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Emerging Startup Studios in Portugal

Organizational Characteristics of Portuguese Startup Studios

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Abstract

Title: Emerging Startup Studios in Portugal:
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There is an emerging trend in the entrepreneurial landscape which promises to become revolutionary: Startup Studios. This emerging incubation model is generally characterized by the development of internally generated ideas and the creation of its own cohort of startups, supported by internal resources and a multidisciplinary team. Despite the Startup Studio model being already highly implemented in bigger and more developed entrepreneurial ecosystems, the infancy of the underlying concept and the diverging way each Startup Studio organizes itself, combined with the lack of academic research on this topic leaves an unclear definition of the Startup Studio concept. This thesis aims to clarify the definition of the Startup Studio concept and its characteristics. Moreover, it focuses on the implementation of the studio incubator model in smaller and emerging entrepreneurial ecosystems to understand if it can be a viable alternative to foster innovation and prompt economic development. Thus, two case studies of Startup Studios in Portugal were conducted. The findings of this analysis revealed that elements like funding, type of founders and exit strategy will be context specific, differing from Startup Studios in bigger economies. However, elements like ideation process, equity distribution, operations and team set up of Startup Studios in smaller and emerging entrepreneurial ecosystem will be like the ones found in more developed entrepreneurial ecosystem. Based on this evidence, a definition for the Startup Studios is suggested as well as the proposition of the possible implication of the studio incubator model in smaller economies.

Keywords: entrepreneurship; startup studio; studio incubator; incubation business model; venture builder; startup builder; venture factory; startup factory

Resumo

Título: Startup Studios Emergentes em Portugal:
Características Organizativas dos Startup Studios Portugueses

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Tem-se observado uma tendência emergente que promete revolucionar o panorama de empreendedorismo: os Startup Studios. Este modelo de incubação emergente é geralmente caracterizado pelo desenvolvimento de ideias geradas internamente e pela criação do seu próprio grupo de startups incubadas, suportado pela utilização de recursos internos e por uma equipa multidisciplinar. Apesar deste modelo já estar largamente implementado em ecossistemas de empreendedorismo mais desenvolvidos, a infância do conceito subjacente e a forma como cada Startup Studio se organiza, em conjunto com a falta de investigação académica sobre este tópico deixa uma definição pouco clara do conceito. Esta tese tem como objetivo esclarecer a definição do conceito do Startup Studio e suas características. Além disso, concentra-se na implementação deste modelo de incubação em ecossistemas de empreendedorismo menores e emergentes, para entender se o mesmo pode ser considerado uma alternativa viável para promover inovação e o desenvolvimento económico destes ecossistemas. Assim, foi conduzido um estudo de caso com dois Startup Studios em Portugal. Os resultados desta análise revelaram que elementos como financiamento, tipo de fundadores e estratégia de saída são específicos ao contexto e diferentes dos observados em Startup Studios em economias mais desenvolvidas. No entanto, elementos como processo de ideação, distribuição de capital, operações e a configuração da equipa nos Startup Studios em ecossistemas de empreendedorismo emergentes serão semelhantes aos encontrados em ecossistemas de empreendedorismo mais desenvolvidos. Com base nestas evidências, sugere-se uma definição para o conceito de Startup Studio, bem como as possíveis implicações que este modelo terá em economias menores.

Palavras-chave: empreendedorismo; startup studio; modelo de negócio de incubação; ventures builders; startup builder; venture factory; fábrica de startups

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1. Introduction

Entrepreneurial activity is becoming one of the most important mechanisms of economic development for small economies (Devece, Peris-Ortiz, & Rueda-Armengot, 2016). With studies showing the positive relation between new ventures and job-creation, increasing competitiveness and social equality (European Commision, 2003; Haltiwanger, Jarmin, & Miranda, 2013). Moreover, a successful entrepreneurial ecosystem is dependent on government support and interaction between the different participants of the ecosystem (Spigel, 2017), but eventually even more relevant is the investment (wealth and expertise) of experient entrepreneurs in the entrepreneurial ecosystem – *entrepreneurial recycling* (Colin Mason & Brown, 2014).

Thus, it is necessary to understand the relationships between the ecosystem participants and the organizational structure to that leverage such relationships. In order to prevent economic stagnation, regions need to keep up with technologic advancement and invest in the nursing of their entrepreneurial ecosystem (Gauthier, Penzel, & Marmer, 2017). While business incubators appear to be the foundations of the entrepreneurial ecosystems, offering entrepreneurs and other organizations the opportunity to cultivate innovation and new venture creation. (Osalor, 2016; Spigel, 2017; Stam & Spigel, 2016), it does not mean it is the most appropriate model. Some authors consider that some business incubation models are not suitable for the current times and create barriers. for real innovation (Cunningham, 1999; Finer & Holberton, 2002; L. Peters, Rice, & Sundararajan, 2004)

As a result of these considerations, a new approach is emerging (Scheuplein & Kahl, 2017; Szigeti, 2016), based on the entrepreneurial recycling process, one that argues for the benefits of having experienced individuals supporting innovation and leveraging new venture creation. The new incubation model is called the Startup Studio model (App'n'roll, 2016; Rao, 2013; Szigeti, 2015). Although the first startup studio remotes to 1996 (Farmer, Gong, Muñoz, & Wong, 2004), the concept is still underdeveloped and a yet to establish definition. While the definition of the concept is not consensual in the literature, there is evidence showing that this incubation model is based on internal resources, own bred cohort of startups, on-going long-lasting support and a set of multiple services combinations (App'n'roll, 2016; Ehrhardt, 2018).

There is an increasing importance to understand the reasons for the spread of startup studios in the entrepreneurial ecosystem as an alternative incubation model for smaller economies and

comprehend how the Startup Studio model operates. Additionally, it is in our interest to understand if it is appropriate to prevent economic stagnation in small and open economies that rely more and more on entrepreneurial activity to thrive.

First, we will look into the definition of an incubator in the current scope of entrepreneurship follow by the analysis of the current definition of the Startup Studio concept. Second, To properly understand this phenomenon this study will focus on the Portuguese entrepreneurial ecosystem which is emerging as a top destination in the European startup scene (Fentiman-Hall, 2017; Startup Europe Partnership, 2015), through the in-dept study of established Portuguese Startup Studio.

2. Literature Review

Studies have persistently established a positive relationship between entrepreneurship and economic development, mainly supported by the entrepreneur's ability to innovate (Acs, 2006; Carree & Thurik, 2010; Ogunlana, 2018). The European Commission reinforces the importance of entrepreneurship and its impact in the economy, when in its green paper (2003) mentions that entrepreneurship contributes to job creation, economic growth, boosts competitiveness, unlocks personal potential and social impact (European Commision, 2003). Additionally, in times of economic crisis it is usual for developing or smaller economies (e.g. Portugal) to be sustained by an entrepreneurial economy due to the lack of traditional viable alternatives (Devece et al., 2016).

However, the linkage between entrepreneurship and economic development is highly debated. Entrepreneurial activity can be a driver for the economy when it combines existing resources with innovative ideas. It is only when entrepreneurs successfully commercialize their inventions that economic growth is generated (Carree & Thurik, 2010; Ogunlana, 2018). Conversely, research has shown that the economic impact of entrepreneurship can be negative if the phenomenon of becoming an entrepreneur rises from necessity, i.e., if individuals became entrepreneurs because of the lack of other opportunities and not because they make a choice and demonstrate capabilities for innovation and to exploit an opportunity (Acs, 2006). Furthermore, the gains of a positive relationship can only be fostered if government and policymakers create the right environment to help and encourage the growth of small and medium enterprises (Osalor, 2016).

