also represents the underlying value of the start-up. The price that the VCs pay for the equity that also important to both parties. The value a start-up receives from the VC in a financing round that determines how much equity is sold in return of the capital and what is the corporate control in implication and same goes to the VCs as well. However, the valuation for early stage technology-based company often negotiated rather than calculation because they represent the intangible nature of the new business (Hsu, 2004).

Evaluating a start-up company is a tricky, confusing and critical task in some cases. Start-up valuation depends on pre-money valuation. There are many established valuation methods available in the market. As there does not exist any single valuation method that is followed by all the external investors, e.g., angel investors and venture capitalists, therefore, it is wise to calculate the value of a start-up company using several alternative methods. It helps to provide a rational basis for determining the reasonable pricing. In the negotiation table, start-ups want to receive the most value of the company, and by contrast, the investors want to pay the lowest value for the company. Investors prefer to use four commonly used methods that are particularly useful for determining the pre-money valuation of pre-revenue companies (Payne, 2011). Early stage investors sometimes use discounted cash flows based on proforma financials for a particularly useful reason. Financial projection and analysis of start-ups provided by the enterprises are too overvalued by the company to rely on. As there is no scientific method to evaluate the start-up company price, then it is the best practice to have the valuation of the company using multiple methods for investment purpose. It might happen that at some point both parties could reach an agreement to take the average value of the company (Hudson, 2015; Payne, 2011).

The Venture Capital Method or VC Method describes practices of venture capitalists in valuing early stage deals developed by Professor Bill Sahlman at Harvard Business School in the 1980s. The Venture Capital Method requires the estimation of the eventual selling price of the company (5-8 years hence), which is then divided by the investors' anticipated return on investment (ROI) to arrive at a current valuation. The VC Method is one of the

most common methods used by the VCs. In this method, the company calculates pre-money (investment) valuation and post- money valuation (The Business Professor Inc., 2017).

The Dave Berkus Method (Berkus, 2016) evaluates an early stage investment. This methodology is quite useful to early stage investors. This method puts a range of dollar values to the progress that start-up has made through the commercialization activities, the sum of which becomes the value of the company (pre-money valuation). If a company is being given full dollar credit for each activity, then the maximum possible value of the company is currently \$2.5 million, according to Dave’s method. In competitive markets, it may be needed to give each category a bit higher range to enable somewhat better valuations. This approach evaluates the entrepreneurs with associated risk factors and the potential business idea as well. This method allocates a number and a financial valuation to each of the elements or risk faced by all the start-ups and then put a number on the idea as well. The total number that can be earned by a pre-revenue company is maximum \$2 million from a valuation and for a post roll-out value of up to \$2.5 million. The distribution of the factors is shown below in the table 1.

If Exist	Add to Company Value up to
Sound Idea (Basic Value)	½ million
Prototype (Reducing Technology Risk)	½ million
Quality Management Team (Reducing execution risk)	½ million
Strategic Relationship (Reducing market risk)	½ million
Product Rollout or Sales (Reducing production risk)	½ million

Table 1: Start-up Valuation Method based on Dave Berkus Method

Alan McCann worked on Dave Berkus Method for a long time and he visualizes the method nicely (see Figure 6).

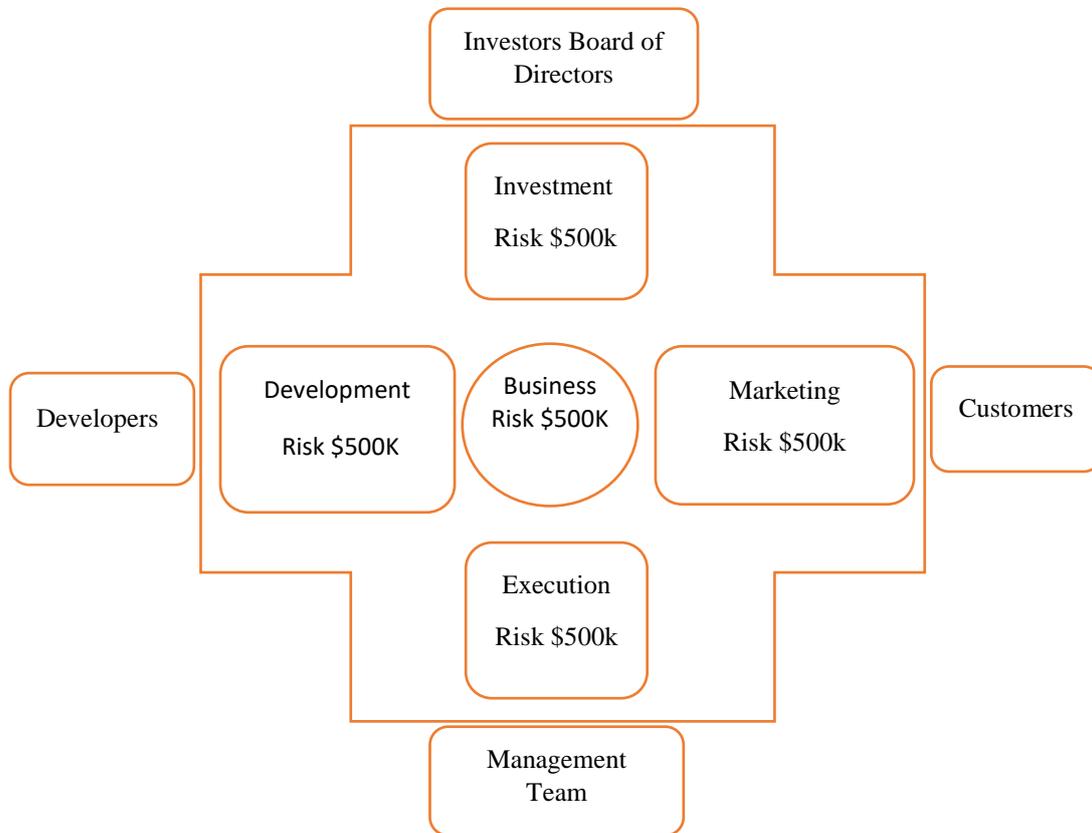


Figure 6: Start-up Valuation Method based on Dave Berkus Method
Source: (Berkus, 2016)

Scorecard Method is the most popular method for valuating a start-up company among angel investors. This method first evaluates a pre-money start-up company with industry average value from the same region based on seven characteristics. In the next step, this method uses a scorecard to determine the value of a pre-revenue start-up company with the perception of similar deal done in the region based on weighted average of the following factors: strength of the management team (0-30%) which determines team condition, e.g., whether the team is complete, experienced or not. The size of the opportunity (0-25%) focuses on quantifiable of the target market. Product/technology (0-15%) is about how the start-up company's IP well defined or traction? Competitive environment (0-10%) tells about the difficulty of entry into the market, i.e., barriers to entry. Marketing/sales channels/partnerships (0-10%). Need for additional investment 0 - 5% and other 0 - 5%.

From the above-mentioned factors, it is clear that the management strength was given the most weight rather than the technology or the product. According to Payne (2011): “In building a business, the quality of the team is paramount to success. A great team will fix early product flaws, but the reverse is not true. Good product and intellectual property are important, but the quality of the team is key.”

In the third step, a start-up company compares its performance with the industry average and put the numbers in percentage. For example, if the start-up thinks the value of a factor is average then they can write down 100% as the score for that area. If it is stronger than average then it can write down a number greater than 100%, such as 125%. If the company believes it performs much better than the average, then it can put 25% more which is 150% if it is significantly better. If the company thinks it is weaker in some areas, then the score can be less than 100%. After scoring the percentage, the start-up needs to multiply them with the weight and adds all the final factors to receive the final weighted average. Once final weighted average is received, it is multiplied by the average pre-money valuation of the industry, and the final value of the company is calculated (Kowlessar, 2016; Payne, 2011).

The Risk Factor Summation Method characterises a target company in twelve ways of risk to observe and evaluate based on positive and negative points in a range to see the ultimate value of a target start-up company. The Ohio TechAngels first introduced the Risk Factor Summation Method which considers a much broader set of factors in determining the pre-revenue companies for pre-money valuation. It is beneficial for investors as this method considers important exogenous factors in the process. This method considers the median pre-money valuation of the similar company from the area of the start-up company and characterises the risk factors of the target company. According to the Ohio TechAngels, the higher the number of risk factors, the higher the overall risk. This method emphasises the investors to consider various risk factors in their evaluation and find a profitable exit point. This method adjusts the median pre-money valuation for companies in similar business verticals and in the company’s own area based on their standpoint of the 12 characteristics of the target start-up. However, since all categories share the same weights (considered by some a flaw in the approach), it is recommended this method be used with at least two other methods before making a final decision on valuation. The biggest risk is the management risk, and the investors always have a critical observation on it. Apart from the management risk, this method also looks for other risks including stage of the business,

legislation/political risk, manufacturing risk, sales and marketing risk, funding/capital raising risk, competition risk, technology risk, litigation risk, international risk, reputation risk, and potential lucrative exit.

First, a start-up company can get the average pre-money value of a pre-revenue company from their area and adjust the value of the start-up company by each above-mentioned risk.

All the risks are assessed by a positive or negative point in a range of +2 to -2, as follows:

Very positive for growing the company and executing a wonderful exit receive +2

Positive +1

Neutral 0

Negative for growing the company and executing a wonderful exit receive -1

Very negative receive -2

For example: If the average pre-money value of a pre-revenue company is adjusted 250k in your area then it will receive +1, if 500k then +2. Same if the value is negative then -250K and for -500k it will be -1, -2 and so on (FlatheadBeacon, 2011)

There are also some other methods used by the investors for the early stage companies like the **Book Value Method** which only calculates the tangible assets of the company and ignores the intangible assets like R & D, user base, and human capital. On the other hand, the **Discounted Cash Flow (DCF) method** focuses on the future cash flow of the company and values the start-up company today. **The First Chicago Method** describes scenarios based on the discounted cash flow formula like weak, strong and base scenario and takes the average percentage of all the scenarios and calculates the weighted average of that DCF. The First Chicago Method is useful for post revenue start-ups. The last valuation of a company is the **Liquidation Valuation**. This valuation is done when a company is going out of the business. There is no difference between liquidation valuation and the book value. In both cases, they only count the tangible assets. The major difference is that the assets valuation is different. The book value measures what the company's founders put in the business while the liquidation value measures what the stockholders could get out of the business (Espinal, 2017).

In sum, there exists no single methodology that can exclusively be used to evaluate the pre-money valuation of pre-revenue seed/start-up company. Therefore, it is always good to

calculate the start-up company by using several methodologies, which gives the investors a wider range to see the prospect of the company and come up with an optimum decision.

2.7 Financial bootstrapping

A growing volume of policy interest in and research on the role of both institutional and informal venture capital is observed in the financing of start-ups (Harrison and Mason 1996, Gompers and Lerner 2000, Mason and Harrison 2000). However, only a small minority of businesses, even from the fast-growth and new technology-based industries, avails of this source of finance. In general, start-ups backed by venture capitalist are very rare (Bhide', 2000). Rather, angel financing (e.g., by wealthy individuals) and bootstrapping (relying on internally generated funds) are much more common than professional venture capital as a source of funding for start-ups (Sahlman, 1994). While some entrepreneurs may intentionally choose to avoid or delay raising venture capital in order to preserve the value of their equity, most entrepreneurs simply fail to raise funds from external sources either due to lack of an innovative or original idea or as a result of limited industry and management experience, or both (Harrison, Mason, and Girling, 2004). In other words, most start-ups fail to show an asset or visible ideas which could be considered as valuable by an objective investor (Bhide', 2000). Although according to financial economics, the difficulties encountered by start-ups in raising finance are attributed to information asymmetry and agency problems (Harrison, Mason, and Girling, 2004). Bhide' (2000) attributes these to the asymmetry of expectations. He explains that in many start-ups, besides their hopes and dreams concerning their start-up, the founders have only little that could be offered to potential investors. Therefore, there is a big gap in the expectations of entrepreneurs (who believe they can somehow make a profit) and the investors (who do not believe so).

As a result, most entrepreneurs fail to attract outside capital and are left with the choice to start the business with whatever amounts they can mobilize from their savings as well as from their family and friends. Consequently, most start-ups start with a limited capital and must 'bootstrap' their ventures in order to grow (Smith and Smith, 1998). In fact, 'bootstrapping is a way of life in entrepreneurial companies' (Timmons, 1999: 37), which is also reflected even in great companies (Hofman, 1997). Bootstrapping involves creative and parsimonious strategies for organizing and gaining control of resources. Such strategies take two forms: the first form involves creative ways of acquiring funds without resorting to

banks or other traditional sources (Freear et al., 1995). The second form includes strategic decision for minimizing or eliminating the need for finance by acquiring resources at little or no cost (Winborg and Johannisson, 2001).

