

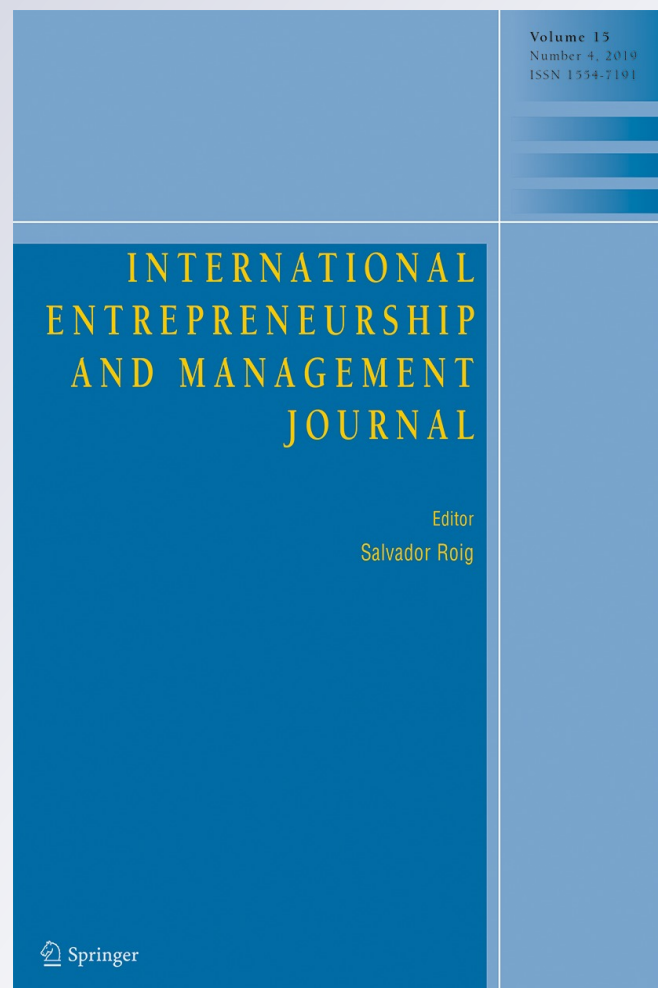
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Keys to success in investment rounds by immigrant entrepreneurs in Silicon Valley

Rosa M. Yagüe-Perales¹ · Pau Perez-Ledo² · Isidre March-Chordà³

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Abstract

This study presents an updated diagnosis of the SV ecosystem itself and offers an insight into the entrepreneurial mobility trends prospects and expectations of the growing number of start-ups launched by immigrant entrepreneurs arriving in SV. The purpose is to determine and rank the attributes most valued by investors when assessing projects and start-ups founded by immigrant entrepreneurs. The model of analysis composed by three hypotheses leads to a series of findings about the profile and expectations of the immigrant entrepreneurs, and reveals remarkable hints and key targets to be met by immigrant entrepreneurs in SV in order to successfully close investment rounds in a hypercompetitive environment. The study discloses the low impact of the founder's profile as a driver of external investment. A key conclusion states that Venture Capitalists and Business Angels in the top-ranked entrepreneurial ecosystem are primarily led by factors linked to the competitive environment and the product development process, along with the traditional performance indicators: revenue and profitability.

Keywords Investment · Immigrants · Entrepreneurs · Silicon Valley · Success

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Introduction

California's Silicon Valley (SV) ecosystem is a unique and inimitable technological and entrepreneurial hub, which hosts the world's largest concentration of venture capitalists (VCs). The unquestionable success of SV stems from entrepreneurs who have taken aggressive professional and technical risks to create successful companies. Its dense industrial networks, knowledge intensity, the community dynamics across business, government and other sectors, high-quality labour and access to venture capital (VC), encourage entrepreneurship and experimentation (Saxenian 1994; Miller 1999). In short, Silicon Valley has it all: technology, money, talent, a critical mass of ventures, and a culture that inspires collaborative innovation and tolerates failure (Isenberg 2008).

Several studies attempt to identify the key aspects underlying Silicon Valley's overwhelming success. Miller (1999) proposes, among other factors, knowledge intensity, the high quality work force, the community dynamics across business, government, and other sectors, and the presence of VCs who understand technology. Bolton and Thompson (2000) highlight four key elements in the Silicon Valley story; the entrepreneurs themselves, the support mechanisms, the infrastructure, and the extensive business opportunities.

The institutional environment is a key determinant of entrepreneurial activity in an economy (Bruton et al. 2010). The less there are of regulations, bureaucracy, rules, and laws that inhibit individual behaviour and company creation, the greater will be the birth of new ventures with high-growth potential (Veciana and Urbano 2008).

Stenholm et al. (2013) refer to the concept of high-impact entrepreneurship, a term initially introduced by Acs (2010) to describe entrepreneurs inclined to pursue growth and innovation; these largely prevail in the SV environment. What really matters most for high-impact entrepreneurship is an institutional environment filled with new opportunities, created by knowledge spillovers, and broad availability of capital. This study will focus exclusively on high-impact entrepreneurial new ventures (HIENV), those firms founded by so-called high-impact entrepreneurs who seek accelerated growth. The conditions that foster growth in this category of firms, overwhelming in number in Silicon Valley, remain relatively understudied (Bowen and De Clercq 2008). Also worthy of note is the interest in the impact of venture capitalist investments on company growth (Bertoni et al. 2011). The HIENV emerges as a specific sub-category of new ventures still poorly studied compared to the literature broad coverage to NTBFs and start-ups. The businesses that educated immigrants start are often high growth in nature, not limited to ethnic markets and are geared towards satisfying needs of the broader clientele (Ndofor and Priem 2011). The significance of the HIENV modality of new venture across immigrant entrepreneurs seems undeniable in SV but, what do we know about these firms, apart from their distinctive willingness to grow? This study attempts to answer this question by providing new evidence about the profile of this modality of firms, especially those founded by foreign-born entrepreneurs.

