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Business in the digital age: Digital innovation outcome, exit and the founder's start-up experience role

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ABSTRACT

Digital technology has shaped the way entrepreneurial process is driven, how ideas are generated, and how innovation is developed, exploited and marketed. To better understand the research on digital entrepreneurship process, research calls for interdisciplinary studies between innovation and entrepreneurship. The current study addresses this call by examining the role of founder's start-up experience and the acquisition price of the venture, on their importance in digital innovation outcome and entrepreneurial exit. A total of 742 ventures were analyzed by answering two questions. Results show that the entrepreneur's start-up experience and how much the acquirer is willing to buy them out can influence whether an entrepreneur will exit their ventures or not. The findings have important implications for entrepreneurs and larger organizations seeking to acquire innovative SMEs, by indicating which firms and entrepreneurs to watch out for when they intend to acquire new but fast-growing small ventures.

KEYWORDS

Digital entrepreneurship; digital innovation outcome; entrepreneurial exit; founder's start-up experience

Background

As a result of the surge in digital transformations, organizations are beginning to embrace technological and digital advancement even more. The digital era has further enabled transformations that drive novel initiatives, provide more leverage toward generating ideas that lead to the creation of different kinds of innovations, where these creations are converted into economic and social value (Audretsch et al., 2006; Kohli & Melville, 2019). For this reason, there is an increased attention for both academic scholars and political institutions (Berger et al., 2021; European Commission [EC], 2015, 2021; Nambisan, 2017; Yoo et al., 2010).

Using digital technologies such as digital artifacts, digital platforms and digital infrastructure (Nambisan, 2017), entrepreneurs have the avenue to create and exploit new types of opportunities (Berger et al., 2021; Kraus et al., 2018); develop innovative driven products and services; establish innovative business models (Kraus et al., 2018; Lee & Berente, 2012; Papadopoulos et al., 2020; Recker & von Briel, 2019); and finance their

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venture using different mediums (Cavallo et al., 2019; Zhang, 2011). Consequently, digital technology is strongly shaping the mind-set on how ventures can operate within the entrepreneurial process to drive change and generate revenue as a result of the increasing flexibility and openness, expediting implementation, limiting uncertainty and the continuous evolution and advancement of digital innovations (Berger et al., 2021; Cavallo et al., 2019; Nambisan et al., 2017; Nambisan, 2017; Yoo et al., 2010). For instance, the diverse methods founders seek for funds at the start up, scaling or growth stage has become mostly digital. The way funders such as venture capitalist and angel financiers seek for ventures to invest in and in the ways, ventures engage with their end-users and competitors in the field is now digitalized and promotes a strong knowledge diffusion (Zaheer et al., 2019).

Research shows that since the continuous evolution of digital technologies, there has been a significant impact and change in the entrepreneurial process and outcomes, which has influenced the ways entrepreneurship is pursued in practice. Thus, have provoked and increased in research on digitalization and digitization within entrepreneurship and management (Berger et al., 2021; Nambisan, 2017; Papadopoulos et al., 2020; Song, 2019; Sussan & Acs, 2017). Within entrepreneurship, is the study of digital entrepreneurship, which can be viewed as the process of creating a digital start-up and an output and/or outcome of a digital innovation – the introduction of new product, service or process (Kohli & Melville, 2019; Nambisan et al., 2017; Nambisan, 2017; Yoo et al., 2010). As an outcome of digital innovation, entrepreneurs can take advantage of the flexibility to remodify, re-program and redesign their products or processes. This flexibility available to digital ventures increases the intention that entrepreneurs can start several ventures at the same time or continually redesign new products or services (Kohli & Melville, 2019; Nambisan, 2017; Shen et al., 2018; Steininger, 2019). This process of redesigning and remodification of digital innovation within ventures would also provide entrepreneurs a broader possibility for making profitable exits and selling their venture to the highest bidder, thereby reducing the uncertainty for both themselves and their prospective acquirer.

The exit literature highlights the differences between entrepreneurial exit and failure, and that entrepreneurs' intention on exit and exit strategy is determined by their previous entrepreneurial experiences, their industry experiences, age and educational levels (DeTienne & Wennberg, 2016; DeTienne, 2010). Additionally, these experiences would determine if the exit strategy used by an entrepreneur will yield a successful harvest or end up being a learning experience for the entrepreneur (Wennberg & DeTienne, 2014). In this context, studying the importance of entrepreneur's start-up experience in connection to digital innovation outcome and entrepreneurial exit becomes significant.