2.8 Internationalization strategy

A start-up company faces a significantly important strategic question with regard to the internationalization as the company's current strategic decision: whether it is the best time to start processing to enter the international market after the foundation of the start-up. A born global company starts internationalizing in the very beginning of their start-up life, or they wait till the gathering of significant resources (Autio, Sapienza and Almeida, 2000).

Many start-ups make an early move into the international competition due to the uniqueness of the company's capacity and the outlook (McDougall, Shane and Oviatt, 1994). As per this internationalization theory, some companies have the gathered knowledge, skills or ability that allow the business to see the new opportunity or window in the market which others have overlooked. This may be the key to choose an early entry to the international market as a pathway to growth and success. Entering a new market requires market knowledge for a company. Even if the company does not possess the required knowledge, it has to adopt entirely new knowledge quickly (Ghoshal, 1987). This knowledge includes pragmatic knowledge of previous business practice for how to face the foreign competition (Eriksson, Johanson, Majgard and Sharma, 1997). Therefore, a start-up company faces double challenges in internationalizing the company and the need to overcome these inflexibilities and adaptation of new knowledge of the market (Cohen and Levinthal, 1990). In this process, a new company gathers experience and absorbs new knowledge, which will be effective and easy to retrieve in future. According to Eriksson et.al. (1997), gathering foreign market knowledge or experience "requires durable and repetitive interactions abroad".

It is also observable when a start-up goes global, how quickly they get to know the market and how those knowledge and experience affect their growth and internationalizing strategy (Barkema and Vermeulen, 1998). Sometimes firms get "locked out" when they do not gather market information early enough, and they develop "competency traps" due to limited

knowledge and experience about the market and see fewer opportunities as available with the current abilities (Cohen and Levinthal, 1990).

When a start-up firm starts operation in the foreign market during the formative stage, it is easier to receive an international identity than an older firm which sees foreign opportunity as risky and costly (Eriksson et al., 1997; Brush, 1992). This problem can be reduced when a local company may have better access to the foreign market for their product or service distribution channels or take the reputational advantages, for example, the firms from European and African countries receive from the European Union and the African Union. It can be clearer from Ahokangas (1998) as he emphasizes the importance of internationalization of firms in his study of Finnish engineering firms: "It has been our philosophy from the beginning to treat [all of] Europe as our home market. . . Our business is now quite flexible because it is global". The firms that are more early internationalization-oriented have more growth and sales. The big organizations are tended to be more internationalized. There is no issue or effect of years of international experience in the growth of a company (Autio et al., 2000).

Though there are some reputational liabilities due to the newness of the company, some researchers think that quick entrepreneurial action makes sense because there exist some opportunities within the high-velocity environments which might disappear, if the firm cannot act in the right period (Stinchcombe, 1965). The market condition can also push a start-up for rapid expansion. In this situation, a new company does not need to think about the market requirements. As they are able to adopt the new knowledge and act accordingly, this is labelled as "learning advantage of newness" (Oesterle, 1997; Autio et al., 2000). The international growth of a company depends on the capacity of learning. The capacity is inhabited by the flow of information between the firm and the individuals (Barkema and Vermeulen, 1998). According to Spender and Grant (1996), the dilemma for management is that, for the same reasons that competitors cannot replicate the firm's knowledge, the firm itself may not understand it well enough to exploit it.

Chapter 3 Start-up funding prospect in Finland

Funds are needed for every business at different stages. Particularly for the start-up, it is essential for the growth of the business. To support the new business every country has some specific supporting programs, which necessary for the new ventures to sustain in the market. Finland is not different from other nations. They have some designed supporting programs, and these are managed by some institutes to help the start-ups to grow. These programs include guidelines, advisory service and the financial assistance for the new business.

3.1 Sources of information for start-ups in Finland

In any business information works as a key factor in success. Therefore, it is necessary to know from where the authentic information can be obtained and how to use that information. It is also necessary to identify how useful that information for the business. There are many available sources from where a start-up company can gather information based on the current situation of the business.

In Finland, there are also some sources available from which information about the business environment of the country can be gathered. Particularly for a new start-up, it is important to know where to go, who to approach for business need, who to network with, new rules and regulation and guideline for the firm. There are some available newspapers, communities and platforms, which provide updated information on the Finnish start-up opportunities, create events where people can talk and network with investors, financial institutes and other business-related organizations. The national and local newspapers are the primary sources for daily business updates. A good source to know about the start-up related information is “Protomo”, a government-funded service company, from where an individual or team can get advice related to business development and available services (See Figure 7). They help to combine business ideas with the right people for the new business as well as to assemble and prepare the project team, and implement teamwork. Protomo’s goal is to support the local start-ups with a wider range of networking services. They help a start-up to be visible commercially within the business environment till they stand on their own feet (Mikko, 2017).

Their services are available in Jyväskylä, Salo, Tampere, Turku, Espoo, Lahti and Kouvola. A company named Starttaamo, which is a sister company of Protomo in Oulu area, works along with Protomo (www.ladec.fi/protomo).



Figure 7: Protomo support circles. Source: Protomo (2013)

There are some regional services also available for specific regional development. Those service providers think entirely for regional development and arrange different events, meeting, and seminars, provide guidelines for new businesses as well as growth companies. They help to create a new business from the sound idea and contribute to meet right people for the right business. They are Business Tampere for Tampere region (www.tamperebusinessregion.fi), Business Oulu for start-ups in Oulu (www.businessoulu.com), and Wirma Lappeenranta in Lappeenranta area (www.wirma.fi).

Apart from regular newspapers, there are some particular newspapers available in Finland for business updates in the country. These business publications provide in-depth information related to the various stages of business, especially start-up business guidelines and opportunities. They are Kauppalehti (in Finnish) daily business newspaper, Talouselämä (in Finnish) business magazine for start-up news, StartupDigest- personalised start-up newsletter, NordicStart-UpBits- start-up news from Nordic countries

(www.nordicstartupbits.com) and ArcticStartup- startup news and services (www.arcticstartup.com).

The Finnish venture capitalist and angel investors are playing a great role in the development of Finnish start-ups. Some of the venture capital and angel investor platforms are FVCA- Finnish Venture Capitalist Association (www.fvca.fi), Finnish Business Angels Network known as FiBAN (www.fiban.org), Business Angels Finland (www.businessangels.fi) which has live event known as BAF Live!, Artic start-up event (www.arcticstartup.com/event), Slush- the biggest North European and Russian start-up event (www.slush.org), Arctic Startup- a Helsinki-based community that creates monthly events to share the start-up news (www.arcticstartup.com), and Artic15 that arranges quarterly and annually Nordic entrepreneurs Events (www.arctic15.com).

There are some student-run university-based entrepreneurial communities all over the country. Most of the members of these communities or societies are current or former students interested in the growing start-up ecosystem in Finland. Their primary mission is to support and facilitate the process of becoming an entrepreneur through organising workshops, seminars, networking events and study trips. They become more relevant to the business society by introducing entrepreneurship as a potential career path for students and others alike. Some of the renowned names are Aalto Entrepreneurship Society (Aaltoes), Hanken Entrepreneurship Society (Hanken.es), Lappeenranta University of Technology Entrepreneurship Society (LUTES), Boost Turku Entrepreneurship Society (Boost Turku), and Oulu Entrepreneurship Society (Ouluses).

3.2 Sources of start-up funding in Finland

The start-up culture started in Finland in the late 1990s and attracted much public attention over the time. To support the new start-ups there are some state-owned service providers available in Finland. Apart from state supporting institutes, there are a growing number of private services available. However, those services are new in the Finnish business environment. This study is going to give an overview of currently existing sources of funding for start-ups in Finland. In this study, the local bank's contributions are not shown because the banks are known to everybody as a primary source of funding.

3.2.1 Tekes

The National Technology Agency ‘‘Tekes’’ is a government funded agency. They mostly finance university projects and the R&D project of the companies. The funds for Tekes come from Ministry of Trade and Industry. They grant loans and capital loans, which are repayable with a lower interest rate than the market. They also provide pure subsidies for pure R&D, which are not repayable. During the decision-making process, location is a factor for Tekes, as they try to invest nationwide concerning more on balanced regional development. Tekes offers funds to young start-up companies that are planning to go international and whose product or services are suitable for those target areas. They have a funding program name ‘‘TEMPO’’ under which all the start-up companies can apply for funding. Under Tempo program those companies can apply for funding that has already understood the need of customers with their products or services, having sufficient resources and funding for early stage development and key employees committed to the company. A start-up can receive the maximum amount of Tekes Tempo funding is Euro 50000, and this fund will cover 75% of the overall budget for the project. Among that granted fund 70% (max €35000) comes from Tekes and the remaining the start-up has to pay on the basis of the costs reported by the company to Tekes following the completion of the project. In order to receive this TEMPO, fund the start-up must have sufficient money to lead the project. Usually, the company has to show Euro 30000 in their own account to receive the TEMPO fund (Tekes, 2017).

3.2.2 Finnvera

Finnvera is a state-owned Finnish financing company. They offer various financing services to the Finnish companies such as guarantees, Letter of Credit (LC) on behalf of Finnish companies, subsidized loans to promote domestic products and services and helping internationalization of Finnish SMEs. Finnvera has a product especially for start-ups named ‘‘Start Guarantee’’ which is designed for novice start-ups owned by individuals and meets the SME definition according to EU. One more criteria to that product that the company should be within 3 years of operation. The start-up should fill a loan application through their bank, and the bank will forward the application for Start Guarantee to Finnvera on behalf of the enterprise. Finnvera guarantee covers the maximum 80% of the loan, and that may not exceed 80,000 Euro (Finnvera, 2017)

3.3.3 Sitra

The National Fund for Research and Development of Finland is known as “Sitra”. They help early stage technology companies as well as in the process of commercialization of innovations by providing government venture capital funding. They provide this capital with returns of equity and equity-linked instruments. Sitra’s aim is to see the success of Finland as a pioneer in sustainable well-being (Sitra, 2017).

3.2.4 TE Office or TE-Palvelut

The Employment and Economic Development office is known as “TE office”. There are 15 TE offices that provide public support both financial and non-financial to start-up companies to develop the local economy. The business departments of TE office advise start-ups, encourage firms to adopt new technologies, provide services to promote the internationalization of firms and supply capital to finance firm's investment and development projects partially. They have a start-up grant program named “Starttiraha” through which they support the start-up entrepreneurs. The basic grant for 2017 is Euro 32.40 a day and it can last for a maximum of 18 months. To receive the grant the entrepreneur should have at least continuous stay permit in Finland (TE, 2017).

3.2.5 Crowdfunding

Like many other countries around the globe, Finland also witnessed the growth of crowdfunding but regulatory guidelines, lacking a clear definition of crowdfunding, are not well developed and conducive for this alternative channel of financing. Furthermore, the legal status of investment-based crowdfunding is not also clear. A law on investment-based crowdfunding (equity and debt) is being prepared and is likely to enter into force anytime in future. Although not fully developed, the crowdfunding industry in Finland covers donation and rewards-based as well as lending- and investment-based crowdfunding (Crowdfunding Hub, 2017).

There are few crowdfunding platforms have started working in Finland recently. Invesdor.com is equity and debt crowdfunding platform based in Helsinki. They operate across Europe. Vaurus.fi is equity and debt crowdfunding platform launched in 2011. Mesenaatti.me is a reward and donation-based crowdfunding from Finland. It is founded in

2012 as the first reward and donation-based crowdfunding. Apart from Finnish crowdfunding platform Finish start-ups can also run crowdfunding campaigns on FundedByMe, a Swedish crowdfunding platform that focuses on equity-based crowdfunding and P2P consumer lending. Finnish start-ups also can run the crowdfunding campaign on foreign platforms like Kickstarter and Indiegogo. FellowFinance.fi is a lending platform in Finland, founded in 2013. They also work like crowdfunding through their service offering high-quality and secured online marketplace services within Europe.

The Finnish government has been working for a long time to introduce crowdfunding law in Finland. Finally, in September 2016 they introduced a crowdfunding law which covers mostly the legislation applied to investment crowdfunding in Finland. The new law does not include rewards or donations based crowdfunding models. The rewards or donations based crowdfunding falls under consumer protection act which is legal in Finland only with a special fundraising permit for a particular project (Invesdor, 2016).