Investors in medium-level entrepreneurial ecosystems are used to deal primarily with local entrepreneurs. However, top hubs like Silicon Valley, New York, Boston, London or Tel Aviv (Startup Genome 2019) are receiving a significant and growing number of foreign-born entrepreneurs appealed by the broader availability of funding opportunities. Most studies addressing the investors-entrepreneurs relationship concentrate on the new venture features, with priority towards the business model, the value

proposition and the growth prospects. However, apart from these aspects, the traits linked to a specific entrepreneurs' geographical origin, largely overlooked so far, should receive more attention due to the growing market share the immigrants represent within the new ventures seeking Business Angels or Venture capitalists. Therefore, there is a need on the side of the investors to handle more precise information about the profile and expectations of the foreign-born entrepreneurs in order to better assess the prospects of their new ventures. And on the side of the immigrant entrepreneurs, they are eager to discover the components, either linked to the new venture or to the personal profile, most appreciated by investors. The gap between investors and immigrant entrepreneur has been remarked by the literature but this study attempts to go beyond and reveal how this gap can be bridged.

In summary, this study is intended to yield new evidence on the relationship between the immigrant entrepreneurs founders of HIEV in top entrepreneurial hubs as it is SV, and the funding agents, mainly Business Angels and Venture Capitalists. The broad coverage by the literature to the transnational entrepreneur is primarily restricted to personality traits, family ties or benefits attached to the social capital (Bird and Wennberg 2016). Little is known about the specific difficulties they encounter, compared to the home entrepreneurs, when dealing with funding agents. Consequently, the question: Why most immigrant entrepreneurs face more difficulties and obstacles to find investors, than the home entrepreneurs, remains unsolved.

Our findings will add and make a contribution to the still limited literature on the relationships between immigrant or ethnic entrepreneurs and investors (Bengtsson and Hsu 2015; Bird and Wennberg 2016), almost neglected by the extant literature.

The interaction between territory and innovation has been analysed from several perspectives.

The innovation systems approach (Lundvall 1992) argues that the possibility of a start-up continuing to exist and grow is largely rooted in the conditions prevailing in its own regional system. The socio-economic conditions are essential for the development of innovations (Rodríguez-Pose and Crescenzi 2008), which is the central task for most start-ups firms. In this line, Saxenian (1994) used the concept of "regional advantage" in explaining that Silicon Valley has a regional network that promotes collective learning and flexible adjustment among specialist producers of complex technologies.

Most research into innovation regional systems focuses on the analysis of successful case studies (Saxenian 2006), with Silicon Valley, the object of our study, the most usual reference.

The international mobility of entrepreneurs is a growing phenomenon, with most going to top technological ecosystems. While some other remarkable hubs are catching up, Silicon Valley is still the worldwide leading entrepreneurial ecosystem and the final destination for thousands of immigrant entrepreneurs from all over the world. The powerful attractiveness of SV, totally undisputed since the end of the 80s, is not yet at risk despite the high cost of living and the difficulty of recruiting talent, the impetus coming from the biggest companies. The preference of the talented to work for big companies might be hampering the innovativeness of the whole ecosystem and future technological diversity.

Silicon Valley's attractiveness for foreign entrepreneurs is based on their hopes of finding investors for their start-ups. The odds of success are higher in an area with around 35% of the world's venture capital oriented to new ventures.

Based on this observation, the basic goal of this study is to identify the main factors that drive investment in start-ups founded by foreign entrepreneurs located in an especially conducive geographical environment, Silicon Valley. The purpose is to determine and rank the attributes most valued by investors when assessing projects and start-ups founded by immigrant entrepreneurs. To fulfil this goal, a broad empirical analysis was conducted with a sample of foreign entrepreneurs in Silicon Valley, all of them coming from Spain.

Two main contributions are envisaged. First, to explain the prospects and expectations of a growing ethnicity of foreign entrepreneurs i.e. Spanish, in Silicon Valley. Second, to identify the key factors that founders from these ethnic origin should prioritize to increase their chance of attracting external investor funding in SV. Most likely, some of these factors will also be valid for most foreign entrepreneurs.

Hopefully, this paper contributes to the emerging literature on the mobility of foreign-born entrepreneurs in the US high-tech sector by addressing the following research questions:

- Which features of the profiles of the immigrant entrepreneur start-up founding teams are most attractive to Silicon Valley VCs?
- Which factors related to the product, market, and business models are relevant for foreign entrepreneurs in SV who want to attract external investors?
- What is the track record of start-ups founded by Spanish entrepreneurs in SV since 2011 to date?

To address these questions, we conducted an empirical analysis of 54 firms founded by Spanish entrepreneurs in the Bay Area of San Francisco, which embraces Silicon Valley. We deliberately focus exclusively on start-ups founded or co-founded by entrepreneurs, some of them highly successful, who are immigrants from Spain.

The remainder of the paper is structured as follows. In the next section, we give some descriptive statistics about Silicon Valley, the top-ranked entrepreneurial hub worldwide. In “[Start-up performance indicators](#)” Section , we review the key literature about foreign entrepreneurs and measures of high-tech firm performance, as the theoretical basis for the hypotheses development. Next, we describe the sample of firms and provide the study model. We also depict our methodology and estimation techniques. “[Results](#)” Section provides the main results and the tests of the hypotheses. In the final section we discuss the results and findings, acknowledge the study limitations and present several managerial and policy implications.

Transnational enterprises and immigrant entrepreneurs in Silicon Valley

Transnational entrepreneurs

Transnational enterprises are typically defined in the literature as any business founded by foreign immigrants which combines components and resources located in different countries and the transmigration of the owners in order to operate it. Those companies are socially embedded in both their home and host countries (Wong and Ng 2002;

Sequeira et al. 2009). Some authors follow a more flexible interpretation to also include immigrant entrepreneurs engaged in occasional transnational activities in search for connections and networks of interest for their businesses (Levitt 2001; Rusinovic 2008).

Immigrants play an important and growing role as founders of new business ventures, especially those skilled individuals who use their educational, experiential and transnational capital to start firms in technology-driven sectors. Rather than considering entrepreneurship an alternative to wage employment, they often voluntarily leave their jobs and countries to start high-growth ventures by identifying, creating and exploiting opportunities new ventures (Ndofor and Priem 2011).

