International Journal of Global Business and Competitiveness (JGBC)

Supplementary file of the Paper

Financial Entrepreneurial Ecosystems: An Analysis of Urban and Rural Regions of Norway

Tore Frimanslund

https://doi.org/10.1007/s42943-022-00050-2

Appendix

Table A1. Financial sources

Selected representative data
Financial sources: *When I say private equity, I mean both venture and buy-out capital. In this context, private equity is a collective name for other sources. I guess it is because we find it difficult to translate the English term to Norwegian. And private equity or private capital environments used to be kept from the public not too many years ago. In international environments, people talk about "fundraising". In Norway, we say "capital acquisition". People do not know what fundraising is, and what is an "exit"? It is a sale, right? And then we use the terms "entrepreneur", "seed" and "early-phase". For investors outside the environment, these terms cause confusion. […] I think we historically have talked about venture. Now it is moving towards buy-out, but we mostly refer to it as private equity. Further, when talking about the middle phase [in the life cycle], we might talk about growth capital. The differences between venture and growth, and growth and buy-out are far from clear. Head of Corporate Affairs, Argentum, Oslo.* *We see that Norway is the fastest growing system, and I believe something happened last year. First of all, we got the [governmental] pre-seed fund of MNOK 140. MNOK 60 was invested and was matched by MNOK 60 in private capital. Altogether, a considerable amount was invested, and only in early phase start-ups. So much entrepreneurial finance has never been available before. Special adviser at Innovation Norway, Oslo.* *Bank loans? No, that does not exist. We have no assets. CEO, Domos, Oslo.*

Primary data collection through interviews.

Table A2. Representative data of value-adding activities

Selected representative data
Growth and commercialisation competence. *Politicians cannot decide if it [high tech entrepreneurial growth] will happen in five years or so. They may aim to stimulate high-tech growth. Developing the best high-tech firms requires close cooperation between research institutions, entrepreneurs, professional investors and businesses. […] We need growth- and commercialisation-specific competencies, and you do not find that in the public sector. […] We need the competency that lies in the private business sector to develop the firms. Head of Corporate Affairs, Argentum, Oslo.*   *We consistently seek investors with the desired competency — more so than just the money. We have invited people with the desired competency to invest in us. That way we will have a useful network around us. CEO, Domos AS, Oslo.*   *It is by purpose we facilitate founder investments. We believe that is value-adding. […] If anyone knows how demanding it can be to raise early-phase investments – it is them. The reasons are that they can contribute more than just in financial terms, they more often make positive investment decisions and they increase the probability for additional recruitment to Startuplab. Partner, Startuplab, Oslo.*
Networks: *I believe that access to competency, investment capital and networks is easier in urban areas. I previously worked at a district office, and I observed that the investors in that area cooperated. They would call each other and ask "hey, do you want to join this project? It looks interesting". It is about establishing solid networks and horizontal syndication. Special adviser at Innovation Norway, Oslo.*
Reputation and legitimacy: *Finally, [serial entrepreneurs investing in the Founder's Fund] lend us their branding, so it increases the chance of attracting start-ups that are new to us. Many have tried similar methods before us, especially in the US. Partner, Startuplab, Oslo.*

Primary data collection through interviews.

Table A3. Cultural issues

Selected representative data
Commercial culture*:* *I think the dominating attitude in Sogn & Fjordane is a wish to create your own job. You have no ambitions of maximising firm development and growth before selling the company in five years and starting all over again. We do not often encounter such entrepreneurs here, but we see that our investors are looking for those. They do not look for entrepreneurs who only think about employment. The investor is looking for an entrance and an exit. I do not think our entrepreneurs are quite there. That also goes within these walls. The focus is often on creating jobs and supporting firms that aim to build something stable and long-term. Regional manager, IN, Leikanger.*   *There is a local patriotic dimension to firm formation. In my experience, the patriotism comes from the PSAs - that we finance local firm formation for the sake of firm formation. Then, there is the awareness concerning*