Some result shows that the crowdfunding concept has already started working in the Finnish economy. According to FiBAN, during the year 2016 total fund from crowdfunding and other sources of finance was 34 Million Euro (FiBAN, 2017b). A crowdfunding platform “Invesdor” reported that they raised Euro 7 million during the year 2015, compared to only Euro 1.4 million during the year 2014 (Crowdfunding Hub, 2017). This means that there is a growth in crowdfunding in Finland though most of them are equity based.

3.2.6 Accelerators and incubators

Accelerators and incubators programs or services through platforms have created enormous attention among the start-ups for last few years in Finland. Finnish companies have access across the borderline with Nordic countries to perform in some accelerator and incubator competition. There are many accelerator platforms available in Finland and across the Nordic countries. These platforms provide non-financial support like workshops, mentorship, and office space as well as some financial support, which generally range between 20000 and 50000 Euros. A list of these platforms along with their focus area is given in Appendix 4.

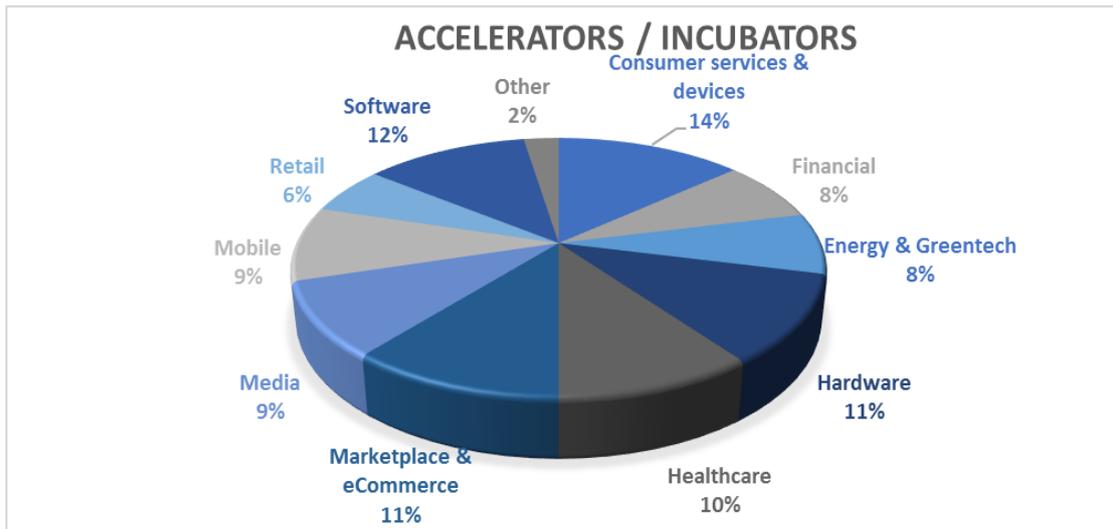


Figure 8. Focus area of Accelerators and Incubators

The above pie chart is made based on available information from the platform named “thehub.fi”⁸ and categorized based on their defined industry category. According to the above chart, consumer services and devices and software industries are getting the most attention with 14% and 12% respectively to the investors whereas media and mobile industries are taking the same level of concentration which is 9%. Other favorite sectors for investors are marketplace and e-commerce and hardware.

3.2.7 Angel investors

There is not enough publicly available information about the Finnish angel investors. Only three angel investors’ group are working now in Finland. They are Business Angels Finland, Suomen bisnesenkeli or Finnish Business Angel’s Association and Finnish Business Angels Network (FiBAN). Among them, FiBAN is the most active and popular network in Finland.

Business Angels Finland is a marketplace for start-ups seeking financing and financiers. They try to find innovative start-up and growth companies to meet the possible investors or business angels. They help the start-ups to take action to the next level. They also help the Finnish start-up companies setting up all the way to internationalization. They have a network to reach more than 6,000 investors, financiers and business angels not only from Finland but also from abroad.

⁸ thehub.fi: TheHub.fi is an online platform working to fulfil the needs of Finnish start-ups. See more at: <https://thehub.fi/site/about/>

Finnish Business Angels Network known as FiBAN is a Finnish, non-profit association. They are working closely to inspire the private start-up investing in Finland. The network contains over 500 listed investors that are actively seeking new growth companies. FiBAN works as a connector between start-ups and business angels. A start-up can receive valuable information about the angels through FiBAN. FiBAN reported that during the year 2016 Finnish business angels invested 53 million Euro in 324 start-up which is a growth of 43% from the year 2015. The total Finnish start-up investment was 383 million Euro in the year 2016. The popular investment sectors were business services and Fintech 21%, Healthcare and Medtech 9%, Lifestyle and Consumer goods 13% and Media and Marketing 12% (see Figure 9). Though media and marketing sector has received a good amount of investors' attention, the media industry does not include the web-based social media business in that list, and there was not any information on that particular area.

Industrial Split of Finnish Angel Investments

Sector	Amount of investments %	
Biotech and Life Sciences	3%	
Business services and Fintech	21%	FIBAN removed sectors "ICT " and "Mobile" as these were considered to be part of majority of the investment targets in some form.
Cleantech and Bioeconomy	10%	
Education technology	4%	
Gaming and Entertainment	5%	New sectors included were "Education technology" (4%), "Media and Marketing" (12%), and "Lifestyle and Consumer goods " (13%).
Healthcare and Medtech	9%	
Impact investments	1%	
Lifestyle and Consumer goods	13%	
Logistics and Transport	3%	Bioeconomy is a new emerging interest area for business angels, but the majority of the "Cleantech ja Bioeconomy" –sector investmetns (20%) were done into cleantech.
Manufacturing and Industrial equipment	9%	
Media and Marketing	12%	
Retail and Distribution	6%	
Other	3%	

Figure 9: Industrial Split of Finnish Angel Investments. Source: FiBAN (2017a)

3.2.8 Venture capital

There is a big bunch of Venture Capital (VC) companies available in Finland investing in start-up companies. However, these investment companies' investment depends on their interest area and expertise. The Finnish Venture Capital Association (FVCA) is the only network in Finland from where a start-up can gather information about the VCs. The FVCA reported that the Finnish start-ups received 383 million Euros from private and venture

capital investments in over 400 start-ups during the year 2016. Where Finnish venture capitals company's investments were 80 million Euro, direct foreign investments 216 million Euro and rest were from business angel investments and other sources of finance including crowdfunding (See Figure 10).

From the graph below, it is clear that the volume of start-up funding is increasing over the years in Finland. The foreign direct investment has increased dramatically from last few years. The VCs investment was not noticeable compared to foreign direct investment. The VCs investment seems like fluctuating over the years between 60 million to 96 million where other investments are increasing sharply.

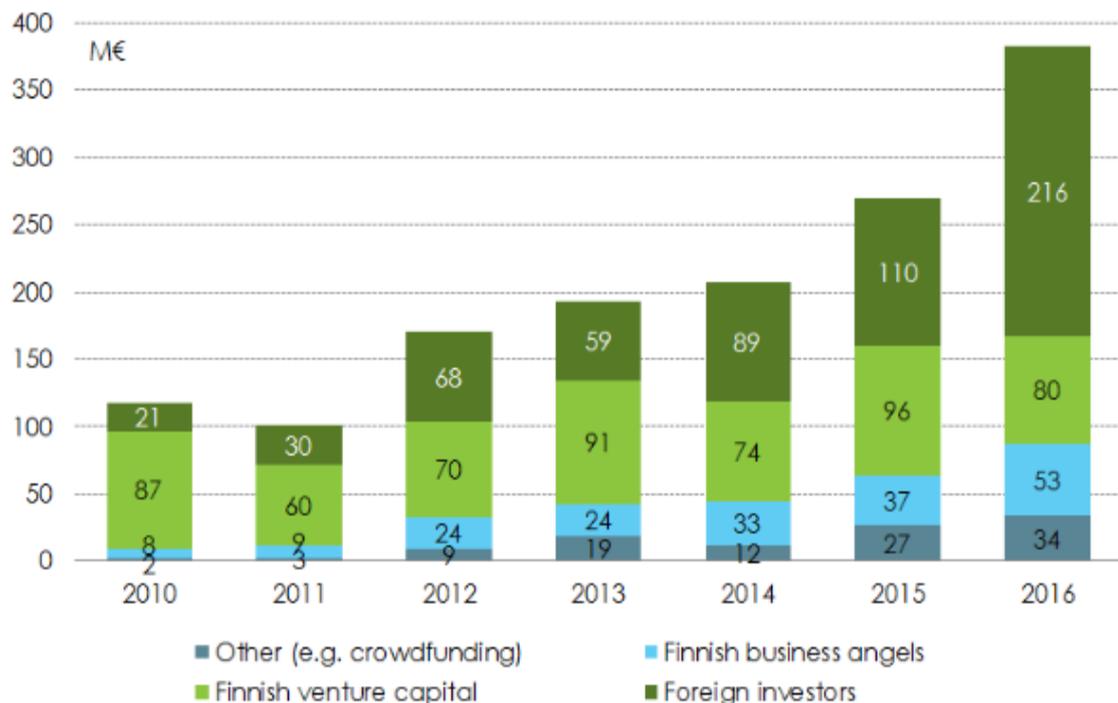


Figure 10: Start-up funding over the years in Finland. Sources: FVCA, 2017

CHAPTER 4 METHODOLOGY

The aim of this study is to find out the sources of information on funding as well as the possible sources of start-up funding in Finland. This research will also try to identify the most commonly used eligibility criteria used by financing organizations and the importance of a social media-based photo sharing start-up to go global as a result of a strategic decision or external pressures. This research will follow a qualitative case study approach which will be adopted based on the objectives of this study.

4.1 Research Design

A Finnish social media-based photo sharing start-up company, which is currently searching for start-up funding in the Finnish market, was chosen to investigate the possibility of start-up funding of this type of start-ups and for an in-depth analysis of their fund-raising activities. According to Eisenhardt (1989, p. 25), “case studies are rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources”. The case study will be conducted to explore the availability of start-up funding, relevant information sources of financing and fundraising related other issues that the selected start-up approached and experienced. Due to not meeting certain criteria (see 4.2. Case Selection Criteria below) of the study, many companies have been ruled out to participate in this study. While there are limitations of selecting only one company to be used as a case study, the company chosen experienced a significant challenge in fundraising and testing the planned business model. According to Yin (2010), the empirical findings can be weakening and complicated by applying multiple cases that are chosen for theoretical reasons. By selecting a single company with three interviews, the researcher aimed at reducing the complexity of the study to a minimum level while maximizing the validity of the findings.

4.2 Case Selection

The research criteria, detailed below, were developed to investigate the process of a start-up company that is currently working for fundraising. This research will initially focus on how the case company tried to gather the relevant information on funding sources and what types of obstacles they encountered in the process of searching for funding and whether they met

the eligibility criteria counted for external financing. Based on the research criteria, the researcher found the case of Glostars Oy (www.glostars.com) suitable for this study, due to its strong visibility and close network with other entrepreneurs within their industry and other start-ups in Lappeenranta, Finland. Before the comprehensive research was initiated, the researcher informally filtered several companies in order to comply with the study criteria.

The case study was chosen based on the following important criteria:

- A start-up founded within the last five years (to meet the criterion of being a start-up)
- A start-up that used the traditional funding approach and failed to get any positive response
- A start-up that used accelerators program in the beginning in their business strategy and product development
- A start-up that contacted local agencies for receiving advice for overall business development and authentic information gathering for fundraising.
- A start-up that used internationalisation strategy in combination with a competitor orientation
- A company that has the history of running successfully in the industry in which it operates, i.e., the social media-based photo sharing platform
- Finally, the researcher's easy access to the CEO/founders and employees who have been with the company from the beginning

The chosen company, Glostars Oy, is a photography related social media start-up which provides an online free service to subscribers to upload and share the photo with the global audience through their platform within a rewarding mechanism. The company was founded in September 2015 under the name Glostars Oy (Appendix 1). This company was filtered by series of informal conversations with the founders and an analysis of the platform (in this case the website, as their mobile app is yet to be ready) to ensure that the company meets the research criteria. One of the main factors of Glostars Oy was that the firm has gone through various fund-raising challenges and still fighting for it. During the year 2016, the company underwent a major redesign of their services based on few surveys within different groups in Finland. The change of the design was brought about by an entirely new look of

the website, and the business finds the new opportunity in the market and its development strategy. Therefore, the selected case company offers detailed information which can be used to derive a clear picture of Finnish social media start-ups companies.