As a bid to address a call for the need to combine and represent digital innovation and digital entrepreneurship research (Berger et al., 2021), this study examines the role of founder's start-up experience and the acquisition price of the venture on their importance in digital innovation outcome and entrepreneurial exit. This leads us to the following research questions:

I) What is the role of founder's start-up experience in the relationship between digital innovation outcome and entrepreneurial exit? II) How is the relationship between digital innovation outcome and entrepreneurial exit affected by the acquisition price of the venture?

To answer these questions, five hypotheses were tested. Table 1 presents the hypotheses that were developed and tested. Further, Figure 1 presents the theoretical model that guided the research.

Hypothesis development

Digital innovation outcome, founders experience and entrepreneurial exit

The increase in the influence of digitalization has impacted how new ventures are created and how organizational processes are developed. Digitalization has also created new avenues for more sustainable forms of entrepreneurial initiatives (Elia et al., 2020). Such initiatives can materialize through the new combinations of digital and physical components to produce novel products, services or processes (Fichman et al., 2014).

Table 1. Developed hypothesis.

	Hypothesis
H1	There is a direct positive relationship between digital innovation outcome and entrepreneurial exit
H2a	Digital innovation outcome is positively associated with founder's start-up experience
H2b	Founder's start-up experience is positively related to entrepreneurial exit
H3a	Founder's start-up experience mediates the relationship between digital innovation outcome and entrepreneurial exit
H3b	The relationship between founder's start-up experience and entrepreneurial exit is strengthened by the acquisition price of the venture

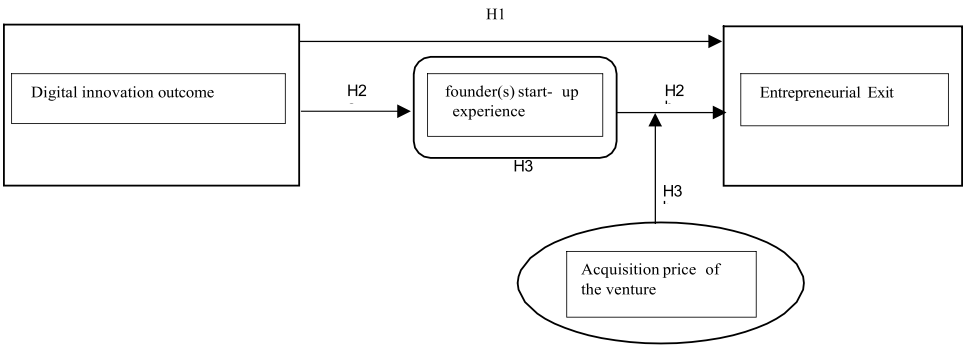

Figure 1. Hypothesized theoretical model.

Ventures that are able incorporate various degrees of digitalization in their innovative processes, products or services and business model are considered digital ventures (Hund et al., 2019; Proksch et al., 2021). Hence, these degrees of digital incorporations, build on the initiative that signals digital innovation as an outcome. Digital innovation outcome focuses on what the eventual outcome would be (such as a specific service, product or process) rather than how it is created (Hund et al., 2019).

Digital innovation outcome is necessary for firms at different stages in their development to expand and survive. Digitalization blurs these boundaries between the development phases of organizations as well as blurs boundaries between previous separated industries, and the strategies firms adopt to sell and market their products (Saura et al., 2021). These unlimited opportunities open to firms through digitalization facilitate the different techniques in which they use in marketing, selling, and distributing their products to improve their profitability. The use of digital marketing, where opportunities are boosted through the sourcing and identification of knowledge, would lead firms that are effective in selling their digital innovation outcome to exit their firm after selling these outcomes to the highest bidder (Proksch et al., 2021).

Furthermore, the numbers of successful digital innovation outcome established by an entrepreneur, the more likely that their levels of tolerance, experience, knowledge, skills and versatility evolve (Yoo et al., 2010, 2012). Yoo et al. (2012) point out that firms can increasingly create new digital innovation outcomes through the combination and recombination of existing innovation. Entrepreneurs who are the actors of innovation outcomes utilize their various backgrounds, experiences and versatility to create and innovate new ideas. Thereby expanding their capabilities (Cannas, 2021). These new innovative creations would prompt the entrepreneurs into founding new subsequent ventures and broadening their experience for starting new ventures. Consequently, entrepreneurs with diverse start-up experiences, develop broader range of external and internal knowledge, establish more collaborations among partners outside their boundaries and creating more possibilities for new and improved innovation. Moreover, the possibility of constantly creating new digital innovation outcomes is facilitated by making a profitable exit from their current innovative ideas.

Taken together, we hypothesize that:

H1: There is a direct positive relationship between digital innovation outcome and entrepreneurial exit.

H2a: Digital innovation outcome is positively associated with founder's start-up experience.