According to the review by Dheer (2018), immigrant entrepreneurship research has examined issues about the nature of entrepreneurial opportunities, enterprising individuals, environment and modes of organizing with reference to immigrant-owned businesses. The literature also distinguishes between ethnic entrepreneur, immigrant entrepreneur, transnational entrepreneur and returnee entrepreneur.

Transnational entrepreneurship refers to activities that are carried out in a cross-national context, and are initiated by actors who are embedded in at least two different social and economic territories (Drori et al. 2009). Transnational entrepreneurs, unlike immigrant and ethnic entrepreneurs, are active participants and manage social and economic relations in two or more nations (Schiller et al. 1995; Light 2010). They differ from immigrant entrepreneurship, which primarily benefits the host society (Hart and Acs 2011) and ethnic entrepreneurship, which mainly benefits the ethnic community (Borjas 2000) and tends to start and manage business tied to a common cultural heritage (Zhou 2004). Returnee entrepreneurship refers to migrants who, after living abroad for a period of time return back and start ventures in their home nation (Wright et al. 2008).

The social capital, viewed as the sum of resources that an individual is able to draw on accrued by immigrant entrepreneurs (Bourdieu 1986), is also of great value for transnational firms to enhance their chances to raise new investment either at home or in the host destination.

Transnational enterprises potentially benefit from a privileged access to an extended range of social capital that will open the door to various transnational forms of capital, including economic capital, cultural/human capital and social capital and networks (Rusinovic 2008). Business opportunities for transnational entrepreneurship strongly depend on the entrepreneur's international mobility, cross-national connectivity and the resourcefulness of transnational spaces (Dheer 2018).

Transnational entrepreneurs in Silicon Valley

Transnational entrepreneurs represent a large proportion of Silicon Valley, resulting from a long-lasting ethnic entrepreneurs migration since the early stages of the formation of the technological hub.

In her study of technologically skilled immigrants in Silicon Valley, Saxenian (2002) found that despite exceptional skills, they were more likely to hold professional rather than managerial position as employees. Moreover, the businesses that educated immigrants start are often high growth in nature, not limited to ethnic markets and are geared towards satisfying needs of the broader clientele (Ndofor and Priem 2011).

Saxenian compared several ethnic groups of entrepreneurs in Silicon Valley, and argued that the rapid growth of the Indian and Chinese (IC) communities is primarily due to them having their own SV-based networks and their own international network (Saxenian 1999), hence becoming the immigrant entrepreneurs community with the broadest number of transnational enterprises. Some years later, Saxenian (2002) conducted a survey of immigrant engineers and scientists living in Silicon Valley. Their findings were that 82% of Chinese and Indian immigrants working in the STEM sector (Science, Technology, Engineering, and Maths) admitted to exchanging technical information with their respective native countries. Approximately 50% of them were involved in support and assistance activities to fellow countrymen and women who were willing to start businesses and commercial exchanges with the United States (Kerr 2013). As remarked by Bagwell (2015), transnational networks like these in SV can be seen as an enhanced form of social capital potentially providing ethnic minority entrepreneurs with access to a flow of resources, new market opportunities and business ideas.

Interest is growing in learning more about the patterns of skilled labour (Cenci 2018). The literature on the diaspora of ethnic immigrant entrepreneurship widely acknowledges that ethnic social networks play an important role in business start-up success, by providing access to market information, credit, and co-ethnic labour (Saxenian 2006; Drori et al. 2009).

The motivation pattern followed by the immigrants arriving at Silicon Valley is basically technological and innovation-driven. This profile differs from the ethnic entrepreneurialism migrating to Western nations in search for opportunities for flexible and small-scale business start-ups (Jones et al. 2000; Ley 2006).

More recently, the academic and political interest in the role played by immigrants in entrepreneurial activities in the USA (Alarcón 1999; Portes et al. 2002; Saxenian 2006), and in engineering and science-based start-ups, (Kerr 2013) has increased significantly. In addition, a broader and more precise knowledge of the ethnic and gender data is useful to better understand the role of diversity in entrepreneurial teams and in corporative management (Kenney and Patton 2015).

When referring to regional systems of innovation, the financial perspective expects different financial habits of the firms depending on their location at home or elsewhere. Firms settled in their home countries habitually access external finance in national or regional contexts, whereas those located elsewhere tend to invest mostly from retained profits or even from relatively informal sources based on private collateral (Cooke et al. 1998). This study will contribute to the discussion about the chances by immigrant entrepreneurs to receive funding in environments with abundant and also very competitive capital, as it is the case of SV.

Certainly, Silicon Valley is a powerful, inspirational model for most entrepreneurial communities and ecosystems, and as the leading gravitational hub is able to attract thousands of entrepreneurs, with outstanding technical skills and talent, from all over the world. As such, over 50% of all the start-ups located in SV were founded by immigrant entrepreneurs and more than 70% of the engineers working in the region are immigrants (Compass 2016).

Despite its apparently open nature, Silicon Valley's network-based industrial system creates important barriers to immigrant entrepreneurs aiming to start businesses there. No doubt, entrepreneurs and highly qualified workers from abroad find it hard to settle

in SV due to the extremely high cost of living, the shortage of working space at affordable rates, and the strong competition between the companies to attract talent. Financial capital's paucity is especially problematic for immigrants who intend to start high growth ventures (Ram et al. 2008; Bengtsson and Hsu 2015).

Although this problem is widely acknowledged in SV, little is known about the factors underlying the difficulties encountered by most immigrant entrepreneur to gain access and convince investors. The existing research is limited to recognize the problem with little efforts addressed to discover the causes, the effects and consequences of these "funding difficulties" in immigrant entrepreneurs. This study will try to address this gap through a deep empirical fieldwork.

Spanish entrepreneurs view themselves as deeply disadvantaged compared to local entrepreneurs. In addition to the general obstacles any immigrant entrepreneur has to face, the Spaniards say that they have specific limitations linked to their difficulties to understand and embrace key values and attitudes in the SV environment. Investors and other key actors are more stringent towards foreign-born than local entrepreneurs, who can benefit from strong ties to the top, most valuable networks. Consequently, it is important to analyse the probability of immigrant entrepreneurs achieving external funding in SV.

Start-up performance indicators

Venture capital

The prosperity of Silicon Valley is largely rooted on the considerable amounts of Venture Capital (VC) available there (Samila and Sorenson 2011).