The company was also chosen because of its adaptations to the new start-up strategy: going beyond the recommended method and adding components of an external market focus in internationalization to improve its effectiveness. The researcher's proximity to the office and good relationship with the CEO and other team members of the company allowed for high levels of access to the founding team for interviews. However, the selection of Glostars Oy as the sole company to be used as a case company also has certain drawbacks. Availability bias and the lack of generalisability of findings and its applicability are some of the factors to be considered. Also, due to time constraints and budget, it was not possible to continue finding businesses that would meet the criteria.

All the above criteria were used as the basis to find a company that has used both a traditional approach for funding and then internationalisation strategy for company and product development. The opportunity for easy access to the company gave the researcher the ground for single case firm's section. Yin (2010) suggests that a single case will reinforce the study by having a detailed analysis of the company and the individuals to create a thorough understanding of the case studies and compare findings more consistently.

4.3 Data Collection

The data were collected through the semi-structured questionnaire in three different interviews at the Glostars Oy office, Lappeenranta. Each of the interviews took around two hours or little more. The interviews were carried out face-to-face with a questionnaire. Berg (2004) and Novick (2008) specified that the interview should be first recorded, next transcribed and then finally analyzed for meaning. Bluhm et al. (2011) suggested the important notes be taken to guide the more relevant data for easier transcribing and categorising later.

This study followed the same procedure for collecting data. For cross analyse and validate the findings, interviews were conducted with more than one person with the same question or similar types of question, which would increase reliability (Bygrave, 2006). To develop

the most relevant set of questions for the next interview, all the findings were compared to the findings from the literature after each interview as suggested by Bennett (2003).

The interviews for this research were conducted with the CEO of the company Sajib Saha and the Manager, Business Development and Corporate Affairs, Ivan Doloudine, the most relevant key personnel of the company. This way, the researcher ensured to deduce the most suitable questions to ask to achieve a comprehensive set of results which will fulfil the research aims and objectives, facilitating learning more and more about the internal and external processes of the company from each interview. The questionnaire (see Appendix 1-3) was developed for the interviews based on the theoretical framework and the recommendations from the relevant literature.

4.4 Validity and Reliability

The detailed interview process was designed to probe the reasons behind the decisions that were made to develop the company and its fundraising process. Following Strauss and Cobin (2008) several interviews were conducted, asking the similar questions multiple times to draw consistency of the results to be used as an example in the findings. The method of data collection was chosen to be interview as this allows for the deepest level of data collection and analysis while avoiding accidental biasing the answers through assumptions made in the questions, as much as possible. Using open-ended questions during the interview allowed the respondents to speak freely and conveyed the meaning of the story of the company, identifying the prospect of start-up funding in Finland and the gaps between the supply and demand of start-up funding.

Additionally, Ivan Douloudin was present in each interview with the CEO to confirm the opinions expressed by him. Ivan's input also provided an independent viewpoint on the choices that were made and their effectiveness. By conducting such interviews, the validity and reliability of the results from this case study were substantially improved.

4.5 Analysis

The interviews, lasting for two hours each on average, were conducted with the members of the founding team of the company. The interviews were face-to-face and recorded with an audio recorder. Compared with other forms of data collection, such as surveys or phone call

interviews, the face-to-face, one-to-one interview allows for a much deeper analysis of the meaning of the responses, because several non-verbal communications may also happen (Yin, 2010). Each meeting started with informal conversation to ensure that the respondents felt comfortable in the situation and was able to provide information comfortably. The full set of interview questions can be found in Appendices 1-3. Following Cope (2005) the interviews were structured to progressively learn about the company, its business model, financing strategy and product development. The first interview was used to understand the background of the company, business model and key milestones since its establishment. From the findings of the first interview, the researcher identified that the firm had changed their funding and marketing approaches over the short period of time from traditional financing and commercialization to bootstrap funding and marketing approach.

The interviews uncovered the challenges of the funding hardship the company was facing and how they tried to overcome them. Table 2 details the interviews with date, time interviewees. Eisenhardt (1989) mentioned that capturing the viewpoints of the participants in a qualitative research will provide valid and transparent results if they are cross-referenced with co-workers in the study. Triangulating the data collected from Sajib Saha with Ivan Doloudine, complement the credibility and trustworthiness of the study.

Interview	Date	Time	Interviewee	Position	Transcribed
1	03.04.2017	16:00-18:00	Sajib Saha and Ivan Doloudine	CEO Manager, Business Development & Corporate Affairs	No
2	10.04.2017	13:30-15:30	Sajib Saha and Ivan Doloudine	CEO Manager, Business Development & Corporate Affairs	No
3	18.04.2017	14:00-16:00	Sajib Saha and Ivan Doloudine	CEO Manager, Business Development & Corporate Affairs	No

Table 2: Interview Details

CHAPTER 5 FINDINGS

The aim of the interviews was to extract qualitative data from the company, specifically from the founding member and the CEO Sajib Saha, to progressively develop the interviews to enhance the findings around the business prospect in Finland. Interviews focused on the availability of start-up funding, eligibility criteria followed by the funding agencies, gaps between available information (supply) and the reality (demand) and the internationalization strategy of the case company.

As outlined in the Methodology section, specifically 4.5 Analysis, the focus of each new interview was dependent on the findings and analysis of the interview that preceded it. For simplicity and clarity, the findings will, therefore, be presented with a chronological approach so that the interview findings can be followed like a conversation and all the results can be extracted to reveal themes and the progression of findings. The interviews began from a broader perspective of Glostars Oy as a company and then progressively focused more on the details of the company's fundraising approaches, leading to internationalization strategy.

5.1 Interview 1: Sources of information for start-up funding in Finland

The first interview started with the introduction of the company provided by the company's CEO Sajib Saha. The interviewer tried to unveil the background of the company, the business model and sources of available funding information for start-ups in Finland. The interview also focused on information gathering approaches taken by the case company. The interview looked into the challenges that the start-up faced in gathering information and the level of reliability and effectiveness of information collected from different sources as well.

5.1.1 Background of the company

Glostars Oy was established in September 2015 at Lappeenranta, Finland as a photo-sharing platform. Glostars allow users to upload and share pictures with the global audience through their platform. The company arranges photo competition regularly among the registered users, where winners are selected by the community voting. The company believes in the philosophy "to give back to the people". Therefore, they created monetary and non-monetary rewarding mechanism, where a user has the chance to receive something for his/her spending time on the platform. The start-up is in the development process of photo buy and sell and

project based photographer hiring now. Their vision is to be a unique photo based social media platform, which will fulfil all the needs of photo lovers.

The company was started by five students of Lappeenranta University of Technology and Saimaa University of Applied Science. Currently, the company consists of 10 members in the management team from six different nationalities. The primary thought was to build something which will help students to share their study life memories among other students. Later they expanded their idea and started their operation globally in January 2016. Until now, the start-up has received around 15000 pictures from 31 countries, and they rewarded more than 100 winners among them. The company also arranged five international photo exhibitions where pictures came from all around the globe.

5.1.2 The business model of Glostars Oy

After introducing the website for free subscription, Glostars started thinking on how to create a sustainable business model which would generate continuous revenue streams while maintaining this business approach as a freebie. Advertising, the most commonly used revenue-generating product on the website, had already been there for Glostars like other social media. As their core business is in photography, they have been working on developing a more robust business model which has a rewarding mechanism for subscribers as well as a monetizing mechanism for the company, which will generate revenue- a new concept in the market. This model is more user/subscriber-oriented, and at the same time, it will also generate revenue to make the company self-sustaining. In this model, a general user will be able to create a rich portfolio based on other subscribers' voting, weekly nomination, monthly nomination, grand finale nomination and other event specific nominations on the uploaded photos. All the nominations have a different badge which can be used as a reference for a photographer to be hired in future. On the other side, a subscriber can be monetized by selling the creative content, participating in the competition or both or being hired on a project as a photographer based on his or her creativity. As the model is still in the fruition stage, the company did not disclose detailed revenue generating mechanism due to the confidentiality issue.

The CEO of the company mentioned that, at every phase of subscribers, the company has the possibility to generate revenue. For example, from the novice users, the company has an

opportunity to earn from the traffic on the site, while the mature stage users who have already been recognized by badges, can be hired easily. In this model, users do not need to spend a big amount of time on the platform; rather it might be at his/her leisure time. The concept was to build a model which would benefit all the stakeholders involved in the business.

5.1.3 Information gathering approaches for fund-raising

Glostars started gathering information through desk research in the beginning. They gathered all the available information from local, regional and national funding organizations' websites. The interviewees think that in most of the cases, information is scattered and a person needs to spend a significant amount of time to gather information for proper application procedures. In some cases, these sites provided different directions which may be very confusing for a starter. First, the company tried to understand where they had been eligible to apply for funding and found that the process is not clear or in most cases not applicable for a social media business or for non-Finnish citizens. After that, they contacted 'Wirma', a local service provider, which advice on the business matters and provides other business-related support for local companies. The Wirma also provided guidelines to the company for funding application for different institutes such as Finnvera and Tekes.

The start-up found the advices from Wirma was helpful for the company for company formation and for networking with other business organizations, but the information and guideline regarding funding application and selection criteria of the institutes for funding were not appropriate. According to Wirma, the start-up requires at least 20000 Euro (1/4 of total loan) as guarantee money to obtain the loan from Finnvera and a clear revenue projection of upcoming 3-5 years. As all the internal matters for loan calculation are not disclosed on the Finnvera website, the start-up followed the guideline of Wirma. To follow their guidelines and fulfil the requirements the company spent a big amount of time. Later it was perceived that Finnvera wants to see the current revenue growth, not the projected one, and there was not any requirement for guarantee deposit for the loan. Some other relevant information they provided to the start-up was suitable for a company in growth stage but not for a start-up, according to the company CEO.

Glostars attended many local and national events arranged by different financial institutes, City Corporation, accelerators, university, fundraising organisations, and pitching

competition guided by local service providers. The amount of time the company spent for information search was mostly for funding related information. They also concentrated on innovations in the industry and shifts in trends. There is a team consisting of CEO, CFO, manager finance, manager business development and other two key members always working for funding opportunities. A team with the lead of CTO work for product development and related information search. The information gathered from Slush start-up event in Helsinki and from the website of FiBAN was fruitful for the start-up, as mentioned by Ivan Doloudine, business development manager.

Based on the interview this study tried to figure out the start-up's focus areas of information that is shown in the pie chart below (see Figure 11). The study found that the company concentrated on information search mostly for external funding which is around 45% of the total focus on information search. They were also concerned about their product development, and they looked for the information on innovation as well as competition. Furthermore, the start-up was spending a significant amount of time concentrating on internationalization, which constitutes about 20% of total information search.

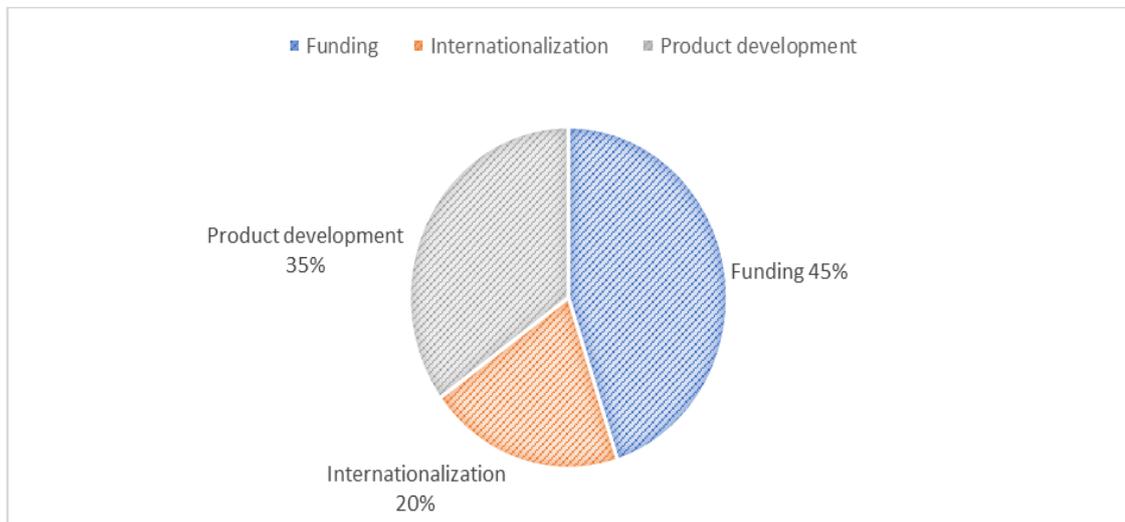


Figure 11: Focus areas on information search

5.2 Interview 2: Sources of start-up funding and eligibility criteria in Finland

The second interview was conducted with the case company's CEO and Manager- Business Development to investigate the available fundraising opportunities in Finland and what initiatives the case company took from the beginning until date to gather funds. This interview also uncovers the company's perception about and experience with few government funding agencies they approached. This study also informs whether the company approached other available sources of funding except government or state-sponsored ones and the resulting outcome with emphasis on the evaluation criteria these institutes impose implicitly or explicitly. Finally, the interview tries to gather information on the current capital structure of the company along with the main revenue sources and the potential risks associated with its future cash flows.