H2b: Founder's start-up experience is positively related to entrepreneurial exit.

The mediating role of founder's start-up experience and the moderating role of acquisition price.

Based on our argument leading to H1 and H2, we expect that founder's start-up experience mediate the relationship between digital innovation outcome and entrepreneurial exit. The characteristics of the digital innovation outcomes such as efficiency in the application of new ideas that yield financial gain, and the creativity and experience of entrepreneurs in the continual development of novel products, services or processes are positively associated with founders exiting their firm due to the financial returns the exit would eventually yield (DeTienne & Wennberg, 2016; DeTienne, 2010; Wennberg & DeTienne, 2014). Moreover, the higher degree of the start-up experience of the founder will enable them to build more confidence in their capabilities, exploit more external boundaries and collaborators and seek out new profitable exit strategies. Hence, we propose founder's experience to positively mediate the relationship between digital innovation outcome and their entrepreneurial exit.

H3a: Founder's start-up experience mediates the relationship between digital innovation outcome and entrepreneurial exit.

When entrepreneurs are willing and ready to exit, they explore possible exit strategy that will be beneficial to them (Wennberg & DeTienne, 2014). As argued, their start-up experience fosters their confidence in making profitable exits as a result of their digital innovation outcomes (DeTienne & Wennberg, 2016; Orrensalo et al., 2022; Yoo et al., 2012). We suggest that given their aim to make the most profit from their exit strategy and possibly gain long-term success with exiting, they will seek out other firms willing to buy them out for the utmost financial gain. In order words, the higher the founder's start-up experience, the higher the need to exit with a high financial return from the acquisition firm.

H3b: The relationship between founder's start-up experience and entrepreneurial exit is strengthened by the acquisition price of the venture.

Methodology

To test our hypotheses, data was collected from a public platform. More specifically, we collected data through crunchbase.com. CrunchBase is a constantly growing platform that provides rich information about different

types of new start-ups, founders, funders and/or investors. It is constantly updated and evaluated for data quality and covers a wide range of firms and funders/investors. Although the platform is generally used by investors and organizations, it provides several opportunities for academia to source data. For this reason, several research within entrepreneurship and management have adopted the data (Kleinert et al., 2022; Nuscheler et al., 2019; Signori & Vismara, 2018; Ter Wal et al., 2016).

Furthermore, our samples consisted mostly of industries within software, application development, artificial intelligence and internet. We did this in order to capture firms with digital innovative products or services. To capture data on the several variables, we searched the database for keywords such as "innovation" "acquisition," "investor," and "funding." To capture founder's start-up experience, we searched through the data for the number of ventures the entrepreneur has started in the past. The Measures for each variable are presented in Table 2.

After eliminating irrelevant information from the data search, – that is, ventures that did not have information about the founder or how many ventures they have founded, ventures that were closed or shut down and ventures that did not have the cost of buy out – the final data consisted of 742 ventures that have been acquired and still in operation. The data was then analyzed using the ordinary least squares (OLS) regressions.

Findings and discussions

From the total sample, 84.2 percent ran purely digital entrepreneurship ventures with pure digital innovation outcome, while 15.8 percent had other products/services with combinations of either a digital platform or

Table 2. Variable measures.

Measures	Description of variable
Dependent variable	Entrepreneurial exit. We captured exit as the number of firms that have gone public through IPOs and the firms that have been acquired by other ventures between January 1st, 2018 to January 1st, 2022 to capture to most recent acquisition for the previous four years (DeTienne & Wennberg, 2016; DeTienne, 2010; DeTienne & Cardon, 2012; Wennberg & DeTienne, 2014).
Independent variable	Digital innovation outcome: This variable was captured as the kind of digital product or service offered by the venture. CrunchBase gives information on company specifications that illustrates if the product or service offered by a firm has digital components to them or not. This information was extracted based on if it was a final product or pre-lunched product. We defined digital innovation outcome as the output from an innovation through digital technology and has unique digital components (Nambisan et al., 2017; Nambisan, 2017).
Mediating variable	Founder(s) start-up experience: This was captured by the accumulated experience founding new ventures (Zhang, 2011). This variable captured how many start-ups the founders have had in the past. We did this by accumulating the number of job roles the founders have had to indicate start-up experience.
Moderating variable	Acquisition price of the venture: We captured acquisition price of the venture by considering the amount paid out to the entrepreneur (founder) during firm acquisition, which led to the entrepreneur's exit. Since CrunchBase is an online platform where investors also seek out entrepreneurial ventures and vice versa, it served as our primary source.
Control variables	We controlled for age, company size, and gender.

infrastructure. The ventures were distributed along several industries, such as industries focusing on app development or discovery, artificial intelligence, e-commerce and online auctions amongst others. Furthermore, the sample showed an average of four companies started by the entrepreneurs in the past. 15 percent of these entrepreneurs were female and 75 percent male. The findings also show a correlation between the descriptive statistics and the study's sample. The results from the regression analysis supported several of our hypothesis (see Table 3).