For these reasons, it is typical to see local governments supporting several innovation mechanisms, like business incubators and acceleration programs, to foster the creation of entrepreneurial ecosystems. Thus, business incubators have a major role in the entrepreneurial ecosystem, since their goal is to provide a support environment for startup and fledgling companies, thereby promoting local job creation, economic development, and technology transfer (Peters, Rice, & Sundararajan, 2004).

2.1 Entrepreneurial Ecosystem

The entrepreneurial ecosystem consists of a set of material, social and cultural elements – such as policies, infrastructures, networks, leadership, investment capital, openminded customers – that combined enable entrepreneurship activity within a particular territory (Spigel, 2017; Stam & Spigel, 2016; Startup Europe Partnership, 2015). Together these elements boost venture creation and growth yet the challenge for governments is to combine them in a way that fits the local entrepreneurship characteristics, as Isenberg's study shows with the successful cases of Rwanda, Chile, Israel and Iceland. (Isenberg, 2010).

Entrepreneurial ecosystems have emerged as a popular concept to explain the persistence of high-growth entrepreneurship within regions, since they embody the presence of multiple sets of elements and organizations that stimulate entrepreneurial activity and provide critical resources. The entrepreneurial ecosystem can be defined as

> "*combinations of social, political, economic, and cultural elements, within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures*" (Spigel, 2017).

Summing it up, the success of an entrepreneurial ecosystem is not just dependent on having adequate policies and government support, but also on the interaction of these elements with a network of entrepreneurial individuals and organizations.

Business incubators appear to be the foundations of the entrepreneurial ecosystem, offering a platform for such elements, entrepreneurs and other organizations to combine and cultivate innovation and new venture creation. (Osalor, 2016; Spigel, 2017; Stam & Spigel, 2016).

2.2 The Incubation Model

The origin of the term incubation comes from ancient times. People would go to a Roman or Greek temple to lay themselves down on fresh hide from newly sacrificed animals. This practice was called *incubatio* and it was practiced mainly to obtain a vision on how to overcome one or another disease. Most times this practice would take place in the temple of Aesculapius, the God of medicine, which lead us to the medical usage of the word. Gradually an incubator became the place where prematurely born infants were nurtured and take care of. The principle

of the incubator is that premature infants require temporary care in controlled conditions. These conditions should help newborn babies to survive, grow and develop once they left the incubator (Aernoudt, 2004). Similarities can be found with the current use of the term in business context. Business Incubators typically support new ventures in the hope they will later develop into self-sustaining, thriving companies (Bruneel, Ratinho, Clarysse, & Groen, 2012). Indeed, a business incubator can be formally defined as a shared office-space facility that seeks to provide its incubates with a strategic, value adding intervention system (i.e. business incubation) of monitoring and business assistance (Hackett & Dilts, 2004).

Hackett & Dilts (2004) explain the incubator as a network of individuals and organizations including the incubator manager and staff, incubator advisory board, incubatee companies and employees, local universities and university community members, industry contacts and professional services providers such as lawyers, accountants, consultants, marketing specialists, venture capitalists, angel investors and volunteers. In other words, business incubation supports the startup and early stage of new business ventures by providing them with the safe harbor, intensive resources and a development environment in which they can flourish (*A Brief Introduction to Business Incubation*, 2015). The role of business incubators in the entrepreneurial process has changed from being just a business center with office facilities to one offering training, networking and consulting in all areas of expertise to startup firms in order role is to provide fundamental support environment for startup and fledgling companies, (L. Peters et al., 2004).

However, the value added by incubators is highly debated. While most academia focus on verifying that business incubators and other innovative mechanisms add value to the entrepreneurial process (Cunningham, 1999; L. Peters et al., 2004), others do not agree with this statement (Cunningham, 1999; L. Peters et al., 2004). On one hand, Stephen Bent, head of the IP group at Foley & Lardner believes that *"The incubator system makes some companies too sheltered, others not sheltered enough"* (Cunningham, 1999), on the other hand, Finer and Holberton (2002) note that incubators are a faulty model since they take initiative away from the founding team. (Finer & Holberton, 2002; L. Peters et al., 2004).

2.2.1 Type of Business Incubators

Moreover, the concept of business incubation has been evolving since the establishment of the first Business Incubators, with consulting firms and other professional service providers

offering similar new-business facilitation support (Bruneel et al., 2012; Von Zedtwitz, 2003). The first business incubator remotes to 1959, when an USA real estate developer, Joe Mancuso, decided to rent fractions of the enormous area to a variety of smaller companies. In order to guarantee his tenants would not leave, Mancuso started to offer them some benefits like shared office supplies, reception and secretarial services and even business advices and help in raising capital. And so, the first business incubator was born (J. Peters, 2017). This concept expanded slowly through the USA in the 1960, reaching Europe only in the 1980s. Even though constant changes in the concept, business incubators are a worldwide phenomenon (see appendix A).

A stream of researchers have highlighted the differences in the organization, activities, services and objectives (Aernoudt, 2004), while others categorize the types of incubators through a generational sequence (Bruneel et al., 2012) or that the differences on the type of incubator is a combination of all these factors (Grimaldi & Grandi, 2005). These authors consider that the existence of different incubators and the evolution of their business models over time have been driven by the evolution of company requirements and needs, which in turn has prompted incubators to diversify their offer of services.

Most of the research on the types of incubators is based on studies by Von Zedwitz (Carayannis & Von Zedtwitz, 2005; Von Zedtwitz, 2003) in which the author suggests a categorization of five incubator archetypes based on the four dimensions of Porter's theory on competitive scope – vertical, segment, geography and industry. The vertical scope represents the financial and managerial needs of startups, more precisely it dictates the stage at what the incubator steps in – tendentially, incubators target seed and early stage companies. The segment competitive factor accounts for the source of innovation/startups, different types of incubators give preference to different type of entrepreneurs. The geographical dimension is a natural competitive advantage for reginal development, not only regarding the local impact of supporting new business as well as local network access. Finally, the focus on a particular technology or industry will be based on the incubator managers competencies or preferences, but also as a source of synergy creation among the incubated entrepreneurs (Porter, 1986; Von Zedtwitz, 2003) These dimensions combined with the incubator strategic focus – for-profit or non-profit – help identifying the following five basic archetypes:

Regional business incubators are established by local governments with a set of regional, political and economic interest, with a main goal of developing the local community and

economy. Usually this type of incubator is financially supported by a national agency or organization.

University Incubators, just as the name states, are the innovation and knowledge transfer vehicle for students and professors to the market. Connected with main technical universities. Often, university incubators emerge from existing technology parks, where universities nurture the synergies resulting from the collaboration between scientist in industry and academia.

Company-internal incubators, also known as corporate incubators, were first founded to help companies overcome some internal innovation struggles and often are an extent of companies R&D departments. This type of incubators normally incentivizes employees to work on their ideas and explore internal opportunities. However, it is typical to see corporate incubators developing accelerator programs.

Virtual incubators Offer access to an online network of entrepreneurs, investors and advisors. This type of incubator works mainly as a platform and a network, enabling matchmaking, where entrepreneurs and startup teams can access daily news, find new workshops or mentors, get tools to communicate and recruit.

The **independent commercial incubator** (also known as private incubator) business model is based on clear internal competencies and focuses on a given technology, industry or target market. Core internal technical competencies enable strong synergies among the incubated startups while fine-tuning internal resources, skills and competencies in a specific competitive environment (Carayannis & Von Zedtwitz, 2005; Von Zedtwitz, 2003). For the purpose of this study it is in our interest to focus on the Independent Commercial Incubators, in particular the use of internal resources and creation on synergies among its cohort.