The interviewees said that there are some government agencies, investment institutes and few fund-raising platforms available in Finland to gather funds for start-ups. These institutes are supporting start-ups in various ways to be successful. They identified there are some industry specific investment preferences. In accordance with the interview findings, the overall funding approaches/initiatives taken by the company and the corresponding outcomes have been summarised in the table 3 below, and the detailed analysis follows.

Funding sources	Initiative	Description	Result
Pre-seed stage	No Initiative	-	-
Friends, Family and networks	Initiative taken	Tried to sell some shares to their known persons to gather some funds	Funds raised from known networks
Accelerator	Initiative taken	Attended several Accelerator programs	Became champion of LUT Summer Launchpad and received valuable advices from other accelerator programs

Government Agencies	Initiative taken	Contacted most of the available start-up supporting agencies	No concrete results yet
Crowdfunding	Initiative taken	Host crowdfunding campaign in Indiegogo	Campaign ran well but had to stop due to legislation issue
Business Angels	Initiative taken	Contacted few business angels	No fruitful outcome
Venture Capital	Initiative taken	Contacted few home and overseas Venture Capitalists	No concrete outcome yet
Regional Fund	Initiative taken	Contacted South Karelia Regional Fund	No fruitful outcome

Table 3: Funding sources, initiatives taken by Glostars Oy and outcomes: A bird's eye view

5.2.1 Pre-seed stage:

In the pre-seed stage, a business can receive some fund for research and development of the business concept and product. During their pre-seed stage, the company did not actively think of or search for any pre-seed funding.

5.2.2 Friends, family and networks

To keep the smooth development of the company, Glostars reserved a certain percentage of company's share to sell in case of emergency. The company collected some funds by offering shares to their networks. These collected funds helped the business to support the day-to-day activities. They sold shares with a primary condition that the new shareholders cannot sell the shares to a third party unless the company is unable to buyback. Also, the new shareholders have to work like other shareholders for the overall development of the business.

5.2.3 Accelerator

The accelerator programs are designed to support the start-ups monetarily and non-monetarily. Glostars attended the LUTES Summer Launchpad 2015 (run by Lappeenranta University of Technology) and became the champion. Attending LUTES summer Launchpad was a great experience according to Sajib. During the campaign, team Glostars attended many coaching sessions presented by many different institutional experts. This program increased their networks within the entrepreneurial society. As a reward for being the champion, team Glostars received an office space and free storage equivalent to USD 20,000 and server support for hosting the site on Microsoft. This support of Microsoft can be extended further up to USD 150000. The start-up also attended some other pitching competitions and start-up fairs. Among them, Slush⁹ was a great place to introduce the company to new possible investors from around the world as mentioned by the CEO. The company found many connections through Slush and they are in contact with them. Some of them showed interest in the start-up company, and they kept the start-up in their loop for regular updates. The company also attended the Willi Idea¹⁰ competition and the *SHIP¹¹-Startup Festival, few business breakfast and start-up sauna that also creates opportunities to validate the business idea and increases the investment opportunities and networks.

5.2.4 Government agencies

According to the interviewees, the start-up tried to gather funds from state agencies. The agencies the company approached and the particular outcomes from these are explained below.

5.2.4.1 TE office

The company first started to seek external funding from local TE office for publicly available financial support. The start-up was especially looking for the start-up grant, a program named “Starttiraha” which supports start-up entrepreneurs. The company presented their

⁹ Slush: Is Helsinki based leading European start-up and growth company event. learn more at: <http://www.slush.org/about/what-is-slush/>

¹⁰ Willi Idea: Is a competition for all South Karelian people, which searched for new high-level expertise and international potential in their business ideas. Learn more at: <http://www.startupmill.fi/willi-idea-kilpailu>

¹¹*Ship – A Start-up Festival Which Bringing together accelerators, growth start-ups, early-stage start-ups, investors, students and other entrepreneurial. Learn more at: <http://www.shipfestival.org/about/>

whole business idea and the business plan including the products, product development road map, revenue projection, marketing plan and the business model to the TE officials. The officials were interested in the business idea and the overall business plan. However, the outcome of the meeting was not satisfactory. The TE office was unable to provide any public support due to the residential status of the founders. Because most of the founders were not having a continuous resident permit, which failed to meet the funding criterion of TE office.

5.2.4.2 Tekes

The case company contacted the manager of the National Technology Agency ‘‘Tekes’’ at their Lappeenranta office for a grant approval. As Tekes offers to finance young start-up that is planning to go international market, they give loans and capital loans repayable with a lower interest rate than the market. Therefore, the start-up thought it would be a good initiative to receive some support from the Institute. The manager of Tekes suggested the company to apply for ‘‘TEMPO’’ funds, under which all the start-up companies can apply for funding if they meet certain requirements such as:

- A start-up that has already had a clear understanding of customer needs with their product or services.
- Which has sufficient resources and fund for its early stage development
- Which has key employees committed to the company
- Which has 30% of the total project money in their fund to support the project

The start-up met the Tekes manager before applying for the TEMPO funds. The Tekes manager shared his opinion after a critical analysis of the company’s current status that the business had fulfilled most of the requirement for the TEMPO funds except the provision of 30% deposit money. So, the manager advised to arrange the required deposit money for the fund. He also advised to contact Finnvera for the start-up loan and deposit the required amount to receive the fund.

5.2.4.3 Finnvera

The start-up tried to raise fund from the Finnish state own financing company Finnvera plc. The case company was trying to receive the ‘‘Start Guarantee’’, a product which is specially designed for novice start-ups owned by individuals. The start-up contacted the Lappeenranta

regional manager of Finnvera for the Start Guarantee. The outcome was not in favor of the company as the manager found the case company's current financial condition as risky to some extent. Especially most of the revenue generating products will be in line from the year 2018, which increases the risk of the company. Though the start-up had been receiving some revenue from advertisement place selling and the number of sales was increasing over time, it was not satisfactory to the Finnvera. Therefore, the Finnvera manager requested the start-up to contact as soon as they start generating continuous revenue from some products. According to the company's CEO, this was the most disappointing moment for him as they met the requirement of the Start Guarantee such as:

- The start-up should meet the SMEs definition according to EU
- The company should be within 3 years of operation

5.2.5 Crowdfunding

The start-up took the initiative to gather fund through crowdfunding during the year 2015. First, they collected information about crowdfunding possibility, types and eligibility criteria of available Finnish crowdfunding platforms as well as from neighboring Nordic countries and the rest of Europe. They found that crowdfunding in Finland is basically equity-based and the concept of crowdfunding is new to the people, which means there is a little possibility to gather a significant amount of fund from the native country. The Nordic or even other European crowdfunding was not that much popular during 2014-2015, especially reward-based crowdfunding for a social media company. Therefore, the company tried to host a crowdfunding campaign on Kickstarter¹² in late 2015. Unfortunately, they failed to host a crowdfunding campaign on Kickstarter due to regulatory issues because Finland was not on the hosting list. The company also tried to host a campaign on FundedByMe¹³, but that was equity-based crowdfunding platform. As the start-up was at the very early stage, i.e., only in the few months of their operation, they were not prepared to take benefit from any of those equity-based crowdfunding platforms from Finland and other EU countries. Finally, the

¹² Kickstarter is an American Crowdfunding platform. See more at:

<https://ischool.syr.edu/infospace/2012/01/31/what-is-kickstarter-a-startup-for-crowd-funded-ideas/>

¹³ FundedByMe: A Swedish equity equity-based crowdfunding and P2P consumer lending platform. See more at: <http://theheureka.com/fundedby-me-interview>

company found that they were eligible for hosting crowdfunding campaign on Indiegogo¹⁴ with a reward or donation mechanism.

They started the campaign with the title of “glostars: It’s more than just sharing pictures online” and put a target of \$80,000 as a “flexible goal” for 30 days in the first campaign. The key facts from the first campaign on Indiegogo:

- Flexible goal of \$80,000
- Duration of 30 days
- 17 different categorical products
- Price range of the products from \$5-\$1,000
- An option to donate to the campaign (it is a default service of Indiegogo)
- The sale of products was not up to the expected level due to high product price
- The main reasons for high product price were Finnish VAT (24%) and delivery charge of €17-25 depending on the geographical area

Due to the above facts, the management team of the company decided to keep the campaign on hold so that they could run the campaign again within a short period of time.

In February 2016, the company again started their crowdfunding campaign in Indiegogo with some major adjustments to the product pricing and delivery options. The key facts from the second campaign on Indiegogo:

- Reduction of flexible target from \$80,000 to \$40,000
- Increase the length of the campaign from 30 days to 60 days
- The product prices were listed without delivery charges, which showed a lower price of the products
- The campaign earned around \$10,000
- The big part of the earned money came from donation

The company knew that the Finnish law does not allow a company to receive the donation and that was the big problem for the company. They were refunding the donated money to

¹⁴ Indiegogo: Is an American crowdfunding platform, where any team from the world can raise money for their project or for the product. See more at: <https://www.indiegogo.com/about/our-story>

the backers¹⁵ and that also created another problem because some backers started asking why the company had been refunding the donation. This created a negative impression among the backers and other related online communities. However, the company returned all donations as well as funds from presale of the products to the backers and closed the campaign.

5.2.6 Regional fund

The start-up is located in the South Karelia region, and they found that there is a regional funding organization name “South Karelia Regional Fund” and contacted them. The response from the organization was that they were not able to provide any funding support to the company, as the founders of the start-up are not by born in the region. Another reason for non-eligibility was related to the type of business the company is in, which is not purely in art or scientific development.

5.2.7 Venture capital

The start-up’s finance team was working to find the possible investors to gather funds from any part of the globe, the main focus being on the Finnish capital market. First, they contacted the potential local and regional investors and investment institutes through email communication. The emails contained a brief introduction of the company, financial projection of the business and possible investment opportunity. Their fund raising initiatives with VCs and the outcome are described below.

5.2.7.1 Kisko Venture

The company started to look forward to the venture capital investors and contacted Kisko Venture¹⁶ through the application process for seed funding. The start-up received a reply from the Kisko Venture with an interest to know more about the company and get a clear explanation of the revenue calculations, Photo Buy and Sell mechanism and clarification on the use of the funds. The start-up answered all the queries and scheduled a meeting to present the company in detail.

¹⁵ Backer: A person or institution that supports someone financially. See more at: <https://en.oxforddictionaries.com/definition/backer>

¹⁶ Kisko Venture: A Helsinki based venture capital firm. See more at: <http://ventures.kiskolabs.com/>

The start-up presented the company's overview, revenue streams, pricing model, revenue contribution from different products, possible break event point, use of seed fund, detail marketing and sales plan and the question and answering from both parties. The meeting went well and at the end of the meeting, the company received a recommendation from the investment company that they love the idea "competition through photo exhibition" as they see it is a great marketing tool and there is a possibility to generate revenue in the future. They were very interested in the Photo Buy & Sell; they had an interest in photographer hiring mechanism and appreciated the use of different evaluation methods for assessing the value of the company. However, they did not show interest in the idea of revenue generation through advertisement. They mentioned that in this market condition it is difficult to generate good revenue through advertisement because the market is already captured by big players like Facebook and Google. Only it might be possible once the start-up reaches a million subscribers. The venture requested the company to keep in touch and send them the updates on a regular basis. Once they see the products are in the market and start generating revenue, meaning the concepts are working, they are willing to invest.

5.2.7.2 Butterfly Ventures

The start-up continued searching and contacted Butterfly Ventures¹⁷. One of the co-founders of Butterfly Ventures called for a meeting with the start-up to present the company. In that meeting, they required the product details, time series metrics based on users' engagement, i.e., conversion, retention, engagement and any other business metrics. Apart from these, the company also presented a clear overview of how the start-up is different from other similar services and why this is better in the market. After a critical analysis of the business model, product, revenue generation process, marketing plan, sales plan and the distribution of the fund, the Venture liked the Photo Buy and Sell idea. They said this could be a viable product to capture the SMEs at the beginning and the next level ultimately the big corporations. Further, Butterfly Venture stated that there would be many small companies that would like to buy a legal photo with a small amount of money and use them legally.