owning shares in a company. What does that mean? Many people have an idea that owning a share is a value in itself. They do not reflect upon the possibilities of making a profit, or that profit according to traditional financial theory is the main purpose of owning a share. The motivation is the ownership in itself, not the profit. If you ask me, in Oslo, the motives of ownership are mainly profit-oriented. Considerably more than in the rural areas. Here, people often do not think about what the ownership will yield. The most important thing is to own a share and to keep it in local hands. This could all be because of local patriotism, but it may also be due to a lack of knowledge about economic growth theory, or a lack of awareness about growth in general. Why do we have growth? Why do we have private ownership? That is fundamental economic knowledge. Investment manager, FI, Førde.
Regional protectionism: *Even though there might be capital available, the entrepreneur does not want to give away rights to his company. Should it work out then it is better to own 10% of something big than 100% of nothing. That acknowledgement tells us that we do not share enough. We wait and wait. It is actually quite common. They come to us, and we tell them that we support them if they will share ownership. Then the entrepreneur says he prefers to wait, because he is too protectionist about his control. There are a few dilemmas concerning that issue. There might be opportunities arising from being willing to share ideas and ownership, and they should include someone who has "been to school". Regional director, IN, Leikanger.* *There is a significant difference between rural and urban entrepreneurs. That is our experience. As an investor, co-ownership with an entrepreneur is given among entrepreneurs in Oslo, and for that matter Bergen as well. But is this region, suggesting co-ownership often turns out to be a deal-breaker. Several entrepreneurs have a desire to create something here in Sogn & Fjordane. Something lasting. In my experience there is often a local patriotic approach here. And when someone comes in and say they want to realise growth, with the requirement that the entrepreneur must be willing to sell the firm to someone bigger and stronger, it is often declined. For a few, it is even completely unacceptable or disqualifying. Investment manager, FI, Førde.*
Employment orientation: *Most rural public support agencies or policy makers want local firm formation. So, they go to Oslo, Bergen or Trondheim to find students they can bring back to the county. The students are encouraged to create firms, which are thought to turn into an industrial environment. That approach is not really compatible with selling the firm after 5-7 years. That is the fundamental question, whether the industry will be moved out of the region or, which makes it a short-sighted strategy without any lasting local social effects. From this perspective, engaging exit-oriented investors is irrational. […] Some entrepreneurs have the desire to build something local. Maybe a large local firm. In some cases, I believe the founders want it themselves, but in other cases, the expectations are set by external actors. Several regional support agencies or policymakers want the local firm formation. Investment manager, FI, Førde.* *Founders come to us because they will need an exceptional amount of growth capital over several years. This is risk capital they are unable to acquire elsewhere. Founders with international perspectives and big ambitions should be prepared to be watered out if they are to achieve their goals. They must be prepared to "share the cake" with professional investors. If the seed funds are to work with these firms, we will require an exit strategy already at the start of the investment interval. We should know which opportunities for exit will suit the company. It takes time to develop an enterprise. Likewise, it takes time to sell the firm at the optimal price. Therefore, the exit strategy must be ready in order to visualise the firm's potential at an early stage for potential investors. Seed fund manager, IN, Oslo*

Primary data collection through interviews.

Table A4. Agglomeration effects

Selected representative data
***Market and population size**: I do not think there is enough capital available. Not in our region. The seed funds invest mainly in companies located in their own proximity. We do not have the same financial environments as the cities. We have had funds exploring the possibilities of this county, but they ended up locating their operation in Stavanger [city dominated by the oil sector]. Regional director, IN, Leikanger.*
Business sector diversity: *Something happened in Norway when the market price of oil recently started to decline. Venture investments used to go into the oil and gas sector. Norway therefore had a decent part of the total Nordic VC-investments in both size and number of investments. The decrease in oil price led to substantial ongoing restructuring. As you know, we have spent everything we have of knowledge, competency and massive R&D resources in the oil sector. Therefore, we now have several interesting oil ventures and specialised funds. As the price decreases, we are not able to bridge the gap, meaning that investments do not automatically go to other sectors, because those sectors have been underdeveloped. They have not been prioritised. So now we see Denmark and Sweden surpassing Norway when it comes to the number of venture investments. Investments in various technologies and life science. We have been preoccupied with oil, and that is it. Head of Corporate Affairs, Argentum, Oslo.*   *Access to growth capital depends on the sector. I think an investor would prefer keeping to his own sector. Most likely fish, oil or gas. Those who make a fortune in one sector return to it. […] You will not find that there is a culture for growth if people do not understand your business idea. CEO, nLink AS.*   *I wish more of the individuals who made a profit from fish farms would get involved, but they tend to keep to their sector of expertise. Regional director, IN, Leikanger.*   *In Norway in the early 2000s, going into the oil and gas business was easier. They attracted most of the talents, and then the money followed. A snowball effect increased the recruitment so that entrepreneurs, investors and finance followed. Partner, Startuplab, Oslo.*