2.2.1.1 Independent Commercial Incubator

Independent commercial incubators focus primarily on the industry and region, with a strong for-profit objective, without discarding their contribution for local development. Typically private incubators are established by a single individual or a group of individuals with the goal of supporting others to be entrepreneurs, by supporting the creating and growth of new businesses, often by investing their own capital and skills (Grimaldi & Grandi, 2005; Von Zedtwitz, 2003)

In this type of incubator, the incubator managers are the major shareholders. Ownership allows for higher degree of freedom (when compared to the other archetypes of incubators), as a repercussion of the lower level of decision-making constraints, resulting in an opportunity to change its incubation business model in more efficient ways and when necessary, in order to meet the changing environment requirements (Carayannis & Von Zedtwitz, 2005; Grimaldi & Grandi, 2005; Von Zedtwitz, 2003)

In result, private incubator's business model is mostly supported by the incubator's internal capabilities – like expertise in raising capital or business model creation – directed at a specific segment, technology or market. The merge of its internal capabilities and segment focus helps the incubator to become specialized in a sector or industry. Consequently, attracting a distinct type of entrepreneurs and startups, looking for specialized services, allows for the emerge of synergies among incubatees. One advantage of the private incubator over venture capitalists or business angels lays essentially on its capacity to make decisions on-site, like time and resources allocation. (Bruneel et al., 2012; Carayannis & Von Zedtwitz, 2005; Von Zedtwitz, 2003).

2.3 The Startup Studio Model

The first startup studio remotes to 1996 with Idealab (Farmer et al., 2004), considered a new approach to the already established incubation model, rather than a new model per se. To understand Startup Studio one can draw an analogy with the movie industry. In a movie studio several movies are produced simultaneously, taking advantage of a generally successful, repeatable process (Scheuplein & Kahl, 2017; Szigeti, 2016).

Thus, Startup Studios are organizations that aim to build startups in a sustainable and repeatable way, using the in-house ideas and resources, pulling business ideas from their own network and assign intern teams to develop them (Diallo, 2015; Elziere, 2014; Rao, 2013; Szigeti, 2016).

Successful tech entrepreneurs are founding their startup studios, for example, PayPal co-founder Max Levchin's HVF Labs, Twitter co-founder Ev Williams' Obvious Corp, former MySpace CEO Mike Jones's Science Inc., serial entrepreneur John Borthwick's Betaworks, and Vimeo co-founder Jake Lodwick's Elepath (Lapowsky, 2014).

Despite the lack of an agreed definition on the Startup Studio due to the infancy of the subject at study, Szigeti (2016) discusses what he calls the *Anatomy of Startup Studios*. After

interviewing eight Startup Studios directors/CEOs Szigeti proposes common traits that distinguishes startup studios from other business incubator models. The traits in Szigeti's study allow for understanding the characteristics that define the Startup Studio model. First, one of the characteristics the author found to be differentiating is Equity, in the Startup Studio model the studio incubator keeps a major (or close to that) stake in the startups it builds, this happens mainly due to Idea Generation being largely an internal process, another of the defining characteristic of the Startup Studio concept. However, Szigeti found that it is in same cases the studio incubator accepts outside ideas to develop, but it keeps a big stake on those startups since it puts its own resources in the growth of that project. These two characteristics give the Startup Studio model the portfolio management trait most times found in VCs, and an own bred cohort to work with. Second, as it could not fail to be, Team displays an important role in the Startup Studio model. An alignment was found among the studio incubators. The team is always divided in two, the core team that is share by all projects and usually manages the studio and its infrastructure, and a "specialized" team dedicated to an individual project at a time. The latter is usually recruited as needed. Third, in the startup studio model the Exit strategy is well defined, with acquisition being the main goal. However, spin offs to become an independent company or internal growth are a possibility as well. This does not mean that other incubator models do not have an exit strategy defined, the difference is that the studio incubator as a propensity to work to reach a successful exit, since it is the main shareholder of the company and their objective is to generate profits to create new projects. Fourth, while it was not found an alignment between startup studio incubators, there is a common trait in this model concerning the Process. The studio incubators follow a Process based on a specific methodology that helps to stay focused and quickly adapt, giving the study the agility to discard unsuccessful ideas and reassign the team to other initiatives. Finally, the core of the startup studio concept is the Simultaneous creation/construction of multiple projects and startups, which is the most relevant characteristic to define the underlying concept and differentiate the startup study model from other incubation models (Carter & Cheung, 2017; Montgomery, 2016; Rao, 2013; Szigeti, 2016)

Szigeti (2016) also highlights the fact that each startup studio he interviewed uses a different model and structure by arranging core elements in different ways. These elements are: the type of Studio's founders, which can be, for example, serial entrepreneurs that want to keep building companies or VC funds that want to offer a more specialized service; Funding of the studio; Focus, on a specific technology or industry; Idea Generation, as an internal process or a mix

between internal ideation and external idea pulling; Team setup; Operations; Studio Resources, such as providing only initial funding, network and experience or a wider range of competencies and help throughout the entire process; Equity, taking a majority stake or not; and Exist Strategy, aiming for quick wins or long run profitability. However, there is no evidence that there is an optimal model to maximize startup performance.

Additionally, Szigeti (2015) conducted a longitudinal study on Startup Studios. Based on data from 51 studio incubators and 212 portfolio companies, enabling the analysis of the Startup Studios performance evolution through time. Which allowed him to take conclusions on the growth of startup studio like enterprises, as well as evaluate the perception of investors in this model (based on amount of investment obtained and number of investment rounds).

It is important to understand that Szigeti's (2015) findings aim at explaining the success of the startup studio model by looking at the established startup studios evolution independently, and not to compare it with other incubation models. However, Szigeti's findings still allow to extrapolate the successfulness of this particular incubation model, in order to deduce if the startup studio model will dominate the current entrepreneurship panorama. Hence, Szigeti reports a boom of startup studios between 2010 and 2013, with 32 studios founded during that time, showing an increasing interest in this incubation model – most of this studios are located in the USA, Germany and UK. Regarding scope, no common path was observed. Each startup studio has its own focus, making the companies analyzed highly diverse in areas and industries. However, business to consumers companies are most likely to be acquired. The number of exits as also increased, especially since 2011. From that time to 2015 there were 14 successful exits from studio related companies registered. Regarding performance, the author concludes that startup studios are creating more companies every year (15% increase year over year), and that studios were able to raise more than $4 billion in total, since 2008 – which around 65% was raised by Rocket Internet. The number of investment rounds has been increasing since 2010, with less than 10 rounds raised in total to around 40 rounds of investment raised in total in 2015. Besides the number of rounds, the average size of each round is also increasing. In 2010 each round would, on average, raise less than $5 million. By 2015, each round of investment is, on average, $30 million. As to employees, each startup studio company has, on average, 72 employees, with a total 15 900 employees in all companies analyzed.

2.3.1 The Startup Studio characteristics

Based on Szigeti's (2016) classification a Startup Studio can be defined by identifying the following: Founders, Ideation, Equity, Team, Operations, Funding, Exit and Revenue Source. These characteristics are also highlighted in articles written by developers, team-members or founders of Startup Studios these are the general topics we see appearing most times to define the underlying concept and to establish differences between the Startup Studio model and other incubator models (Diallo, 2015; Edwards, 2015; Elziere, 2014, 2015; Montgomery, 2016). As such, we will use them as the most relevant dimensions to define the Startup Studio model, especially since we are able to directly compare them between the different types of business incubators.

Founders would be a dimension worth study, not only due to the importance of how their background and behavioral characteristics impacts the performance of their startups (Barringer, Jones, & Neubaum, 2005) but also to understand the reason why they decided to settle a startup studio. With regards to the Startup Studio model, this is typically characterized for being founded by experienced serial entrepreneurs (Diallo, 2015; Edwards, 2015; Lapowsky, 2014; Rao, 2013). The origin of the Startup Studio concept is often given to these founders due to their willingness to continue investing and working in the development of startup and incentivizing innovation. However, during is study Szigeti (2016) also found that there are some establish Startup Studios that were founded by VC funds or Corporations.