Certainly, SV is built around the broad availability of capital investment by VCs and Business Angels. From the three forms of capital noted by Cederberg and Villares-Varela (2019), investors in SV are largely biased towards the economic form of capital, leaving in a second role the other two forms, social and cultural capital. Although the social networks from the home country can be sufficient for the launch of the company and first stages, the attraction of external professional investors from the SV ecosystem becomes practically compulsory to go through the scale up phases.

The presence of VC funding is undoubtedly a key indicator of the prospects, and expectations, of most high-tech companies. In SV, this indicator is by far the most pursued by entrepreneurs, especially by the foreigners.

Despite the abundance of VCs in SV, the match between the start-up and potential investors is not straightforward. Certain aligned perceptions need to be fulfilled as a precondition for efficient matching in the market for VC finance (Bengtsson and Hsu 2015; Polzin et al. 2018).

In principle, those firms that succeed in attracting external investors are more likely to survive and grow. The literature tends to validate the direct impact of VC on innovation (Geronikolaou and Papachristou 2012; Faria and Barbosa 2014) and new business creation (De Clercq et al. 2013; Bocken 2015).

Few studies rely on longitudinal data sets. In Spain, Alemany and Marti (2005) support the proposition that the presence of both a VC investor in a firm's equity capital and the cumulative amount of VC finance obtained, over time, result in greater firm size.

The essential role played by VC in fostering the growth of high-tech start-ups seems undeniable. In addition, after obtaining VC, access to other external resources and capabilities becomes easier, especially in terms of commercial alliances and agreements (Colombo et al. 2006). The availability of financial resources also positively affects high-growth orientation among entrepreneurs (Bowen and De Clercq 2008), present in almost all new ventures in SV.

In the context of start-ups, firms that attract Venture Capitalist investment tend to surpass the others in most performance indicators (Gompers and Lerner 2001; Dennis, 2004), particularly in terms of employment (Bertoni et al. 2011). Prestigious Venture Capital funds provide extra credibility in the marketplace to their participating firms and make them more attractive to other investors. Also, VC funding seems to ensure easier and more straightforward access to valuable skills and resources (Colombo et al. 2006; Hsu 2006). Notwithstanding, agreement on the connection between VCs and growth is not unanimous (Bottazzi and Da Rin 2002). The relationship between VCs and entrepreneurs is not always idyllic, due to divergences in goals and strategies that can lead to conflicts with long-lasting negative consequences.

Davila et al. (2003), based on a broad study of 494 SV start-ups, concluded that the quality, reputation, and credibility of start-ups is enhanced when a VC investment round is fulfilled. However, growth in number of employees does not operate as a valid predictor of the attractiveness for near-term VC investment, as VCs prefer to prioritize other criteria.

According to Gu et al. (2018) VC are believed to influence entrepreneurship through three basic manifestations: first, through capital support, second by providing management experience and third by generating an atmosphere more conducive to new ventures generation.

In conclusion, and in accordance with most findings and conclusions in the literature, this study assumes that receiving sufficient investment from a venture capitalist improves the expectations and growth prospects of start-ups.

Most entrepreneurs setting up new ventures in SV share the view that closing at least an A round of investment (\$1–5 million) and, better, a B round (over \$5 million), is the main success indicator. Specifically, to put their firms on the route to success in the Californian adventure, most Spanish entrepreneurs in SV fix their minimum threshold at US\$1 million in an A round. For almost all of them, this amount is viewed as sufficient to fuel their growth and profitability prospects and, most importantly, their sense of goal accomplishment.

In line with these arguments and the study goals, the amount of investment raised from external investors, mainly VCs, stands out as the key variable of our analytical model.

Growth and performance

Growth is broadly recognized as a valid and widespread measure of performance (Eisenhardt and Schoonhoven 1990), which holds for start-ups.

The literature about the specific determinants of growth in start-up firms is still limited and recent. The few studies available typically refer to ‘New Technology-Based Firm’ (NTBF), which covers a large proportion of innovative and technology-based start-up firms.

Czarnitzki and Delanote (2013) use the term “Young Innovative Companies” (YICs) to refer to high-growth start-ups. Ganotakis (2012) also sees in NTBFs the potential to achieve high rates of growth in terms of employment, sales, and exports.

The literature tends to support a positive relationship between a firm’s innovation capability and corporate growth (Jang 2012). Assuming that innovation is a key and distinctive component in most start-up firms, we deduce that innovative companies have higher growth possibilities, especially in a top, leading ecosystem like Silicon Valley.

Whereas the direct linkage between NTBFs and faster growth seems straightforward, the relationship with profitability remains unclear (Börjesson and Löfsten 2012; Whörl et al. 2009). In most NTBFs, profitability levels have not yet stabilized due to the youth of the companies and the emerging nature of their industries. Maine et al. (2010) prefer to use income growth rather than profitability, arguing that profitability is rarely present or observable when an industry is at an early stage of its life cycle. In addition, NTBFs are typically endowed with intangible assets that fall outside normal accounting-based performance measures.

In some cases, even the attempt to measure profitability is a tough task. Notwithstanding, and despite the doubts surrounding profitability in start-ups, it is still a key variable for the prospects of any company. Accordingly, this variable is typically included in most studies about company performance, including studies into start-ups.

From these arguments we derive our first hypothesis, concerning performance indicators.

Hypothesis 1: Start-ups founded by immigrant entrepreneurs of Spanish origin in SV able to more easily attract investment rounds over \$1 million, are those expected to:

- display high or very high growth in revenue in the recent past
- stay in profit (attain positive profitability rates)

Company, market, and business model

Truly innovative ventures serving unattended niches and those creating new needs in emerging markets are most preferred by VCs. These firms usually request longer development processes, reason why most VCs also include R&D activities and the depth and length of the development process as worthy variables determining their investment decisions.

VCs prefer start-ups able to rapidly enter fast-growing worldwide markets, but starting in the US. Hence, the ability first to succeed and expand in the US market is viewed as a reliable indicator of a company’s prospects of penetrating other markets.

The business model selected by new ventures is also a crucial component for VCs. Start-up business models are usually divided into two broad groups: Business-to-Business (B2B) and Business-to-Consumer (B2C).