Also, they mentioned mobile companies are introducing good mobile cameras that have the enormous impact on mobile photography, and it makes sense to use the mobile photo to host

¹⁷ Butterfly Venture: Is a Finnish venture capital and private equity firm. See more at: <http://butterfly.vc/>

marketing campaign on social media. The VC also liked the photo exhibition concept as a marketing tool. However, they were confused how the photographer hiring mechanism will work because that will require a significant number of photographers and marketing campaign. They said the concept of photographer hiring is new to the market; if it works out then, this might be a feasible product for the business. Although the outcome was not fruitful, there was hope because the Butterfly Venture's Co-founder Juho Risko said, "An investment execution process takes around six to eight months to complete, but we have invested some company even within a month. So, we need to see the proof of concept or in other words, once the product brings a single sale, just contact us."

5.2.7.3 twofour54

The start-up understands that the fundraising from home country might be difficult in the early stage. Therefore, eventually, they put more emphasis on foreign markets, especially in central Europe and Middle East countries. Their plan started working, and they got a response from an Abu Dhabi, UAE-based entrepreneur and early stage businesses investment company name twofour54¹⁸. One of the investment analysts from twofour54 contacted the start-up company's CEO by mentioning that she had received pitch deck of the start-up from the head of investments of twofour54. The investment company was interested in the business concept and mentioned that they were looking for such business for investment. They clarified one condition that, if they invest in the company, Glostars must have an office with at least a manager level representative in Abu Dhabi. Several meetings took place, and further communication continued through emails between the companies. However, later twofour54 informed that they found a similar or closer investment opportunity from their region and they were more interested in that project.

5.2.8 Business angels

The start-up company also tried to explore possible investors through their networks. They contacted few angel investors and venture capital investors through their networks. Among those investors, one was from Germany, who invested in a similar area of business called EyeEm¹⁹. The investor was unable to invest in Glostars due to the further investment

¹⁸ twofour54: Abu Dhabi based entrepreneurs and early stage business investment company. See more at: <https://www.twofour54.com/en/what-we-do/investments>

¹⁹ EyeEm: A German based photo sharing social network. See more at: <https://www.eyeem.com/>

requirement for his already funded projects. Therefore, he was less inclined to jump on investing in another project for the time being.

The study found that the start-up tried various sources for fund raising and they are continuing their fundraising activities. There is still hope for the company to receive the external funds from formal funding agencies. The company was able to raise some funds from informal sources by selling the shares to their networks. This collected fund and the revenue from the advertising space sale on the webpage is helping the venture to finance day-to-day activities. Apart from these funds, the company's shareholders are also investing regularly to cover the expenditure of the operation. The company has some allocation of shares among the employees, through which they compensate their employees against salary. The start-up has four revenue generating products; among them; the advertising mechanism is currently in line and photo buy and sell, photographer hiring is still in progress to be introduced in the market by 2018. The portfolio service may start revenue generating as soon as they receive an impressive number of users in the platform. However, the interviewees think like every other business their business also associates with some risk factors. Mostly they are related to user acquisition and product development. Without trendy product, it is difficult to increase user base. Without a good number of users there will not be enough content to sell, and without traffic on the platform, the number of the advert will be less. Therefore, the product development is the key to sustain the business and to secure the external funding needed. This research found that currently, the case company is looking for formal and informal funding within and across the border.

In Figure 12 an estimate was made, based on the company's CEO and other members' opinions, on external financing possibility from formal and informal source and the possibility to continue the business without external funding. The researcher tried to score them based on the interview answers and later confirmed with the interviewees.

From the chart below, we can see, there is a high probability for the company to receive external funding from informal sources rather than the formal ones. The company believes that they can succeed even without any external financing. However, that might be slower the whole business operation.

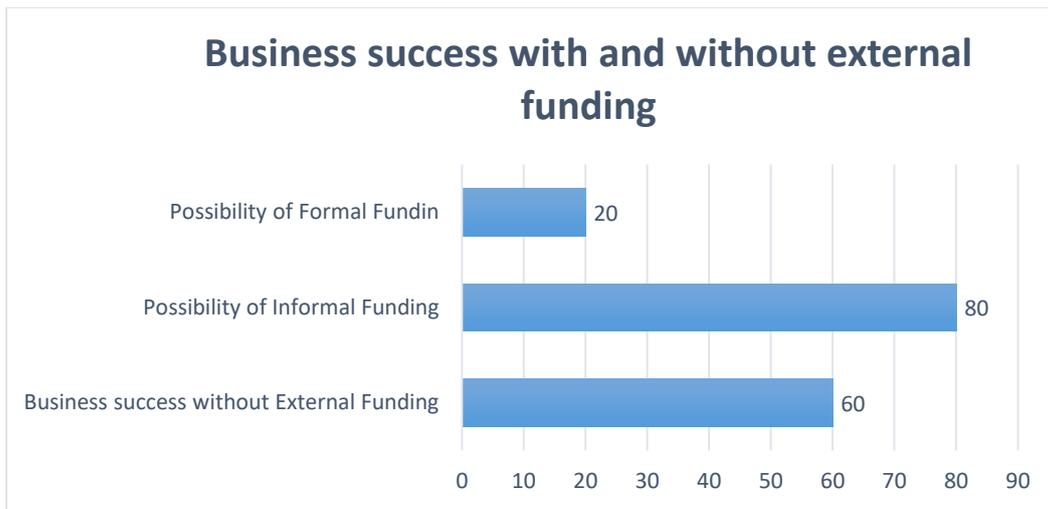


Figure 12: Possibility of business success with and without external funding

5.3 Interview 3: Internationalization strategy and competition analysis

In the third interview, this study tried to know about the company's internationalization strategy, reasons behind internationalisation and the possible link with financing opportunities, potential target markets, challenges of internationalization, benefits of internationalization and competition in the international market.

5.3.1 Internationalization

The company started their services globally since the first of January 2016 after a successful pilot test in the local area. The pilot result showed that there was a big number of users from outside of Finland and they were out of the competition due to the company's terms and conditions. A significant number of subscriptions came from Finland, Russia, Bangladesh, China, Germany, and Iran. The company conducted few surveys inside Finland within 18-52 age group of participants from different nationalities to investigate the possibility of Glostars' user engagement from Finland and the rest of the world. It also included the company's possible marketing strategy and how they can enter a new market and so on. All the results of the surveys suggested that the company should focus more on global market rather than the home country. The surveys found that the social media and photography business needs bigger audience which is not possible to realize from Finland alone as the total population of Finland is 5.4 million, constituting only 11.6% of 15-24 years old group which is the main target group for social media, with a population growth rate of only 0.38%

(Index Mundi, 2016). On the other hand, the total number of social media users in Finland is only 2.8 million, which is expected to reach 3 million by the year 2017. The growth of the users annually is approximately 30K-70K, which means by 2020 the total number will be 3.2 million (Statista, 2016).

The company targeted some countries to enter first as their strategic decision. The key factors for choosing a country were:

- A country that is geographically and economically important
- Have a large number of population
- Less language barrier
- Big number of internet users
- Politically influential among neighbouring countries
- Inadequate photo related social media
- Full of natural and historical places which may bring enough creative content
- Less expensive for marketing and regulatory issue

The start-up chose Russian Federation as their first target country to enter because Russia offers a tremendous opportunity for Finnish SMEs due to its market size and geographical proximity. At first glance, the Russian market seems to be difficult, but potentially rewarding, offering many opportunities for Finnish businesses also when it comes to e-commerce. Therefore, companies striving to enter the Russian market must be prepared to put more effort, money, and personal resources in it since it is a challenging international market to penetrate. About 57% of the population of Russia is between 15- 54 age group (Index Mundi, 2015). Around 61% of the population use the internet according to the data of the year 2013 and it was expected to rise to 75% by the end of the year 2015 (Internet live stats, 2015). As for behavioural targeting, company's target audience can be called "hipsters"²⁰. There are people from 15 to 30 years old from middle-class who like photography, alternative music, and contemporary art. They are everyday users of the social network (My World, LifeJournal, V Kontakte, Facebook, Tumblr, Twitter, Instagram, etc). Moreover, hipsters always want to be in the trend (Sukhova-Dulskay, 2014) and are willing to express themselves.

²⁰ Hipsters: people who follow the latest trends of fashion (Oxford dictionary, 2016)

There is no strict fundamental governmental legislation on the use of the Internet, whether it is only Russia or the rest of the world; only local acts containing one or two aspects matter. For instance, in Russia, no special license is required to create a website, and there do not exist many legislative acts which can influence the work of the internet-based start-ups.

The company finds Russian market huge and it has been serving as a trendsetter for the Ex-USSR countries. If they can penetrate Russian market successfully, it will give the company opportunity for access to other Russian-speaking countries such as Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Georgia, Moldova and Ukraine. As these countries have similarities in cultural, racial, religious, and ethical aspects, it will be beneficial for the case company to expand their market among these countries as well.

Currently, the company has users from 31 countries of four continents. The bigger number of users are from Finland, Russia, India, China, Iran, Bangladesh, Germany, Brazil, Australia, and the USA. As a strategic internationalization of the company, they have the same plan to enter India and Bangladesh. These two countries have a huge population, and geographically these countries are important too. Especially, India has influence on its neighboring countries, and there is a growing number of social media users available. In the behavioural aspect, the users from South-East Asia are not afraid of using a new service. Only in India, there are more than 1 billion mobile phone subscribers (Rai, 2016) and most of them have a smartphone. On the other hand, the start-up is also focusing on Nordic countries and Germany to spread their service from 2018. These countries are the sources of good quality content as well as these countries will bring advert revenue to the company as mentioned Doloudin-The Manager, Business Development and Corporate Affairs. The company believes this strategic move will increase the user base rapidly as well as it will enhance the variety of contents. There is also a possibility of attracting external funds from these countries as a result of a broader user base and the availability of rich contents.

According to the interview on internationalization of the company, it was visible that the venture is very optimistic about their global operation. They believe and already have some result from the internationalization that their idea is already accepted by users from many countries. The researcher found that the company has the possibility of user engagement at around 60%-63%, whereas external financing opportunity is 16% (see Figure 13). The

venture also believes they have the possibility of earning from the overseas market at around 20% -21% through their existing services.

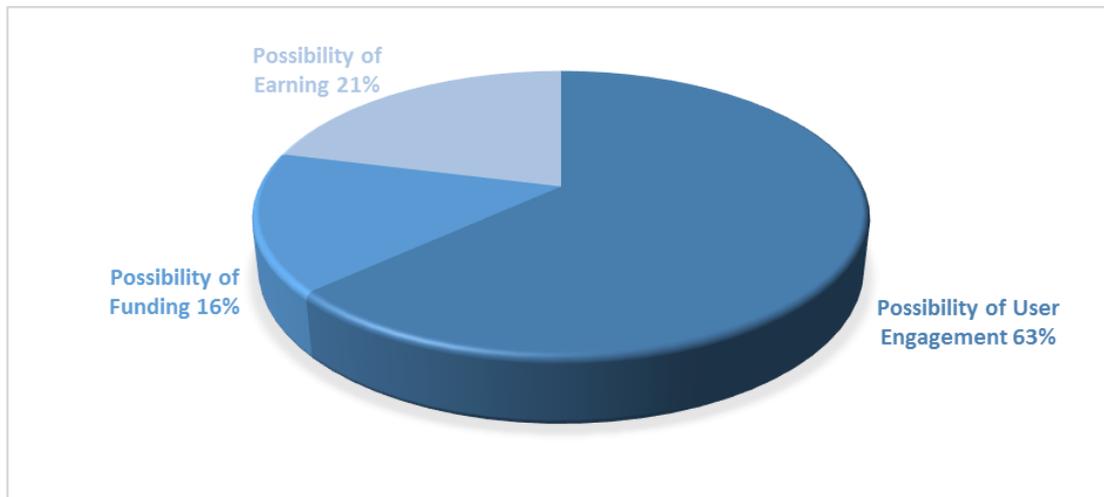


Figure 13: Internationalization impact

5.3.2 Competition analysis

The social media and image buy and sell industry are little bit different from industries with traditional product and services. In this industry, a company requires a better understanding of their competitors. For a novice company, it is important to do competitor analysis before getting into the market. Competitor's analysis is involved in "Identifying your competitors and evaluating their strategies to determine their strengths and weaknesses relative to those of your own product or service" (Entrepreneur, 2017).