Ideation is one of the core principles of the startup studio concept. Generally, Startup Studios can be characterized by having an internal idea generation process, which means that the studio incubator develops ideas generated by its team members and/or its community (Edwards, 2015; Elziere, 2014; Montgomery, 2016; Rao, 2013; Szigeti, 2016). However, more and more we find studio incubators that besides the internal generated ideas they develop outside ideas, by acquiring them or working as co-founders (Carter & Cheung, 2017; Edwards, 2015; Lapowsky, 2014; Szigeti, 2016). Nonetheless, the Startup Studio concept is highly dependent of the in-house idea generation as the foundation to its business model.

Equity allocation is not well discussed in the literature and it is barely disclosed by the already established startup studios since it represents an important part of the Startup Studio business strategy. Nevertheless, Startup Studios are often defined by getting a major stake on the projects they develop, even if they are not totally generated internally (Anderson, 2017; Rao, 2013;

Szigeti, 2016). This happens because the incubation model of Startup Studios is based on the studio providing most of the resources – both human and capital – thus, keeping the majority of equity as a compensation (Edwards, 2015; Szigeti, 2016). We believe that the small economies Startup Studios will follow the same strategy, not only as compensation for the resource allocation but also for the risk it represents.

Team setup is highly volatile, each studio will have a preferential setup that they believe to leverage startup performance (Szigeti, 2016). However, there are some common characteristics observed on the established startup studios. It can be found in the literature that the Startup Studios teams are composed by experts from different fields and with different skills (Elziere, 2014). More than that, the studio incubator is also characterized by having an internal team working together on the different projects (Edwards, 2015; Montgomery, 2016). Without regard to the setup itself, team is without a doubt one of the most important dimensions to take into consideration.

Operations of the startup studio can encapsulate a variety of other elements – the methodology it follows, the way it evaluates the projects and the decision of go or no-go on each one, portfolio management, resource allocation or the constant support, among others (Elziere, 2014; Montgomery, 2016; Szigeti, 2016). Altogether, the Startup Studio operations consists on the repetition startup creation, using a combination of skill to build more consistent companies in a more efficient and timely manner (App'n'roll, 2016), mainly through the access and sharing of resource (Edwards, 2015). Anyhow, each Startup Studio defines its operations in a different way and replicate other successful models or try different approach and see which one creates the best outcomes (Szigeti, 2016).

Funding, it represents the initial funding to support the startup studio daily operations and working capital to invest in the projects it creates/embraces. At the beginning, the Startup Studio concept was defined by the founders being the source of the initial investment (Diallo, 2015; Edwards, 2015; Rao, 2013; Szigeti, 2016). However, as Diallo (2015) and Lapowsky (2014) noted, *"entrepreneurs turning investors"* is not something unusual to happen in the entrepreneurial landscape, which combined with the lack of evidence, does not allow for a generalization of this matter. Nonetheless, studio incubators typically are described to have significant financial backing (Hodak, 2017; Lapowsky, 2014; Szigeti, 2016), either by being backed by a fund, a corporation or supported by bootstrapping (Hodak, 2017; Szigeti, 2016).

Consequently, **Revenue Source** will be a crucial element to take into consideration for the Startup Studio model. There is a lack of available information on this topic, however it is usually seen as an interesting outcome of the studio incubation model (Szigeti, 2016). As we can see in the incubator archetypes, the incubation model revenue sources is typically fees for the services it offers (Aernoudt, 2004; Bruneel et al., 2012; Carayannis & Von Zedtwitz, 2005; Grimaldi & Grandi, 2005; Von Zedtwitz, 2003). Although Startup Studios are typically well financially supported, it is necessary to generate revenues to support daily operations and the studio incubator growth. Thus, even without concrete evidence, it can be hinted that Startup Studios generate revenues through the profits of the companies they create and/or successful exits (Diallo, 2015; Elziere, 2014; Hodak, 2017).

Exit is always a concern and top priority in the entrepreneurial activity. Once again, there is no concrete evidence on the exit strategy adopted by startup studios, it is only hinted that the final goal is to either exit through acquisition or achieve an IPO (Diallo, 2015; Elziere, 2014; Hodak, 2017; Montgomery, 2016; Rao, 2013). Nonetheless, Szigeti (2016) found two kinds of exit strategies – quick-wins and long run strategies. In the first, the goal of the studio is to position the startup created in such a way it will be acquired quickly, generating enough cash to fund a new project. In the latter, the objective is to grow each startup individually, preferentially various startups with synergies to exploit among themselves, to take over an entire market and enjoy long run profits. In the perspective of the small economies' entrepreneurial ecosystem, the Startup Studios exist strategy is somewhat limited. Typically, these ecosystems are unable to shelter big exits in the form of IPO for startups. Thus, the exit strategy enforced by small economies Startup Studios will mainly consist on acquisitions and spin offs – with the latter being the setting up a specific project as an individual company in order to allow it to growth independently from the startup studio.

3. Methods

The intent of this study is to understand the defining characteristics of Startup Studios in small and open economies that need entrepreneurial activity to foster economic development. This study will assist in clarifying the definition of the Startup Studio concept formulating comparative traits to distinguish this type of business incubators from others.

Thus, a qualitative analysis approach was applied. The following section outlines the chosen approach and sample, presenting the data collection and analysis method used.

3.1 Research Approach

By virtue of the infancy of the latent concept and the underdeveloped state of the startup studio model research, the case study approach seems to be the most adequate way to address the underlying research question (Yin, 1991, 1993), allowing for the investigation of the contemporary phenomenon of Startup Studios in the context of the Portuguese Entrepreneurial Ecosystem, which will help us to approach the inherent "how" and "why" questions and take into consideration the contextual conditions that we believe to be relevant for the startup studio phenomenon (Baxter & Jack, 2008a; Yin, 1991, 1993). Case studies usually combine various data sources, such as questionnaires, interviews, observations and archives and can be used to provide description of a phenomenon, as it is the intention of this study (Eisenhardt, 1989). Although case studies are occasionally criticized for being subjective and lacking rigor , it is important to highlight that the aim of this study is to expand the knowledge existent regarding startup studios (Noor, 2008; Patton & Appelbaum, 2003; Yin, 1991). Thus, in order to overcome this criticism a multiple case study approach will be applied, which allows to draw comparisons between the selected case studies, with the goal of confirming emerging patterns and their validity or , in case of major differences, to extend our understanding of the underlying concept (Baxter & Jack, 2008b; Eisenhardt, 1989; Yin, 1991)

First off, relevant literature was reviewed to explore what are the currently established concepts about startup studios, to allow the derivation of theoretical insights on the different incubation models and, consequently, create an understanding of the startup studio model construct. In parallel to the existing literature revision, it was conducted a preliminary research on the Portuguese entrepreneurial ecosystem and, thereupon, on the existing Portuguese startup studios, towards the identification of the study sample. Portugal is a good setting to study the

effects of small and open economies on startup studios because its entrepreneurial ecosystem is still in a very early stage, but it is emerging as one of the most important places in the European startup scene, becoming a top destination to test, fail and try again (Fentiman-Hall, 2017; Startup Europe Partnership, 2015).

Supported by the literature, it can be hinted that this new incubation style is characterized mainly by an internal ideation process and a specialized team able to quickly change focus. Additionally, some authors clearly state that Startup Studios can be seen as a factory-like enterprise, focused on assembling startups trough focus on the different composing elements of business development, like speed, scale and standardized processes (Köhler & Baumann, 2015). However, it will be possible to define this concept in a more concrete way once the results obtain with the analysis of the Portuguese startup studios are discussed.