The B2C model was typically preferred by SV investors until 2013–14, when a significant number of start-ups, largely overinvested, began to fail, which raised the alarm about the risks attached to new ventures based solely on traffic, rather than on revenues and paying customers. The interest in the B2B model has since risen.

Due to the scepticism about B2C being so recent, there is little empirical evidence about significant differences between B2B and B2C in terms of performance, expectations, and prospects. Lilien (2016) identifies several opportunities in the B2B model, including a need for greater sophistication in marketing and the more global nature of B2B markets.

Investors in SV are afraid of frontal competition between start-ups, which they view as a battle with only one winner. Instead, VCs give new ventures competing against large competitors more chances to survive and prosper, as they are more innovative, agile, and market-oriented than large corporations, which typically are slow and reactive.

Investors overwhelmingly prefer emerging technologies within the ICT and digital macro-sector to other high tech industries. Artificial Intelligence, Big data, and blockchain are the top ranked and most attractive sectors, as they are believed to have the highest market growth potential in the next years.

From these arguments we derive our next hypothesis, related to the companies themselves and the markets attended by their products.

Hypothesis 2: Investment rounds over \$1 million will be more easily achieved by start-ups founded by immigrant entrepreneurs of Spanish origin in SV:

- involved in the ICT core sector
- who are targeting an unattended niche as the main reason for launching
- with a B2B business model
- with a long product development process
- in markets with high or very high growth
- with over 80% of their sales in the US market
- offering products easily scalable to other markets
- with large corporations as their main competitors

Founders' experience and background

The literature generally accepts that prior firm-founding experience has a positive influence on company performance (Dyke et al. 1992; Gimeno et al. 1997), although some empirical studies do not yield consistent results (Davidsson and Honig 2003).

Prior start-up experience is regarded as a significant component of human capital in the entrepreneurship literature (Davidsson and Honig 2003; Gimeno et al. 1997; Sarasvathy 2001; Ucbasaran et al. 2008), and helps to establish a track record and a reputation. Prior experience can ease access to tangible resources, such capital and labour, as well as intangible resources in the form of social capital and relationships (Shane and Khurana 2003).

Experienced entrepreneurs are likely to accumulate knowledge about customers and suppliers and to develop a wider network of contacts (Sarasvathy et al. 2013). Entrepreneurs with prior founding experience are in a better negotiation position over valuation since they are more likely to have learned from previous companies (Hsu 2007).

These factors allow individuals to better calibrate new business opportunities. They are also expected to know better than others how to attract finance for their projects.

In conclusion, previous experience as an entrepreneur gives the individual a set of skills, resources, and knowledge that improves his/her chances to convince and raise funds from external investors.

Basu and Virick (2015) investigated the relationship between start-up experience, social capital, and business growth in a sample of 78 Indian immigrant entrepreneurs, founders of start-ups in the San Francisco Bay area, and concluded that active participation in a network over a length of time was positively related to new venture growth. They also advise investments in entrepreneurs who have greater start-up experience and participate actively in diasporic networks. VCs seeking start-up investments tend to be more attracted by very young, but relatively large firms, and by firms whose founders with management, educational, and professional experience (Bertoni et al. 2011; Colombo and Grilli 2010; Puri and Zarutskie 2008). In this line, and according to the study by Bengtsson and Hsu (2015), the ethnic ties increase the likelihood that the company and the VC firm form a match and are associated with VC firms investing earlier, more and using more favorable-to-the-entrepreneur pricing/terms.

To choose the right market segments is crucial. Jones et al. (2000) convey that, in order to succeed, immigrant entrepreneurs need a break-out into non-ethnic and non-local markets in growth sectors of the economy, a conclusion largely applicable to an environment like Silicon Valley.

A sound leadership is essential for the growth of entrepreneurial ventures (Ensley et al. 2006; Felin et al. 2012). In fact, the knowledge and the experience of the founding team have been shown to have a huge influence on the prospects of new ventures, especially with respect to the recognition of opportunities. Prior knowledge of the field enhances the probability of identifying good market opportunities (Gruber et al. 2008).

Motivation and intention to grow are also typically connected with growth prospects in new ventures. Growth-oriented entrepreneurs tend to be more attached to financial success (Douglas 2013) and more connected with the perceived desirability of the individuals, referred to entrepreneurial self-efficacy or perception of feeling capable of successfully performing the various roles and tasks of entrepreneurship (Chen et al. 1998). Self-efficacy and challenging goal-setting are also considered strong predictors of growth orientation (Douglas 2013) and the long-term growth of new ventures (Baum and Bird 2010).

We expect that firms with higher growth prospects will be founded by strategic entrepreneurs, those combining entrepreneurial behaviours and strategic action, who will develop new products and penetrate new markets, which will lead to competitive advantage (Ireland et al. 2003; Agarwal et al. 2007). In conclusion, the literature argues that the prospects and expectations of start-ups depend, to a certain extent, on the founders' abilities, backgrounds, and on their previous experience as entrepreneurs.

From this review we derive our next hypothesis, related to the founders' profiles and the company's employees.

Hypothesis 3: Start-ups founded by immigrant entrepreneurs of Spanish origin in SV with more chance of capturing investment rounds over \$1 million are those whose:

- founders had a good knowledge of the US market when the company started
- founders combine both management and scientific-technological academic backgrounds
- founders have previous experience as entrepreneurs
- founders are older
- recruitment strategy is more oriented towards hiring experienced professionals, rather than recent graduates
- number of employees in the US is high
- company is recently founded
- main founder is male

Model

Data

The study methodology is entirely empirical, and involved qualitative interviews with a representative sample of start-ups of Spanish origin (founded or co-founded by Spanish entrepreneurs) located in the SV. These in-depth, face-to-face interviews with the founder and top manager of each company took place in the last quarter of 2014 with a follow-up in 2015. To ensure the longitudinal nature of the study, the surveyed firms were contacted again by December 2018 in order to update their main economic indicators, especially in reference to investment rounds.

The semi-structured interview consisted of three parts. First, questions about the general characteristics of the firm and the role and profile of the founding team. Second, we focused on the company's products, customers, and business model. The third part covered the firm's financing, as well as some typical performance indicators, including profitability and revenue. The interviews lasted 1 hour, on average.