The industry in which the case company operates has various types of competitors. Their direct competitors may include VSCO, Tumblr, Inc, 500Px, Getty Image. The indirect competitors may include different social media and photo sharing platforms. The primary direct competitors are profiled below.

VSCO is an art and technology company empowering people everywhere to create, discover, and connect (VSCO, 2016). VSCO offers several products- all related to photography and photo correction. The company also provides VSCO Film and VSCO Keys products that are used for editing pictures in Adobe Lightroom and provide the digital film emulation effects (Knudsen, 2014). In spring 2015, the application had 20 million app users, and the application was among 20 most downloaded apps in the world since 2013 (Zhang, 2015). Moreover, #vSCO is the number one branded hashtag on Instagram (Barkho, 2016). However,

the company is not positioned as a social network: "We're not interested in creating another social network," says VSCO co-founder Joel Flory. "We wanted to create a platform that honoured the art [our users] created without likes and comments" (Hamburger, 2013).

Tumblr is a unique hybrid of the social network, online microblog and photo sharing tool. It is free, and users just need to register to be able to create, to publish different types of the content, i.e. text, photo, quote, e-link (Tumblr, 2016). Tumblr was founded in 2007, and now it has about 140.7 billion of posts, 318 million of blogs (Tumblr, 2016). In addition, there are about 500 million users of Tumblr per month (Creative Review, 2016). Tumblr is known as "goldmine" for raising the brand awareness. It is used as a platform for advertising and business for different famous companies like Apple, Lexus, MTV and so on, and photos of the celebrities (Costille, 2015). The main source of the Tumblr marketing is the social network.

500px is a privately-held online marketplace for photo sharing. According to their website, 500px is a "photo community and marketplace for discovering, sharing, buying, and selling inspiring photography powered by creative people around the world" (500px, 2016). 500px was founded in 2009, and since then its global photography community has steadily grown to 8 million users. The company positions themselves as a platform for professional photographers and serious hobbyists, rather than a community portal for the masses. Most of their product development and marketing activities are aimed at reaching that 'pro' audience (Microstock Diaries, 2015). In addition to hosting photographers' portfolios, it also allows them to license photos to customers for commercial use and profit from their work. 500px has a rating system that is time sensitive (Waltman, 2013).

Getty Images, Inc. is an American stock photo agency founded in 1995. It is the world's largest photo and video agency with a database of 80 million images. It licenses its image to a vast customer segment ranging from businesses small and large, advertisers, bloggers and websites, newspapers, and magazines. According to its report, the annual revenue of the company is approaching \$1 billion.

Getty was among the early ones that recognized the impact of digital revolutions on photography. Accordingly, the company acquired PhotoDisc in 1998; this is the first company that figured out how to sell photos in a digital format. In 2005, iStockphoto

emerged as a top source of crowdsourced (also known as the amateur) images. Average price for each photo at iStock was \$2 to \$3. Considering the growth potential of iStockphoto, Getty bought it in 2006. With this move, Getty's business model changed quite significantly. With the acquisition of iStockphoto it started providing cheaper images for wider use to a big group of customers. Before the acquisition of iStockphoto, it had some 150,000 customers a year, which is now 1.3 million. Today the company licenses or sells around 39 to 40 million images a year. Getty has different licensing arrangements along with a subscription service (Berfield, 2012).

Chapter 6. Discussion, Implications and Conclusion

This study conducted on Glostars Oy, a social media based photo sharing platform, offers several important implications to those seeking information on funding sources and actual funding as well as in what situations a social media based start-up should think to go for internationalization. This research has also investigated the eligibility criteria needed to fulfil in receiving start-up funds in Finland. The following table 4 summarizes the key findings of this study along with their relevance to the case company and overall implications.

	Type	Relevance to Glostars	Overall implications
1	Information search (Sources of funding)	Lack of motivation Lack of preparedness	A start-up should have the utmost motivation and adequate preparation while seeking information on sources of financing. Policymakers also have to offer more customized seminars and workshops targeted to start-ups to make them aware of the sources.
2	University based community-enabled start-up	Participating in university based competitions benefited the case company to avail of external funding, build reputation and acceptance	Start-ups originated in universities, especially in the study period of founders, can ultimately benefit from the university-based and linked communities. Therefore, these start-ups should try to utilize these readily available network sources to attract external funding. The policymakers can design some joint collaborative programs (such as business incubator) to assist these start-ups.
3	Team composition	Although the case start-up has a founding team of cross-national composition; it lacks in experience and connections, which is most important in attracting external funding.	Start-ups should have a team comprising of diversified national backgrounds as well as skills to attract external funding. If a start-up lacks in this, they can hire some experienced and well-connected personnel who may add value to the team and mobilize funds from external sources.
4	Innovative funding approach in the	Having been failed to attract external funding, the start-up offered	Cost-reducing bootstrap financing is the best alternative when there is no external funding available.

	absence of external funding	shares of the company to its employees instead of monthly salary.	
5	Knowledge of legislation with regard to external funding alternative platforms	The company was found to lack knowledge of the legislation with regard to crowdfunding and its default feature of donation, which is not allowed in Finland.	<p>Founders of a start-up must search all available information, governmental rules and regulations, which may affect their fund-raising initiatives.</p> <p>Since these regulations vary from country to country and most countries yet to come up with concrete and clear legislations, especially with regard to emerging alternative platforms such as crowdfunding, founders need to be very cautious while thinking to use such types of sources.</p>
6	Internationalization as a means to establish legitimacy	The company considered internationalization of their service because they conceived that to attract external funding they need to establish the legitimacy of their company first in the eye of potential investors.	<p>Academic literature on start-up identifies that these firms lack legitimacy due to their liability of newness and smallness that arise from their younger age and smaller size.</p> <p>If a start-up, especially in the social media, which heavily relies on its subscribers, can broaden its subscribers' base to other countries, it can earn legitimacy in the eye of the investors.</p>
7	Eligibility criteria for Funding	The start-up continued searching for external funding but most of the time was unable to meet all the criteria of the investment organizations.	<p>Fulfilling all the requirements to be eligible for external funding is not an easy task for a novice company.</p> <p>The investment firms should concentrate more on future prospect of the business and help to build the business rather than emphasizing on traditional checklist of requisites.</p>

Table 4: Summary of findings and implications

First, this research observed that the company searched information related to start-up funding online and did their primary desk research, contacted some agencies for proper information. The company found that information on potential sources of funding is not readily available. Although now-a-days there are so many resources available online, they found, these are not much helpful. The case company also attended several seminars, business meetings and organizational mentoring events, which increases their network in the industry and provides the better understanding of the business opportunity. Similar findings were reported by Ozgen and Baron (2007) in their study that, entrepreneurs recognize opportunities through mentors, informal industry networks and participation in professional forums.

Gathering information and using them in decision making is the key for any business to increase the level of experience to figure out the right information for the right purpose. However, it seems that the case company did not spend sufficient time for the wider level of information gathering. We can see from the literature that there are many new accelerators, investment related supporting programs and events arranged by FiBAN, FVCA and other organizations but the case company's approach to these organizational events was limited. This limited approach is against the findings of Kaish and Gilad (1991) as their study found that experienced entrepreneurs focus less on external sources; for example, they spend less time in reading, thinking and talking than their less experienced counterparts. This may be attributed to the fact that these activities run by the organizations as mentioned earlier are very new to the Finnish society and most of the start-ups are not aware of them. Again, information search helps a novice entrepreneur to recognize the available opportunity and increase his or her experience. It is a part of the business process for entrepreneurs (Stevenson and Sahlman, 1989). In this circumstance, the case company should have spent more time to dig the opportunity available in the economy which was not seen by others (Kirzner, 1993, 1973). It can be noted for Finnish start-ups that there are new funding opportunities available in the market and those are very new to most of the start-ups. So, it is important to search for them continuously. Policymakers also can offer more customized seminars and workshops targeted to start-ups to make them aware of these funding opportunities.

Second, the researcher found that the founders of the case company started their business during their study period at the university. There are many successful companies that started their business at the university and now leading the industry worldwide, for example, Facebook, Google and so on. The case company became the champion of LUTES Summer Launchpad 2015 and received free office space, storage and webhosting support from Microsoft and marketing support from LUT and Saimaa UAS. These supports were a part of student run university-based entrepreneurial communities. This type of concept in the economy started a new horizon. These community-based entrepreneurial approaches created many new businesses, inspiring students to be self-dependent and become entrepreneurs. The government can concentrate more on these types of activities to reduce the unemployment and increase the number of entrepreneurs. Founders of start-ups, originated in universities, especially in the study period, can ultimately be benefited from the university-based and -linked communities. So, these types of start-ups should try to utilize these readily available network sources to attract external funding. The policymakers also can design some joint collaborative programs (such as business incubator) to assist these start-ups as well.

Third, team composition is a key factor for external funding. According to Unshackled Ventures (2017), a start-up can receive 20%-80% conviction mark from the investors for the team's credentials in the valuation of the start-up. We can see that the founding team of the company has an excellent cross-national composition for which they may get some credit. However, this study noticed, the team lacks in the prior experience and skills which may prove as a challenge to getting future funding. Start-ups should have a team comprising of diversified national backgrounds as well as skills to attract external funding (Beckman, Burton, and O'Reilly, 2007). If a start-up lacks in this, they can hire some experienced and well-connected personnel who may add value to the team and mobilize funds from external sources.

Fourth, while the company was continuously unable to attract external funding, they started an innovative approach to collect fund and to run the company, especially the day-to-day activities of the company. The company offered 'shares' to its employees instead of monthly salary and sold some other shares to their friends. These types of activities increase the motivations among the employees, as they become the owners of the enterprise. On the other hand, by selling the shares, the company also tried to diversify some risk as well. This type

of innovative internal funding approach, which is known as ‘bootstrapping’ in entrepreneurship (Winborg and Landström, 2001), is not uncommon among the start-ups. Harrison, Mason, Girling (2004) from a survey of software industry found that small firms are more likely to use and value cost-reducing bootstrapping techniques, whereas larger firms make more use of the exploitation of value-chain based relationships. We also observed in this study that case venture has used bootstrapping to minimize the operating costs of the company.

Fifth, this study also emphasizes the role of knowledge on country level regulations concerning external funding. We observed that case company approached crowdfunding without adequate preparation. While Finland does not allow such crowdfunding approach, especially the donation based funding, which was a default service on the Indiegogo crowdfunding platform, the founders thought that backers might not donate rather would be interested in buying the products. However, the outcome was opposite. The venture learned all these after going through a lot of burdens, and they undertook to return the donated amount to the backers. This study also found that the Finnish crowdfunding law does not allow rewards or donations based crowdfunding models. The rewards or donations based crowdfunding falls under consumer protection act, which is legal in Finland only with a special fundraising permit for a particular project. The law covers mostly the legislation applied to investment crowdfunding in Finland (Invesdor, 2016). Thus, the case company was not able to receive the campaign money from Indiegogo and had to stop the campaign. Therefore, the start-up must have searched all available information, rules and regulations, which might affect their fund-raising initiatives. Since these regulations vary from country to country and most countries yet to come up with concrete and clear legislations, particularly with respect to emerging alternative platforms such as crowdfunding, founders need to be very cautious while thinking to use such types of sources. So, in future, if any start-up company thinks about donation based crowdfunding in Finland, first they should check whether there are any changes in Finnish crowdfunding laws and then start the campaign.

Sixth, Internationalization brings some opportunity for the case company. Their strategic international move brings users from more than thirty countries to their platform. The company has chosen their strategic markets based on some specific criteria (explained in chapter 5). Their plan was to enter first in Russian Federation and some Asian countries

apart from Nordic countries. Their strategy is working, and the number of users is growing along with the varieties of contents. The start-up sees internationalization can bring financing opportunity to the company because as mentioned earlier Abu Dhabi based investment company twofour54 gave a condition that the start-up must have users from their region. Premature Internalisation also creates brand awareness among the users. This kind of early move is common among hi-tech and knowledge intensive firms (Cavusgil and Knight, 2015; Cannone and Ughetto, 2014). Many start-ups make an early move into the international competition due to the uniqueness of the company's capacity and the outlook. As per this internationalization theory, some companies have the gathered knowledge, skills or ability that allow the business to see the new opportunity or window in the market which others have overlooked. Academic literature on start-up identifies that these firms lack legitimacy due to their liability of newness and smallness that arise from their younger age and smaller size (Kale and Arditi, 1998.) If a start-up, especially in the social media, which heavily relies on its subscribers, can broaden its subscribers' base to other countries, it can earn legitimacy in the eye of the investors. Therefore, a strategic internationalization plan is vital for internationalization of a venture. In this specific area of internationalization, the Finnish Government can put more emphasis to help the star-ups to go global because social media business needs a big volume of subscribers or customers, which is limited in Finland.