Primary data collection through interviews.

https://doi.org/10.1007/s42943-022-00050-2

Table A5. Representative data of macro-events and regulations

Selected representative data
Economic cycles and alternative investments: *I believe there are many reasons why the financial ecosystem has lagged behind. The system has been down for at least 15 years in many countries. Norway has had strong incentives for investing in property. It has been safer, and the prices have kept growing for as long as we can remember. I believe that by tradition, we lack investors who are less risk-averse. In times of financial crises, we lose some of it even more. On the other hand, I believe that it is getting better now. We still lack the proper incentives, competencies and traditions, but we are getting there. Special adviser at Innovation Norway, Oslo.* *In Norway in the early 2000s, going into the oil and gas business was easier. They attracted most of the talents, and then the money followed. A snowball effect increased the recruitment so that entrepreneurs, investors and finance followed. Partner, Startuplab, Oslo.* *We experience these waves. Our first company ended up in a dotcom phase. Before the dotcom, things were extremely difficult. Then, came two years of considerably better access to capital. People would throw money at you. That was in the year 2000. We are not there now, but the resources may have been accessible to other sectors. The oil and maritime sectors have taken much of the attention. Now, we can see that the sector is retiring, and it does not attract as much capital as before. CEO, Domos, Oslo.*
Taxations and bureaucracy: *The regulation for micro-financing is quite strict when it comes to marketing. And with lending and crowdfunding there is even more complexity. Regulations have been diffuse, and the reputational risk for DNB is high. The value of such platforms will solve several issues such as, for instance, efficiency in capital acquisition, but crowdfunding has not become mainstream yet. Not in Norway anyway. It takes much hard work to market crowdfunding. Finland is more progressive; they have developed regulations that are more customised for this context. In Norway, the law is simple. You need a banking concession. […] It is a little early for us to engage in equity crowdfunding, but we have ongoing assessments. The experience from banks in other countries is that they expose themselves to a high degree of reputational risk. We are after all talking about risk capital. Very few make it, and many people are going to lose their savings. Head of customer experience, DNB, Oslo.* *The financial supervisory authority of Norway is critical if we have inflated our balance with many unsecured start-up loans. That means red light. We would not be allowed to do so. But we are not all that categorical. We take some liberties. We try to support certain projects, but nothing big. Normally, that implies that the entrepreneur personally guarantees the loan. Corporate director, SSF, Førde.*

Primary data collection through interviews.