The final survey is composed of 54 start-up companies, based in the Bay Area of San Francisco, and founded or co-founded (as main founder) by Spanish entrepreneurs. They represent more than half of the total population of start-ups of Spanish origin located in the Bay Area. Consequently, the results and findings of this study can be easily extended to the whole set of companies of Spanish origin operating in this top entrepreneurial ecosystem; hopefully, the results can provide valuable guidance for future Spanish entrepreneurs willing to move to SV and for immigrant entrepreneurs, in general, with pretensions to set up in this territory.

Our dataset has several strengths. First, broad coverage: Our sample covers more than half of the overall population of start-ups in the Bay Area with Spanish founders, accounting for around 100 firms. Hence, our results and findings will be representative of the whole population and extendable to future entrepreneurs willing to set up business in SV.

Second, our database was obtained at first hand through in-depth personal interviews with the founders of the new ventures. In addition, the dataset only includes firms ready to undergo accelerated growth and eager to attract the interest of VC investors to close investment rounds.

Model

An analytical model and a set of related hypotheses, previously stated, is presented in this section. The model's dependent variable is "Rounds of investments over 1 million \$ closed".

As stated in the literature review, the difficulty of measuring a start-up's performance with traditional indicators, namely revenue and profitability, makes the closing of investment rounds the preferred performance indicator in almost all SV start-ups. Spanish entrepreneurs located in SV have huge interest in attracting investment from external investors, mainly VCs and Business Angels. Accordingly, in our model this variable takes two possible values:

- 0: No external investors, or just "seed capital" of less than \$1 million: 36 start-ups in our survey.
- 1: Firms with A or B rounds, of over \$1 million: 18 start-ups in our survey.

The independent variables used in the analysis are listed in Table 1.

Figure 1 illustrates the analytical model with the three hypotheses.

Results

Descriptive results

The descriptive data about the founder's profiles, the firms economic performance and their products, customers and market, are displayed in Table 2.

Most of the firms in the survey are legally constituted as US companies as a requirement imposed by current or potential US investors, as this allows for smoother access to the US market. As a result, only nine firms maintain their headquarters in Spain.

As far as age is concerned, most of the surveyed companies were founded between 2011 and 2012, although the proportion of firms more recently founded, in 2013 and 2014, is also significant.

Regarding their activities, the vast majority (35 firms) belong to the digital sector, led by online technologies, platforms, and apps.

With regard to size, the average number of employees in the US is 11.85, and half have less than 4.5, leaving the Median in the value 4. The founder's average age is 36.74 years, in line with the SV average (Compass 2016).

Most of entrepreneurs had a very limited knowledge of the US market when their company was set up, compared to a broad mastery of their home market.

A large proportion of founders could be considered as serial entrepreneurs, with notable records as promoters of previous firms, mainly in Spain.

Table 1 Independent variables

BLOCK 1: COMPANY and PRODUCT/SERVICE	BLOCK 2: FOUNDER's profile and EMPLOYEES	BLOCK 3: PERFORMANCE and PROSPECTS
SECTOR: Activity	USAY: Foundation year in USA	REVEVOL: Revenues evolution in the last years
REASON: Main reason to start the company	KNOWUSA: Knowledge of the USA market at the start	PROFITAB: profits / losses in the last years
BMODEL: Main Business model	ACADBACK: Academic background of founding team	
DEVELOP: length of the product development process	USEMPLOY: Number of employees in USA	
MSCALAB: Market scalability	EXPERIENCE: Previous experience as entrepreneur	
USAS: % Sales in USA	RECRUIT: Recruitment strategy	
COMPET: Main competitors	FOUNDAGE: Founder's age	
	FOUNDGENDER: Main founder's gender	

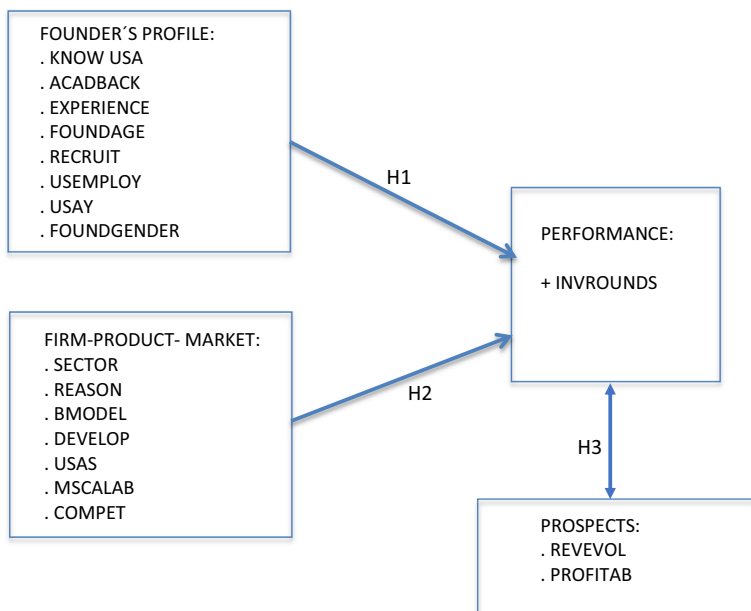


Fig. 1 Model and hypotheses

As for the stated reasons for starting the company, the opportunity to fill new market niches, the most disruptive option, was given by 21.5% of the founders. The most common reason (35.4%) was the wish to identify and address an unattended niche.

Regarding performance, by the end of 2014, 20 companies still had not generated revenue and 14 had revenues under \$0.5 million. Six firms fell between \$0.5 and 1 million, eight firms were in the \$1–3 million category, four between \$1 and 3 million and only two had revenues over \$10 million. Most firms expected to significantly increase their revenue figures in the following 2 years.

The founders were asked to describe their current and expected profitability qualitatively, with four options: losses, low profits, moderate profits, high profits. Firms with losses clearly prevail, representing 56% of the firms with revenues. Only three firms recognize high profits and 9 firms claim moderate profits.

Multivariate results

In accordance with the nature of the data and the sample size, we selected a hierarchical regression analysis as the technique best suited to test our hypotheses and provide results and findings. Prior to this, we conducted a factorial analysis to summarize the broad number of starting variables into a few representative indicators. Three factorial analyses were run, one for each block of variables.