Seventh, this research found that the case company tried to get start-up grant as a primary financial support from TE office. However, they were not able to receive the grant due to residence permit issue because the grant is available only to Finnish citizens, permanent residents and to continuous resident permit holders. This information can be useful for the new entrepreneurs that they should validate their residential status before contacting the TE office. The case company contacted South Karelia Regional Fund office but was not able to receive the fund due to the place of birth issue. A new start-up from this area could use this information to save the time during the funding process. This study also found that the company was unable to receive the fund from Tekes due to guarantee deposit. The Finnvera did not provide the loan to the start-up due to their limited earning during the first quarter of 2017. Finnvera found that investing in the start-up at this stage might be risky.

The case company was able to draw the attention of few VCs. However, the outcome was not in their favour, but they learned a lot about the VCs funding criteria. Those VCs have some common criteria for funding, for example, they mostly want to see the proof of the concept. The main reason behind not getting any fund was the lack of visibility of the revenue generating product or service or the business model that was working at the moment. It seems that sales, especially the first sales, is significant to prove that the business model is accepted by the customers. Two VCs, Butterfly Venture and Kisko Venture, emphasised on the first instance of photo buy and sell of the company. Though the start-up is in the process to launch the interactive mobile app for their service and they already have a user base in many countries, earning few revenues from advertisements, the VCs are emphasizing more on the visibility or the proof of the business model. All the VCs were interested about some product of the company, as those are new to the market; they appreciated the valuation methods used by the start-up as they used different methods in their valuation calculation. The VCs are keeping contact with the company to see the visibility of the products, which partially supports the statement of Hellmann and Puri (2000) as they found in their study that, entrepreneurs have high possibility to get funds from VC investors with their innovative product or process, rather than imitator firms. The case company is working to bring their concepts to the real life to receive the funding. It is the learning for the start-up that the VCs are not interested in non-verified products or services.

Most of these institutes identified the service and offering of the company as promising; however, they want the services are available to the customers, i.e. at least one single sale made by the enterprise. Among others, Kisko Venture and Butterfly Venture asked the founders to update them on the company's developments regularly. They mentioned that it takes several months for them to fund a start-up because the decision-making process takes longer sometimes. Therefore, there is no surprise if Kisko or Butterfly decides at some point in time to invest in the venture. The company could not bring donation raised from crowdfunding campaign due to the Finnish law. So, there are many learning experiences from the above cases which will help other start-ups in their fundraising process.

Conclusion

There are possibilities to receive external funding for start-ups in Finland, but those are limited by various conditions and confined to few players. For a novice company, most of the time it is difficult to meet those requirements due to a lack of guarantee or collateral and proof of concept and so on. This study found that the possibility to receive fund for growth companies is high compared to start-ups because the growth companies have proofs of the business model. In this situation, entrepreneurs need to think before they start the business on how to overcome this critical mass. This problem could be solved by the Government to come forward to minimize the terms and condition to demolish the barriers to early stage funding. The investors could also help to solve this by increasing their investment in novice businesses through increasing their monitoring power inside the firm and focusing more on the future prospect of the business rather than concentrating on the eligibility criteria.

This study also found that there are country-specific and situational challenges the entrepreneurs face in Finland. The most important challenge to be faced by start-ups in the digital platform is to showcase a visible and working business model which is very difficult to overcome by the entrepreneurs in this sector. This limit the possibility of getting funding from external sources such as venture capitalist, angels, or state-owned financing agencies. The VCs give much weight to the team composition. Having failed to attract external fund, the case company adopted some bootstrapping financing methods to run the company without any external funding. While the company once utilised crowdfunding platform to raise funding, later they found that government regulations inhibit accepting donation-based crowdfunding from the backers. This study further uncovers that the case company undertook early internationalisation to increase the user base and varieties of content which is essential for social media based photo sharing company. They also believe this approach will enable them to draw the attention of the investors.

The limitation of this study lies in the fact that the research was conducted on a single company. Therefore, it might not represent the full picture of Finnish start-ups' prospect and challenges in external funding. The study could include more start-ups from different industries as well as from different zonal areas. Including more start-ups from different industries and areas could strengthen the overall findings.

There are some opportunities available to conduct further research in this field by including more start-ups from different industries or all start-ups from the same industry and conduct industry specific research. There is also a possibility to include all start-ups from all industries for further research as well. Starts-ups culture is growing not only in Finland but also all over the world, especially in the Nordic area. This growing tendency of start-ups in various fields are giving birth to different types of funding mechanisms as well, which could be a good area also for research.

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Appendices

Appendix 1: Interview Protocol 1

Interview protocol 1

Sources of information on Funding in Finland

1. Interviewee information
 - Name
 - Position ...
2. Company Information
 - Company NameGlostars
 - Company Products / Services
 - Company Head Count (Number of employees)
 - Company Age: Year of starting
3. Sources of Information Leader/ Interviewee
4. Can you please tell me about your background?
 - Education
 - Previous employment/ Business/ Managerial experience...
 - Previous start-up Experience.....
 - Oversees study/ employment /living experience
5. Could you please tell me how Glostars Oy started the journey?
6. Could you explain the business model of the company? Is it a traditional one or new to the market?
7. What are the primary sources of information you have consulted with regard to the sources of start-up funding in Finland?
8. What types of information gathering approaches have you taken?

9. How reliable or effective were those sources of information?
10. What types of difficulties have you faced to gather information's to gather information on the sources of funding?
11. Have you received any support from any person, expert, consultant, institute to gather information on the sources of funding?
12. How fruitful were those supports for information gathering?

Appendix 2: Interview Protocol 2

Interview protocol 2

Sources of start-up Funding in Finland

1. Interviewee information
 - Name
 - Position
2. Can you please tell me about your background?
 - Education
 - Previous employment/ Business/ Managerial experience.....
 - Previous start-up Experience.....
 - Previous Fundraising Experience
 - Oversees study/ employment /living experience
3. What are the funding opportunities available in Finland?
4. How do you see local government institutes' supports for start-ups?
 - a. Have you received any support from those institutes, If yes, which ones?
 - b. Do you think these government institutes have any implicit or explicit eligibility criteria?
 - c. If so, could you please reflect some of those specific to social media start-ups.

5. Did you receive any other external support apart from state?
 - a. If yes, please give some detail.....
6. Did you attend any accelerator program?
 - a. If yes, which ones?
 - b. What was the outcomes?
7. Did you contact any angle investor?
 - a. If yes, who was that?
 - b. How do they evaluate a start-up company?
 - c. What was the outcome?
8. Did you approach any Venture Capitalist?
 - a. If yes, which one?
 - b. How VC evaluate start-up company's value?
 - c. What was the outcome?
9. Have you approached any overseas investor?
 - a. If yes, which ones?
 - b. How overseas investors evaluate start-ups company?
 - c. what was the outcome?
10. Have you done any crowdfunding campaign?
 - a. If yes, in which platform?
 - b. What was the outcome?
11. Have you tried any Equity Crowdfunding?
 - a. If yes, in which platform?
 - b. What was the outcome?
12. What is the current financing (capital structure) of the company? Who is the main financier currently in the company?
13. What are the sources of revenue available for the company? Are all the sources of revenue currently working?

14. What are the potential risks associated with future cash flows of the company?
15. What types of financing is your company currently focusing on? Internal or external?
- a. If internal, then what is the process?
 - b. If external, then which external sources of funding are you using?
 - c. How do you finance day-to-day activities?
 - d. How are you compensating your employees?

Appendix: 3 Interview Protocol 3

Interview protocol 3

Internationalization strategy and competition analysis

1. Interviewee information
 - Name
 - Position
2. Can you please tell me about your background?
 - Education
 - Previous employment/ Business/ Managerial experience.....
 - Previous start-up Experience
 - Oversees study/ employment /living experience
 - Previous Experience in the internationalization of a company/ product/ service
3. Are there any plans for go global?
 - If yes, is it the result of internal pressure or of external or both?
 - Are there any country preferences for first entry?
 - If yes, what are the reasons for such a choice?
 - Is there any specific benefit that can accrue from internationalizing glostars.com?
 - If yes, please give some detail.....

4. Are there any funding possibility through internationalization?

- If yes, please give some detail.....

5. Could you please tell me about your direct and indirect competitions in the industry? How your company is different from other competitors?

6. While you are considering going international how do you explain this shift from being a local player to become an international competitor? Please elaborate on this with special reference to financing.

Appendix: 4: Accelerators and Incubators and their focus area of investment.

Accelerators / Incubators vs All Industries				
No	Name	Focus areas	Amount of Investment	Web Address
1	Acceleraace	B2B software companies, especially with a focus on e-commerce and marketplaces.	Between € 20 000 to 50 000 per startup	http://www.vendep.com/
2	Arkwright X	Pivot5 invests in pre-entrepreneur, early seed and seed phase startups companies across media, mobile, data & analytics, IoT, commerce and education domains	invest both expertise (an initial sweat equity stake) and money (on each funding round), But the amount is not specified.	http://www.pivot5.vc
3	Avanto Ventures	Educational Products	up to €500 000	https://www.xedu.co/#about
4	Go Grow	Not limited to any specific industry	usually invest about NOK 2-300.000 for 10-20 % equity.	http://www.xr8.fund/
5	Green Tech Challenge	Energy and cleantech solutions for European entrepreneurs	Up to EUR 150.000 in funding for each startup	www.incense-accelerator.com
6	IMPACT	Primarily invest in early-stage tech startups working within the B2B space	Between 0.5MNOK - 1MNOK in pre-seed and seed phase.	https://arkwrightx.no/
7	INCENSE	Clean energy, offshore, technology and healthcare	Non-Financial investment ;Business plan validation to fund-raising advice and networking.	http://www.venturelab.no/
8	Medical Device Business Catalyst	Late stage startup working within IT, foodtech, cleantech, life sciences and medtech.	€50,000-€400,000	http://www.acceleraace.dk/
9	NewCo	Startups from all sectors and markets. startups in their early phases to reach international growth. But they don't include a company in any program till the company generate first sale.	Non-Monitory support	http://go-grow.dk/
10	Newentures	Almost all fields of any idea or prototype stage of start-up, but also if any company have more than 1M€ monthly revenue and CVC investments	Not specified	http://avantovertures.fi/
11	Nordic Mentor Network for Entreprene	Pre-commercialisation phases start-ups to developing a proof-of-concept and designing a prototype of the device in question.	Not specified mostly Non Financial investment	www.mdbc.dk
12	Pivot5	Exclusively sciences, pharmaceuticals and biotech for all stages of nordic life science entrepreneurs	Non-Financial investment ;Mentoring through network	http://www.acceleraace.dk/NOME
13	Spinno Enterprise Center	startups from all fields and from the Helsinki region	Non-financial support with a cost of 280-400 Euro/month	http://www.newcohelsinki.fi/en/grow/accelerator
14	Startup Bootcamp	communication, social networks, video, media & advertising, design, education, entertainment, e-commerce, peripheral devices, content, connected TV, infrastructure, security, productivity, finance, smart cities and social entrepreneurship based on Mobile Apps or mobility business model	Up to EUR 100.000 with non-financial support	www.impact-accelerator.com
15	Vendep Startup Accelerator	Startups in the Helsinki region in knowledge or technology based start-up	Non-financial investment with a cost of 100 euro for start-ups/month and 300euro/quarter	http://spinno.fi
16	Venturelab	Financial tech, digital health, smart cities, internet of things, connected devices, insurance tech, transportation and energy, e-commerce, and high tech hardware.	A combination Of non-financial investment and €15.000 in cash	http://startupbootcamp.org/
17	Vertical	Radical business innovations in the field of energy, clean and applied ICT services, global megatrends like urbanization and digitalization.	Non-Financial investment	http://www.newentures.com
18	xEdu	Improvement of environment and society related technology, or a business model. Those companies are looking to raise between 300.000 EUR – 3.000.000 EUR	Between DKK 2 and 21 million as a winner of the program.	http://greentechchallenge.eu
19	XLR8FUND	Healthcare, wellbeing, sports, but also machine production digitalization/ production processes digitalization, digital services and customer engagement, supply chain	Up to 150K€ with non-financial investment	http://www.vertical.vc