H1 proposes that there is a direct positive relationship between digital innovation outcome and entrepreneurial exit. The results show that the hypothesis was not supported ($\beta = 0{,}022$; p – value >0,1). This means that digital innovation outcome does not determine or lead to entrepreneurial exit. H2a proposes that Digital innovation outcome is positively associated with founder's start-up experience. We observe that the hypothesis was not supported ($\beta = 0{,}031$; p – value >0,1). This indicates that that digital innovation outcome is not associated with the levels of founder's start-up experience. Further, H2b proposed that Founder's start-up experience is positively related to entrepreneurial exit. The results however show that the findings were supported ($\beta = 0{,}441$; p – value <0,01) indicating that digital innovation outcome is positively related to the level of founder's start-up experience.

Additionally, H3a proposed that founder's start-up experience mediates the relationship between digital innovation outcome and entrepreneurial exit. The results show support for our hypothesis indicating that the founder's start-up experience mediated the relationship between digital innovation outcome and entrepreneurial exit. Finally, H3b proposed that the relationship between founder's start-up experience and entrepreneurial exit is strengthened by the

Table 3. Results.

	Hypothesis	Results
H1	There is a direct positive relationship between digital innovation outcome and entrepreneurial exit	Not supported ($\beta = 0{,}022$; p – value >0,1): digital innovation outcome does not determine or lead to entrepreneurial exit.
H2a	Digital innovation outcome is positively associated with founder's start-up experience	Not supported ($\beta = 0{,}031$; p – value >0,1): the result indicates that digital innovation outcome is not associated with the levels of founder's start-up experience.
H2b	Founder's start-up experience is positively related to entrepreneurial exit	Supported ($\beta = 0{,}441$; p – value <0,01): the result predicts that digital innovation outcome is positively related to the level of founder's start-up experience.
H3a	Founder's start-up experience mediates the relationship between digital innovation outcome and entrepreneurial exit	Supported: result show the founder's start-up experience mediated the relationship between digital innovation outcome and entrepreneurial exit.
H3b	The relationship between founder's start-up experience and entrepreneurial exit is strengthened by the acquisition price of the venture	Supported ($\beta = 0.0429$, $p < .1$): the result shows full support for our hypothesis and indicates that entrepreneurs with higher start-up experience are more likely to exit with higher acquisition price as compared to entrepreneurs with lower start-up experience.

acquisition price of the venture. The result shows full support for our hypothesis ($\beta = 0.0429$, $p < .1$) and indicates that entrepreneurs with higher start-up experience are more likely to exit with higher acquisition price as compared to entrepreneurs with lower start-up experience.

In summary, findings show that digital innovation outcome does not indicate that an entrepreneur will exit their venture. However, since several digital ventures are being launched on a constant basis, there is a tendency that entrepreneurs who continuously innovate within this sector would benefit significantly in terms of not just starting a new venture on several occasions but also benefiting from significantly profitable exit. This, in consequence, will mean that founders can gain better experience with starting up future successful digital ventures.

Conclusion

The findings have implications for both theory and practice. First, the findings extend the research on digital entrepreneurship (Kohli & Melville, 2019; Nambisan et al., 2017; Nambisan, 2017; Yoo et al., 2010) by responding to the call that there is a need to examine digital innovation and digital entrepreneurship together instead of separately (Berger et al., 2021).

The present study is an attempt to bring together these different streams of research by presenting a holistic picture of the outcome of the digital innovation and how it may impact the levels of an entrepreneur's start-up experience and tendency to exit their venture. Second, the study contributes to the literature of entrepreneurial exit (DeTienne & Wennberg, 2016; DeTienne, 2010; Wennberg & DeTienne, 2014) by looking at the factors that may influence entrepreneurs from exiting their digital entrepreneurial ventures. The current study shows that the entrepreneur's start-up experience and how much the acquirer is willing to buy them out can influence whether an entrepreneur will exit from their digital ventures or not.

Finally, the findings have important implications for entrepreneurs and larger organizations seeking to acquire innovative SME's. The findings suggest that the entrepreneurs with three or more start-up experience can successfully engage in multiple exits and exit strategies. This also means that firms looking to buyout other ventures should have their eyes set on such entrepreneurs and their respective ventures.

Disclosure statement

No potential conflict of interest was reported by the author.

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