3.1.1 The Portuguese Ecosystem

Portugal is emerging as one of the most important places in the European startup scene, up surging from the financial crisis in the late-2000s. Although still in a very early stage and smaller than the United Kingdom, Germany, France and Spain, the Portuguese entrepreneurial ecosystem is producing astonishing developments taking into consideration the country dimension and economy (Startup Europe Partnership, 2015). With an entrepreneurial ecosystem supported by the government and a powerful network of entrepreneurs, Portugal is turning to be a top destination "*to create, test, fail fast and try again*" (Fentiman-Hall, 2017).

In the period between 2010 and 2015 40 scaleups were born, which raised more than $160 million from venture capital and 9 successful startups were acquired by larger corporations (Startup Europe Partnership, 2015). The Portuguese economy has suffered a turnaround, growing at a higher rate than the euro zone, achieving an unemployment rate below 10 percent. This economic growth is sustained by a wave of entrepreneurs and startups, with startups younger than 5 years old creating half of all new jobs in the country (Fentiman-Hall, 2017; Ortmans, 2018).

This economic turnaround was only achieved with the support of the country central and local governments. As a response to the crisis the government started a revitalization of the Portuguese entrepreneurial ecosystem, with taxes reductions and the creation of a €450 million investment fund as incentives to entrepreneurs. Local governments also played a major role in

this revitalization, municipalities governments like Lisbon, Cascais, Porto, Braga or Coimbra, among others, invested to create new infrastructures, business incubators and other mechanisms to stimulate entrepreneurship (ECO, 2017; Ortmans, 2018). Startup Portugal is a national strategy for entrepreneurship launched by the government in 2016 with three goals: "*to create and support the national ecosystem, to attract national and foreign investors and to accelerate the growth of Portuguese startups in foreign markets*" (Startup Portugal, 2018), just as an example.

It should also be taken into consideration the analysis from the Startup Genome *Global Startup Ecosystem Report 2017* (Gauthier et al., 2017) where the authors analyze the Lisbon ecosystem. The authors report finding a young ecosystem, with a low performance on exit indicators, but on track to become something greater. The study highlights the vibe and energy of the city, the new way of thinking, and a country prepared to develop new technologies that, when put together with the governmental financial incentives, helps to understand the impact of the emerging ecosystem. In this same report we ca find a more detail analysis of the ecosystem (see appendix B), it is worth to emphasize that Lisbon startups have 34% of foreign customers, showing a strong global connection, 82% of founders have a masters or a PhD, with teams of 2 to 3 founders, which represents the ideal number (according to Startup Genome Reports, 2015, 2016), and Lisbon has 17% of women founders, the highest in Europe (Gauthier et al., 2017).

The Portuguese ecosystem can be translated in its more than 150 incubators and accelerators, supporting over 3 000 startups from which almost 70% are in physical incubation and the remaining in virtual incubation (Lispolis, 2017; RNI, 2018; Startup Portugal, 2018). Additionally, all the efforts putted into developing this ecosystem and making Portugal a center of entrepreneurship and innovation in Europe potentially helped the success of its startups. It is not surprising that we can already find three unicorn startups with Portuguese DNA – Farfetch, OutSystems and Talkdesk. These startups, with Talkdesk being the most recent one to reach his status, achieved a thousand million dollars valuation by the investors in the private market (Ferreira Nunes, 2018).

3.2 Sample and Sample Frame

The preliminary study conducted enabled the identification of Portuguese enterprises that meet at least one of the startup studio elements defined in the literature review and corresponding to the theoretical definitions identified. Initially six startup studios (or ventures builders) were

identified but the preliminary findings enabled the understanding that some of the enterprises that identify themselves as "venture builders" are not exactly what was expected.

During our pilot interviews we talked with an Angry Ventures team member, whom explained that despite of defining the enterprise as a venture builder it does not fit the concept of the Startup Studio model. Even though enterprises like Angry Ventures have common traits with the Startup Studio model, we excluded these enterprises from our analysis since they would not help us achieve our goal of understanding and defining the startup studio business model.

Moreover, we also discovered that one of the few Startup Studios established in Lisbon, which meets the theoretical definitions established in our literature review and validated by the preliminary research, is no longer active – after many tries, we were not able to reach this enterprise to understand the reasons behind its failures, thus, we excluded it from our study.

3.3 Data Collection

To achieve the proposed objective of this study primary data was collected through semi-structured interviews to founders or managers of each identified Portuguese startup studio, since they could give more in-depth and detailed responses. This study also uses secondary data from our preliminary research, that was complemented with data from the startup studios websites, pitch presentations when available, news and press releases, as well as other available information online. These data collection allowed to validate the interviews conducted as well as gather an enlarged information base about the case startup studios.

Collecting data through in-depth semi-structured or open-nature interviews, allows the for inquisition of key informants for facts about the topic at hand as well as for opinion and understanding of the interviewee about events (Yin, 1991), since this type of interviews include question asked in a systematic and consistent order to each informant, while ensuring the necessary flexibility by allowing the researcher to exploit topics the informant finds more important to clarify to explain its enterprise (Berg, 2001).

The interview guide was built based on the most important aspects of the definition of the startup studio concept found in the literature review and complemented with insights from the informal pilot interviews conducted and preliminary research.

The questions are divided in three sections (see appendix C). The first was built to approach the definition of the enterprise and which characteristics it owns so it can be classified as a Startup Studio. The second section focus on comparing the Startup Studio model to other incubators, by inquiring which differences the founder/manager identifies and how do those differences relate to the performance of the Startup Studio companies. Finally, the third section evaluates how and why the startup studio was founded, as well as all the processes applied – idea generation, segment focus, funding, revenue sources, team, daily operations, role of the studio and exit strategy. The goal is at the end of all three sections we can obtain a holistic and comprehensive understanding of the Startup Studio concept and how it is seen by the founders/managers in order to create a realistic overview of the emerging Portuguese startup studios and extrapolate our findings to a broader level of conceptualization of the underlying phenomenon.

3.3.1 Selected Sample

The preliminary findings allowed for the identification of six possible study subjects. From those, only two enterprises are included in this study. As explained in the previous section, not all the initially identified startup studios were suitable for the propose of this study. Despite the mentioned limitations, and others that will be discussed further, we successfully contacted and interviewed the two selected Startup Studios – Build Up Labs and Startup Discoveries. Following is the introduction of these enterprises.

3.3.1.1 Build Up Labs

Build up Labs is a venture builder, i.e., a startup studio that focuses in building and growing other startups simultaneously. More precisely, it develops projects based on Artificial Intelligence with a social utility, always with a global mindset. Founded in 2014, as a spin off from ComOn – leading independent Marketing Agency in Portugal – with the goal of solving real problems through new and innovative ideas (Build Up Labs; Computerworld, 2016).

Prior to the foundation of the startup studio, Build Up Labs CEO founded, with is other partner, the marketing agency ComOn 18 years ago. The now ComOn Group grow to become a full-service marketing agency that used the internet boom to its advantage to provide digital services to its clients, delivering, among others, full functioning systems, websites and apps. With a

background in computer engineering the CEO quickly saw a lot of good ideas emerging from working with its client, as he said *"along the way good ideas for digital tools would emerge, but we could not do anything it them. It wasn't what our clients wanted".* After identifying this gap between delivering a solution to its clients and all the processes involved in creating them, together with the miss exploitation of product ideas, Build Up Labs was born as a more entrepreneurial, product focused, arm of the ComOn Group.

3.3.1.2 Startup Discoveries

Startup Discoveries was founded in 2016 as vehicle entity of Business Angels – i.e. a group of business angels' investors that come together forming a fund to invest as a group. One particular aspect of interest in Startup Discoveries is the fact that it was from "birth" designed to function as a Startup Studio/Venture Builder. There is not much information available about this Startup Studio. However, with the help of its General Manager, whom we interviewed, we were able to get a more clear explanation of Startup Discoveries origin.