Block 1: founders' profile: 19 starting variables and items were used in our first Principal Components Analysis (PCA).

Table 2 Descriptive results

FEATURE	DATA
FOUNDERS PROFILE	
Location in Bay Area	SFCO: 61%, other: 39%
Sector	Digital: 65%, other: 35%
Ownership	USA Inc.: 48% USA headquarters: 35% Spain headquarters: 17%
Foundation year in USA	Before 2010: 22% 2011–2012: 43% 2013–2014: 35%
Number of founders	1: 26% 2: 44% 3 or more: 25%
Average number of employees (median)	4
Knowledge of US market at arrival	Low: 53% Moderate: 20% High: 27%
Founders with previous experience as entrepreneur	72%
Gender	Men: 87%
Founder's age (average)	36,7
Academic background	Science-Tech: 32% Management: 33% Both: 35%
Main reason to create the company	Unattended niche: 35% New market niche: 22% Others: 43%
% of technological employees	82%
ECONOMIC PERFORMANCE	
Income (2015)	No income: 30% < 0,5 m\$: 13% 0,5–3 m\$: 31% >3 m\$: 26%
Profitability (2015)	Loss: 59% Low: 19% Moderate or high: 22%
External investment	Nothing: 33% Mainly VK: 15% Mainly BA: 28% Several: 24%
PRODUCT / MARKET	
Main Business Model	B2B: 60% B2C: 40%
Product portfolio	One star product: 69%

Table 2 (continued)

FEATURE	DATA
Development process	< 6 months: 39% 6 months – 2 years: 35% >2 years: 26%
Length of the business opportunity	< 3 years: 50% 3–6 years: 19% >6 years: 31%
Market growth	Low-moderate: 12% High: 45% Accelerated: 43%
Main customers	Large corporations: 54% SMEs: 20% End users: 26%
Companies with >80% sales in USA	52%
Main competitors	Start-ups / SMEs: 65% Large corporations: 35%

The following three primary factors explain 41.5% of the total variance:

- Factor 1 (Founder1): 16.1%: main explanatory variables; knowledge of the US market (the broader the better), foundation year in USA (the more recent the better), founder's previous experience (the broader the better)
- Factor 2 (Founder2): 13.9%: main explanatory variables; recruitment strategy (better with experienced professionals), years living in US since foundation (the longer the better)
- Factor 3 (Founder3): 11.5%: founder gender (better if male), employees in US (the more the better)

Block 2: customers, products and market, leading to three main factors:

- Factor 1 (Market1): 24.1%: percentage sales in US (the higher the better), market scalability (the higher the better), market growth (the higher the better)
- Factor 2 (Market2): 18.0%: main business model (better to be B2B)

Table 3 Factorial analysis: results

Block 1: Founder's profile		Block 2: Customers, products and market		Block 3: Performance and future prospects	
Factor	% total variance	Factor	% total variance	Factor	% total variance
Founder 1	16,1	Market 1	24,1	Performance	100
Founder 2	13,9	Market 2	18		
Founder 3	11,5	Market 3	13,5		

own compilation

Table 4 Summary of the model

Summary of the model				
Model	R	R Square	Adjusted R Square	Standard Error
1	,357	,128	,111	,788
2	,508	,258	,229	,733
3	,532	,283	,240	,728
4	,563	,317	,261	,718
5	,589	,347	,279	,709
6	,589	,347	,264	,717
7	,589	,347	,248	,724

- Factor 3 (Market3): 13.5%: development process (the longer the better), competitors (better if large corporations)

Block 3: the two variables measuring performance and future prospects are summarized in one factor:

- Factor 1 (Performance): revenue evolution (the higher the better), profitability (the higher the better)

Table 3 contains a summary of the Factorial analysis results.

Next, a hierarchical regression was applied by introducing all these factors into the model. The results obtained are summarized in Table 4:

As stated in Table 4, the R² grows until Model 5, and thereafter remains stable in the next two models. Consequently, as they have the same R², we chose Model 5, as having the least variables.

The Table 5 presents the significance level of the 5 factors taken into account in the regression.

The model fit is acceptable with an Adjusted R² value of 0.279 and an R² of 0.347. Consequently, the dependent variable “Investment rounds” is explained by the model’s variables in a percentage ranging between 27.9% and 34.7%.

Table 5 Significance of the model: dependent variable: investment rounds

Model	Non standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Standard Error			
5 (Constant)	1981	,096		20,534	,000
Market3	,289	,099	,346	2937	,005 **
Performance	,219	,108	,262	2031	,048 *
Founder2	-,157	,101	-,188	-1549	,128
Market2	,152	,098	,182	1543	,129
Market1	,157	,105	,188	1493	,142

From Table 5 we derive that, at 95% level of significance, two significant variables emerge from the model: factors Market3 (0.005) and Performance (0.048).

- Market3: The start-ups that are more attractive for external investors and hence hold higher chances of closing investment rounds of over \$1 million are those offering products or services resulting from a long development process. Also, the attractiveness is higher for firms competing mainly against larger corporations, rather than other start-ups and small firms.
- Performance: Start-ups more likely to attract the interest of external investors and close rounds of investment of over \$1 million are those displaying a very high increase in their revenue in recent years and those staying in profit.

Our results entirely confirm Hypothesis 3 in that both revenue growth and positive profits are the top ranked factors for attracting investors. Hypothesis 2, regarding the market, products, and competition, is only partially confirmed. The length of the product development process and the category of competitors facing the start-up emerge as the main areas drawing investors interest. Strikingly, another important finding is the lack of significant results for the variables linked to the founders' profile', hence Hypothesis 1 is not confirmed.

Discussion and conclusions

Silicon Valley has been, for a long time, the destination for thousands of immigrant entrepreneurs eager to succeed in this globally top-ranked entrepreneurial ecosystem. However, the presence of Spanish entrepreneurs in the territory is relatively recent and follows the deep economic slump in Spain, starting in 2008 and lasting until the end of 2013.