https://doi.org/10.1007/s42943-022-00050-2

Table A6. Representative data of ecosystems

Selected representative data
Recycling of internal resources: *[…] today, it is sufficient to start with one person who has made it, but for the next ones to start you need those who made it and re-invest their money. Having role models is important. Successful firms need visions, and it is difficult to create visions yourself. But there are other people who built visions and have proved that you can create a unicorn in Oslo. From there you need people who have been through it before to offer both time and competencies for the next start-ups to achieve their vision. Partner, Startuplab, Oslo.* *If you want to start something that is not innovative and not scalable, you are likely to struggle to get external capital because the returns will be limited. […] 40% of the Norwegian population lives in the area around Oslo, so it is expected that firms located here receive most of the investments. However, there are rural "islands" in the rest of the country where firms have high growth potential and international orientation. So, there is more than geography in play. Special adviser at Innovation Norway, Oslo* *We should have more people like the founders of the Founders' fund. Individuals who have been through successful rounds and reinvest their acquired wealth in start-ups. Then, they engage in knowledge sharing and coaching. The result is that they have created a small ecosystem around them. CEO, Domos, Oslo.* *It is dangerous to believe that politicians can create tomorrow's high-tech companies. Politicians cannot decide that it will happen in five years or so. They may aim to stimulate high-tech growth. Developing the best high-tech firms requires close cooperation between research institutions, entrepreneurs, professional investors and businesses. […] Private investment environments are vital parts of the ecosystem. You cannot have a self-sufficient ecosystem based only on government subsidies. A self-sustaining ecosystem has a strong interplay between private businesses and the government. The main point of business development is for new firms to stand on their own feet. Head of Corporate Affairs, Argentum, Oslo.* *The Norwegian ecosystem concerning finance is immature compared to Sweden and Finland. We know that Silicon Valley is a mature system. We see that Norway is one of the fastest-growing systems. Seed fund manager, IN, Oslo* *We moved to Sogndal and established Yast to develop a time registration app. From there, a robotics environment emerged. We started nLink in 2012. Those companies have generated several spin-offs […]. For those companies we were able to attract a specific investor environment. We then established Better Player in cooperation with the Western University of Applied Sciences and the Sogndal Soccer club. All four companies have been looking for external capital, and all four are located in rural areas. CEO, nLink AS, Sogndal.* *In the light of entrepreneurial ecosystems, the case of Startuplab is something of particular interest. The hub is an intermediary incubator, facilitator and investor. They manage a large number of office spaces and funds made up mainly of previously successful start-ups. […] About 80% of the money [in the Founders' Fund] comes from previous entrepreneurs. Partner, Startuplab, Oslo.*
Attract external resources: *We need to develop a more mature ecosystem. Most people invest in the sector where they have developed their expertise. Even a successful entrepreneur reinvests his money in technologies they are familiar with. […] The Norwegian ecosystem concerning finance is still immature compared to Sweden and Finland. Special adviser at Innovation Norway, Oslo.* *The general scepticism towards sell-outs by ambitious entrepreneurs is completely mistaken. Entrepreneurs who exit often start new ventures and become business angels. This explains how we can create a well-functioning ecosystem as well as a large number of jobs. The sceptics should take a look at the large sell-outs*

during the last five years. Most of these firms still have their main offices and business development in Norway, despite international ownership. So, is this a problem? On the contrary, it helps to import foreign competencies to Norway. My personal opinion is that many of those who are sceptical have politically charged agendas. I believe we should look up and see Norwegian value creation from a bigger perspective. What is unfortunate is the emigration of competency and jobs to countries we compete with. Seed fund manager, IN, Oslo.

If you have a good case, you will enter more environments in Oslo. The access to people depends on the quality of the case. It is an entrepreneurial skill to be where the investments happen. Being located in Oslo is easier if you get into those networks and the case is good. It has much to do with an urban location. By experience, it is better if you start somewhere in Oslo, where known personalities run the place. They share their networks and invite important and wealthy people on rounds. They also arrange events for the firms located there. We were invited when the owner of Ferd invited all of his rich friends, wealthy families, to meet start-ups. The friends then stated: "we now know where the good cases are". That does not happen in Sogndal. You can say what you want, but I think physical presence helps. CEO, nLink AS, Sogndal.

[The Office of the Auditor General in Norway] is mistaken when they expect the seed funds to make immediate profits. That is a result of how the [seed] programmes work. I am sure they know their way around NPV and IRR, but when it comes to the understanding of the entrepreneurial ecosystem, you need to have worked in it to understand. And that takes years. You might be able to see parts of it but not the ecosystem as a whole. Seed fund manager, IN, Oslo.

An ecosystem may contain smaller ecosystems. Many enjoy the interrelations with actors who are there to help you make it. Partner, Startuplab, Oslo.

Primary data collection through interviews.