In its genesis were six entrepreneurs that defined the scope and modus operandi of the Startup Discoveries, gathering another 12 shareholders, totalling since then 17 investors. The concept was based on the idea generation, coming from the investors themselves or from a direct partner of Startup Discoveries, that deals daily with a lot of entrepreneurs and business ideas. A priori, business ideas are business adaptations existing in other countries, and they must have a technology base that does not exist in a specific sector and the potential to scale just like any startup. In the end, the goal will always be to perform exits and generate capital gains. All investors and, above all, the founders, are entrepreneurs with a great passion for the creation of startups who believe in this model.

4. Findings

Data analysis contains the examination, categorization, tabulation and recombination of the evidence gathered to address the proposal research question of the study (Yin, 1991). In order to facilitate the analysis of the interviews, detailed and extend notes were taken throughout the course of the interviews, followed by the writing of an extensive transcript (Stake, 1995)..

Following will be discussed the most relevant dimensions that arose from our findings. To facilitate the exposition of their interventions, the interviewees will be addressed as Directors from this point on.

4.1 Emergence and Self-Definition of the Startup Studio

One of the conditions for the identification of Build Up Labs and Startup Discoveries as Startups Studios was their self-definition. The importance of this topic arose from the findings of our research on existing Startup Studios in Portugal. Due to the fact Startup Studios are a recent phenomenon and yet to be clearly defined, some enterprises in Portugal identify themselves as venture builders or Startup Studios, as we saw with Angry Ventures, without following the conceptualization in the literature (Lapowsky, 2014; Rao, 2013; Szigeti, 2016).

In both cases, the studio incubators declare that they are "venture builders" or "startup factories", the only ones in our research to verify this assumption. In the first contact to both directors they confirmed that the enterprises they manage function as Startup Studio. However, during our interview with the Build Up Labs director he confessed that

> *"we are not exactly sure of what we are, it is a mix of things – entrepreneurs, investors [in pre-seed], incubators, accelerators, co-founders"*.

Nevertheless, another similarity among the startup studios arose. Both Build Up Labs and Startup Discoveries emerged as studio incubators as a result of the fit between the ideology sought by its founder and the Startup Studio model.

In the case of Build Up Labs, the venture was the result of a spin off from the ComOn group. ComOn understood it had the right mindset, skills and a strong team to take Build Up Labs further but lacked the right context to apply the agency method of working in creating startups. Combined with the need to take advantage of the full potential of its entrepreneurial department

and the group's experience in digital services and project management, the Build Up Labs director realized that the Startup Studio concept was the right fit – simultaneous project development, internal generated ideas based on market necessities, with the goal of creating independent companies that could generate revenues. Adapting the enterprise to fit the Startup Studio model, from that point on.

4.2 Founders

Startup Studios are reported to be founded by successful serial entrepreneurs, like the most recent cases of "Tech Superstars" that made big money in their previous ventures (Lapowsky, 2014; Rao, 2013).

The findings of our study show that Portuguese Startup Studios founders are also experienced in entrepreneurial activity. Although, they are not considered serial entrepreneurs – *"an entrepreneur who continuously comes up with new ideas and starts new businesses (...) opposed to a typical entrepreneur who will often come up with an idea, start the company, and then see it through..."*[1] – neither did they have a big successful startup that allows them to fund their Startup Studio. Nevertheless, both studio incubators in our sample have founders (and directors) with experience in creating or managing startups, which gave them the know-how to implement the Startup Studio model. Curiously, both directors are engineers.

In the case of Build Up Labs, the director told us that his experience in creating the ComOn group with his partner allowed him to have the skills necessary. Moreover, when confronted with the comparability of his experience with the ideology behind the "typical" Startup Studio founders he stated:

> *"I believe we become more experienced with every project we work on. It is a continuous learning curve and every time we start something new, we are able to avoid more mistakes".*

As for Startup Discoveries director, when confronted with the same question he said that

> *"We [the group of founders] all have experience in entrepreneurship, we all have created our own startups which gives us the know-how to mitigate early stage mistakes".*

[1] Definition by Business Dictionary

Moreover, during our research we were able to see that the Startup Discoveries director has several experiences in helping startups, more than creating its own, especially in raising capital and supporting first-hand entrepreneurs, and as project manager and CEO of other enterprises.

Therefore, Portuguese Startup Studio founders, alike his counterparts in other established Startup Studios in bigger economies, are experienced entrepreneurs with the will of keeping working close in the entrepreneurial and innovation processes.

4.3 Processes and Methodology

From the decision to launch a new project to the daily operations of the studio incubator, the Startup Studio model is characterized by having standardized processes in order to maximize efficiency. Our findings show that the processes implemented by Build Up Labs and Startup Discoveries can be separated in three subdimensions – Ideation, Equity distribution and Operations. Further we exploit each of these subdimensions in order to establish a clear conceptualization of each these characteristics.

Additionally, the processes implemented by Build Up Labs and Startup Discoveries are based in the Lean Methodology, which consists on constant improvement to maximize value creation. Here, both directors denoted that the most crucial aspect is the implementation of a methodology that allows to adapt to market necessities and opportunities. Just as the Startup Discoveries director stated when asked if following a methodology was part of the Startup Studio Concept:

> *"In this model, in order to work on a lot of projects at the same time and do things fast you need to have a specific method that allows you to change things around and build up on feedback. If you don't have that, you will lose opportunities and focus".*

4.3.1 Ideation

Despite most literature presenting ambiguous findings regarding the Ideation process in the Startup Studio model, it is undoubtedly the core dimension used to define the Startup Studio concept (Carter & Cheung, 2017; Edwards, 2015; Lapowsky, 2014; Rao, 2013; Szigeti, 2016).

Unfortunately, our findings do not provide clear directions to the conceptualization of how ideation is generated. While both studio incubators firmly see idea generation as an internal

process supported by the studio incubator community, Startup Discoveries director reflected that in his opinion the in-house ideation process does not define an incubator as a startup studio. In fact, most times, in order to obtain revenues to maintain its operations, Startup Studio develop external generated ideas. Build Up Labs has in its portfolio a startup brought from the outside, the founder of that project had the idea and skills to make a viable product but did not had any of the resources or business skills needed. As for Startup Discoveries, during our interview, the director told us they were evaluating a "scouting" strategy to approach university and corporate innovations to be developed by the studio incubator.

Thus, it is possible to conclude the Ideation process in the Startup Studio model does not need to be entirely an internal process, yet the main focus of the studio incubation business model needs to be the development and exploitation of internal generated ideas.

4.3.2 Equity

The startup studio model is characterized for keeping a major stake in each of the startups it creates. Therefore, it is not surprising that both cases analyzed in this study present to do so. But our interviews reveled differences on the way each of the Startup Studios approach this issue.

Startup Discoveries director explained that the studio incubator keeps a major equity stake on the startups it creates (between 40% to 80%), not as a result of coming up with the idea, but rather because it is the studio incubator that is investing in the seed stage of the startup. Therefore, it keeps the equity representing that investment. Moreover, the equity that is not held by the Startup Studio (20% to 60%) but given to the person in charge for the development of a specific project, as an incentive and to leverage the sense of belonging.

As for Build Up Labs they keep the entire equity (100%) of each project it creates as a consequence of all resources used in the development of the startups being internal resources – idea, team, investment, infrastructure, etc. The only exception to this is when the studio incubator embraces external projects, where the founder/creator of that project stays as the main shareholder.

In conclusion, our findings support the conceptualization that Startup Studios can be characterized by keeping a major stake on the equity of the ventures born from the projects they develop in house.