Most immigrants into Spain have low to medium educational levels, whereas the country is a net exporter of talented people (Marcu 2016). Entrepreneurs are not an exception, and for them the top destination is Silicon Valley. By the end of 2018, most of the over 100 active start-ups of Spanish origin in the SV pertain to the digital sector. With an innovativeness level viewed as low or moderate, and a scant knowledge of the US market, their chances to convince the highly-experienced and demanding Venture Capitalists in the Bay Area, vanish. As a result, only a few Spanish entrepreneurs, mainly those leading truly innovative firms, have tasted success since 2008.

The situation of the 54 surveyed firms was reviewed as at December 2018, with the following outcomes:

- Seven highly successful companies (13.0%): Those having closed investments between \$1 and 10 million (3 firms) and over \$10 million (4 firms).
- 11 companies failed and closed down (20.4%): The companies no longer exist, neither in SV nor in the home country, Spain.
- 12 companies have exited the US but remain active in Spain (22.2%): The SV adventure has come to an end for them but they maintain their Spanish headquarters.
- 24 companies (44.4%) remain in SV but have not closed any new investment rounds over \$1 million in the last 3 years (from 2015 to 2017). They are still trying.

Our results allow us to describe the profile of the start-ups of Spanish origin most likely to close rounds of investments over \$1 million in SV. Also worthy of note is that some factors fail to interest external investors, despite being broadly recognized by the literature.

We detected that the founder's profile plays an insignificant role in attracting external capital, hence questioning the appealing nature of some founders' traits. Contrary to predictions in the literature (Basu and Virick 2015; Ucbasaran et al. 2008), prior start-up experience does not play a significant role in attracting external capital.

Our findings accord with Davila et al. (2003), in that start-up growth in terms of number of employees does not particularly enhance the likelihood of attracting near-term VC investment. Our results show that US investors neither care much about the number of employees nor about recruitment strategy.

Neither the age of start-up nor the age of the founder seem to add much to the company's attractiveness to investors. Similarly, an extensive knowledge of the US market or the number of years living in the US do not seem to matter much. Finally, the gender of the main founder is also unimportant to investors.

Even more remarkable is the small value investors ascribe to some key aspects of the companies and their products and markets, our second group of factors.

A high rate of growth, easy market scalability, and revenues concentrated in the US were believed to boost the possibilities of external investment. However, the importance of these factors in attracting funding for start-ups is limited, according to our results. In addition, the advantages the literature ascribes to the B2B versus the B2C business model (Lilien 2016) seem to be diluted in our survey.

Firms meeting the conditions identified in our regression analysis will more easily convince VCs and Business Angels in the Bay Area to close investment rounds of over \$1 million.

The first condition is to stay in profit and to have a business model able to generate an accelerated volume of revenue.

Contrary to expectations, our findings show that SV investors seem to rely largely on traditional economic indicators linked to revenue and profit generation, at least when dealing with start-ups led by immigrant entrepreneurs. This "back to the basics" behaviour probably comes from the partial burst of the App investment bubble in 2013–2014. Since then, VCs in Silicon Valley are more reluctant to invest in B2C business models strongly dependent on user traffic. Consequently, a growing number of investment rounds are closed only where the candidate firm can ensure accelerated revenue growth and positive profit rates. According to our study, these criteria run true not only for Spanish entrepreneurs but also for most immigrant entrepreneurs and a growing number of native entrepreneurs.

Our findings are inconclusive about another tendency broadly supported by most actors in SV: the preference of VCs for new ventures operating B2B models. In our study, no significant differences were found between firms with B2B models compared to those with B2C models.

The second condition identified in our study is that where start-ups carry out longer product development processes, they will have higher possibilities of attracting external investors. Firms that devote a long period to the development process are expected to spend more in upfront R&D activities, resulting in disruptive innovations and cutting-

edge technologies. Investors tend to believe that products or services released after long development periods are less exposed to rapid imitation and that, thus, their competitive advantage will last longer.

The third condition welcomed by SV investors refers to the competitive environment facing the candidate company. External investors tend to dismiss new ventures of Spanish origin that compete against other start-ups or small firms. Based on their records, VCs hold doubts about the start-up's capacity to survive and eventually succeed in a battlefield crowded with other, similar firms. Investors seem to prefer new solutions and business models brought into markets already broached by large companies.

Our findings have many managerial implications and provide significant information about the top-ranked factors in the venture capitalists' minds when they assess new ventures founded by immigrant entrepreneurs. The findings also provide some valuable clues for entrepreneurs who want to move to top-ranked technological hubs.

First, our results break to some extent the long lasting belief that the personal traits are essential and matter much for investors. Instead, our study states that the reluctance on the side of the investors towards new ventures founded by immigrant entrepreneurs, Spanish in our study, does not stem from personal attributes but from other aspects and traits, which our study contributes to rise up.

Second, entrepreneurs envisaging to move to SV are encouraged to rely more on some key aspects of the business project itself as investors in SV seem not to care much about the background, pedigree and trajectory of the founders. They will rather scrutinize other facets and aspects more closely linked to the business prospects of the new venture.

This study makes a contribution to the field of entrepreneur mobility by identifying the factors that actually matter to investors in start-up companies and entrepreneurial teams in Silicon Valley.

We expect our findings to be of significance to the ethnical, immigrant, and transnational entrepreneurship mobility fields. We believe that understanding the social and personal factors that drive the success of entrepreneurs of Spanish origin represents a valuable framework for the development of policy and to guide future research. The findings will also be very useful for new high-impact entrepreneurs willing to improve their chances of success in their moves to SV and thus may be invaluable to policy-makers promoting missions to the Californian hub.

As exploratory research, many of the limitations of this study afford interesting opportunities for future work. First, the present study does not take into account longitudinal changes in its dimensions, and consequently cannot postulate on the direction of causality or include changes in the dimensions over time. Second, to generalize our findings would entail expanding our survey to include entrepreneurs from other countries, and our current analysis is limited solely to Spain.

In future research, we expect to enlarge the number of entrepreneurship indicators by including appropriate dimensions or variables to more precisely measure the attitude and determination of the founding team to achieve growth. Further research is also needed in order to calibrate the extent to which the VCs in SV accord a different treatment to new ventures founded by immigrant entrepreneurs, compared to those from local entrepreneurs.

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