4.3.3 Operations

In relation to operations, this subdimension encompasses all the aspects related to the business and daily operation of the studio incubator. Therefore, it was included in this conceptualization the idea selection process, startup development process, support offered by the studio incubator, among others. The current literature (Elziere, 2014; Montgomery, 2016; Szigeti, 2016) tells that the Startup Studio operations, as one could expect, are the most variable feature. However, it is important to understand how the Portuguese startup studios approach this element, and in particular to infer if the operations can be established as a differentiating characteristic from other incubator models.

Regarding idea selection both startup studios have a similar approach. Ideas are selected if they have a fit with the business ideology and segment focus implemented by the studio incubator. For example, Build Up Labs creates products based on being "Social by Design" and "Machine Learning", i.e. products based on network effects with a social and community nature that evolves and learns the user's preferences to improve. Additionally, both Startup Studios typically launch a new project every three month.

In relation to startup development there are some differences. While Build Up Labs uses a five-step approach that goes through a minimum viable product, testing and a pre-defined exist strategy, Startup Discoveries focus on using the Lean methodology to keep on improving its projects and using community and general public feedback to make changes.

As to support offered by the studio incubators, both directors highlighted that not only their enterprises but that the Startup Studio concept itself is based on ongoing support through the entire lifecycle of the startup.

Startup Discoveries has a particularity in its operations, derived from the fact it distributes equity among some team members. As a control mechanism, Startup Discoveries applies a term sheet to every project it develops, that allows the studio incubator, among other aspects, to withdraw the team member's equity during the investment rounds period to prevent individualistic behavior.

In all the most relevant aspect of the operations is the ongoing support during the full lifecycle of the startups and the constant launch of new projects while developing the existing ones. Characteristics which help differentiate the Startup Studio model from other incubator models.

4.3.3.1 Time to Market

There is evidence (Diallo, 2015; Rao, 2013) that the specificities of Startup Studios Operations, especially the constant support and standardized processes, generate a time to market advantage. Both Startup Studios analyzed in this study have seen results in terms of time to market from the projects developed with this approach.

Based on the available information about the projects both studios are currently working on and the directors' interventions, it can be observed that on average it takes 6 months to go from the idea conceptualization phase to market. In both cases, it was confirmed by the directors that after 6 months the projects start generating revenues or are ready to be monetized. Just as Build Up Labs director confidently states when talking about the three projects the Startup Studio is currently developing:

> *"[all the projects verify the] efficiency and improved performance behind the Startup Studio concept"*.

This is evidently one of the main advantages of the Startup Studio concept.

4.4 Team Set Up

One of the pillars in the Startup Studio model is having a core team that works in all projects, a team experienced in creating their own startups. Only with this experience, even if not successful, it is possible for the studio to "build" different startups in a more time and cost-efficient way.

In the two Startup Studios of our sample this idea is verified. The Build Up Labs director recognizes that everything that the studio incubator has been accomplishing over the years would not be possible without its team. He considers that having the right people with the right skills and mindset is what allows Build Up Labs to be what it is today. In agreement with this view, Startup Discoveries director also stated that:

> *"Having a team that has dealt with the pressure of managing a startup, a team that knows each and every detail of running a business like this from the long hours working to how to raise cash it's a deal breaker. It is how we are able to mitigate most, if not all, of the rookie mistakes that we see in early stages"*.

Although both directors agree that Team is definitely the most important resource of the Startup Studio model, the Startup Studios analyzed have different approaches on how to set their teams.

This team set up reflects the equity distribution discussed in a previous section. Since Build Up Labs does not distribute equity among its team members, their team set up is based on the internal team of the studio. On one hand, Build Up Labs team is composed by a multidisciplinary team – designers, growth hackers, entrepreneurs in residence, developers, marketeers, user experience specialists – that are divided between the different project accordingly with needs.

In the case of the Startup Discoveries we were told that they implement a simple model. When the Studio decides to invest in a specific project, there is a need to recruit a team to work on it. Although it has a core team able to kick start it, it needs a team fully dedicated to that project. Here it is where we will find the minor equity stake. Every time the studio recruits a new team, it recruits two to three promotors – people in charge of running the new project. Each promotor gets a percentage of the equity as an incentive for the work they put in and give those promotors a sense of belonging. From that moment on, promotors become the "owners" of that project and are responsible to run it as their own.

With the evidence presented, is possible to conclude that there is not a specific team set up to maximize performance. However, there is the need to have a team with a wide range of skills, which can complement each other. Nonetheless, Team is a vital characteristic of the Startup Studio model, that can be characterized as diverse and flexible.

4.5 Funding and Revenues

The current literature on Startup Studios mention that studio incubators are typically funded with the founders' own money. Our research, on the Portuguese Entrepreneurial Ecosystem, enables the understanding that one of the particularities of the Portuguese Startup Studios does not meet this assumption. On the other hand, revenues do not come from a fee paid by the startups it "incubates" but from their profits, as the outcome of owning equity.

4.5.1 Funding

Indeed our findings show that the initial source of funding for the studio incubator is not the founder itself but alternatively a group of investors, in Startup Discoveries, and its "mother" company, in Build Up Labs.

In both cases funding, which supports the daily operation of the studio incubation and the initial investment in the new projects, comes from an external source. In the case of Startup Discoveries this external source is as fund composed by Angel Investors, for Build Up labs the external source is the ComOn group.

Another particularity of these two Startup Studios is the fact that they operate under an Investment Committee, whom does not have a role in the Startup Studio daily operation but decide if a new project will be funded or not. Only after the Investment Committee decides a new project will be launched.

4.5.2 Revenues

Regarding the revenue source, contrary to what is observed in the incubator archetypes, Startup Studios do not get a fee for their services. Instead, in the studio incubator model the revenue source is the compensation from the equity owned in each startup once profits are generated.

During the interviews with both directors they admitted that revenues were one of the biggest frustrations related to the Startup Studio model. Since it normally takes 6 months for a project reach the market, it means that only then it will be possible to start generating revenues. However, initially the revenues each startup generate are used to support its growth. Which means that it can take some time until real profits are generated to be distributed among the shareholders.

Therefore, the Portuguese Startup Studios are highly dependent of their external source of funding. Consequently, there is loss of flexibility in the process of investing in new projects.

4.6 Exit Strategy

The exit strategy is one of the aspects in the Startup Studio concept that is given special attention. While in typical incubator model, as we have seen in the incubator archetypes, the

exit is not a concern of the incubator itself but rather of the startups they help. In the Startup Studio model, since the studio incubator is the major shareholder and aims to create multiple projects simultaneously instead of developing one specific startup, it is expected that a well define exist strategy becomes a priority of the presented model.

In alignment with the literature (Szigeti, 2016) and anecdotal evidence, both Portuguese Startup Studio have a defined and structured exist strategy. In the two cases the main goal is to reach a successful exit, i.e., to be able to sell a project to a third party. However, Build Up Labs as a broader exist strategy, which incorporates internal growth and spin off. In the latter option, the studio reduces its equity stake, distribute it to external investors in order to allow for the spun off startup to grow as an independent company.

Nonetheless, the choose between internal growth, spin off or acquisition are not mutually exclusive. It is possible for the studio incubator to spin off one of the projects as an independent company, keeping equity on the new company and enjoy profits generated by its growth until the right exit opportunity is presented.

4.6.1 Successful Cases

Although it was not possible to obtain much information on Startup Discoveries projects and their current stage, some insights on the Build Up Labs companies allowed to address this issue. When asked about this topic, the Build Up Labs director confirmed they had achieved their first exist.

Between the more unsuccessful projects in their portfolio, there is one that has already been acquired, becoming their first successful exit. NVY.LIFE, acquired by L'Oréal, was a social platform targeting women, with a blog and an app that offered a fashion guide and delivered relevant news every day. Achieving an exit was one of the best proofs of success for the startup studio model and their business model, as the Build Up Labs director stated:

> *"It followed all the guidelines, it was a social platform, it had a community that was able to personalize their experience, which allowed the product to be improved based on what the users wanted to see – it even evolved from a blog to have a dedicated mobile app – and it achieved success becoming Build Up Labs' first exit".*

Therefore, it can be deduced that the Startup Studio model is characterized by having a well-defined exit strategy. This strategy can assume different approaches, but always with acquisition being the preferential outcome of each project that is developed by a studio incubator.

5. Conclusions

The aim of this study is to understand if the Startup Studio model is adequate to leverage economic development in small and open economies that require entrepreneurial activity to prosper. To do so, we analyzed the Startup Studio characteristics in Portugal, a small economy with an emerging and attractive entrepreneurial ecosystem where the Startup Studio concept (and some adaptations) is already being implemented.

5.1 Startup Studios in Portugal

Our findings give us insights on the rationale behind the emergence of Startup Studios in the Portuguese entrepreneurial ecosystems and their organizational characteristics. The fact that Portugal has quickly became one of the most attractive centers for entrepreneurship in Europe, together with the need for the players in the national entrepreneurial ecosystem to adapt after the economic crises, justifies the emerging of the Startup Studio model.

5.2 Startup Studios Conceptualization

First of all, our findings highlighted that the core of the startup studio model is the fact that the founders and core team of the studio are experienced entrepreneurs – successful or not – that give ongoing support to each project throughout every stage of the startup life cycle and are able to mitigate some "rookie" mistakes.

As for Build Up Labs director, he saw the Startup Studio model as an opportunity to exploit a gap in the ecosystem. While normal incubators incentive innovation and support economic development, they do not take advantage of great ideas they found during their journey. Thus, a combination of an incubator model with the startup mindset was perfect to leverage the exploitation of ideas and innovation while having a support for when things go wrong. Build Up Labs uses its marketing agency background to manage the different projects and give priority to the most promising ones, always keeping track of good ideas that come up during the course of time, when a project would stagnate the resources allocation would be rethought to foster the gain in more successful projects.

Secondly, while most Startup Studios established so far have different approaches to the same issues, common characteristics are found. During our research we found that the Startup Studio

model allows the adaptation to the ecosystem. Which means that the difficulty in defining the Startup Studio concept is not derived from the lack of coherence among the established startup studios but as a result of the adaptation behavior of the adjacent model to fit and serve a gap in the entrepreneurial ecosystem it operates in. An example of an adaptation mechanism is the way Startup Studios can be used to replicate existing models in a specific context, rather than trying to create a disruptive innovation – like the Startup Discoveries director confirmed: *"Start-up business ideas are business adaptations existing in other countries, (...) and have a technology base so there is no specific sector"*.

Thus, based on our findings we suggest the following definition: *an incubator focused on developing its own cohort of startups, based on a standardized approach to grow the startups in a more efficient way, using internal resources and offering a personalized support throughout the startup entire life-cycle*.

Core organizational characteristics and operational processes – like ideation, equity, operations and team set up – are not influenced by the type of economy where the Startup Studio is established, not compromising our definition of the Startup Studio Model. Nonetheless, it is possible to observe that dimensions such as Founders, Funding and Exit in smaller economies will differ from its counterparts in bigger economies.

An especial attention was given to the way Portuguese Startups generate ideas, since the ideation process is one of the core principals of the Startup Studio model. Our findings suggest that the idea generation process is like the one implemented by Startup Studios in more developed entrepreneurial ecosystems. While there can be some assumptions that more developed economies will generate more innovations and less develop economies will rely on replication existing business our evidence shows that the ideation process will always be internal, and community based. With no verifiable evidence that shows to be impacted by the type of entrepreneurial ecosystem. Thus, Ideation will be company specific rather than entrepreneurial ecosystem influenced.

Proposition 1: Startup studios in small emerging economies will implement an idea generation process like startup studios in bigger and more developed entrepreneurial ecosystems.

The fact that the Portuguese unicorns achieved this status in the private market (Ferreira Nunes, 2018) indicates that Portugal does not have a big exit market (specially through IPOs), which

will influence the exit strategy adopted by Portuguese Startup Studios. As we have observed in the Startup Studios in our sample of analysis, the exit strategy implemented has a focus on spin-offs and, when possible, acquisitions. However, our evidence shows that even without IPOs as part of the exit strategy, the Startup Studio model can generate relevant monetary gains.

Preposition 2: Startup studios in small emerging economies will rely more on spin offs as exit strategies than startup studios in bigger and more developed entrepreneurial ecosystems.

Portuguese Startup Studio's founders have some entrepreneurial experience and choose to adopt this model to take the most advantage of that experience. However, the experience level of the Portuguese Startup Studio founders is still not at par with founders in bigger economies. Nonetheless, the implementation of a "try and fail" approach give the Portuguese founders the elasticity to find the best approach to take advantage of the Startup Studio model.

Proposition 3: Startup Studios founders in small emerging economies will have less entrepreneurial experience from their founders than startup studios in bigger and more developed entrepreneurial ecosystems.

Consequently, without a big exit market resulting in a lack of very successful entrepreneurs we can observe that the Portuguese Startup Studios are not funded directly by its founders.

Portuguese Startup Studios have alternative methods of funding, when compared to established Startup Studios in Germany, USA or UK. Our evidence hints that the national studio incubators will be funded through a parent corporation or a group of investors. Which will conditionate part of the operational process of the studios, namely the selection of projects.

Proposition 4: Startup Studios in small emerging economies will need alternative methods of financing, depending heavily on funds composed by private investors or public financing programs, while studio incubators in bigger economies will be mainly supported by its founders.

As a result of a smaller exit market and more financial constraints, it is understood that the Portuguese Startup Studios will not rely solely on their startups to generate monetary gains and have outlined a revenue strategy that comprises developing external projects or offering additional support for non-incubated companies.

Proposition 5: Startup Studios in small emerging economies will rely on different revenue sources than startup studios in bigger and more developed entrepreneurial ecosystems.

Despite the noticeable differences, some similarities between the Portuguese Startup Studios and others established in more developed economies were found. One of those similarities is the team set up. Our findings allowed for the understanding that independently on the type of economy it refers to, the Startup Studio model rests on a multidisciplinary team, in which team members are able to complement each other. Based on our observation, it is likely that this team will include both more entrepreneurial experienced members and novices.

Proposition 6: The team set up in Startup Studios in smaller emerging economies will be like Startup Studios in bigger and more developed entrepreneurial ecosystem.

Other similarity is the operations approach. Even without a specific defined method to organize the Startup Studio operations, since each enterprise will organize its operations as it sees more beneficial, common traits emerged among the various aspects. Align with the literature (Elziere, 2014; Montgomery, 2016; Szigeti, 2016), Portuguese Startup Studios operations consist of ongoing support, implementing a widely used methodology for venture creation.

Proposition 7: Operational process will diverge from company to company but will not be influenced by the type of economy.

Equity distribution is another aspect that can not be linked to the type of entrepreneurial ecosystem. The way each studio incubator distributes (or not) the equity of each startup it develops will be highly dependent on the company/founder's values and strategic plans. Therefore, there is no evidence that allows for a more precise conceptualization than the importance of having a pre-defined standardized equity distribution strategy has on the Startup Studio model.

Proposition 8: There are no differences in Equity distribution between Startup Studios in smaller and bigger economies.

5.3 Theoretical Implications

In contrast to the existing literature, this thesis aims to initiate the academic discussion regarding the Startup Studio model and underlying concept by starting to clarify the definition and look for startup studios in different context, in order to set a broader definition and help

establishing differentiating characteristics from other incubator types. Most of the existing literature regarding Startup Studios is based on the report of studio incubators team members trying to clarify the concept to bring awareness (Anderson, 2017; App'n'roll, 2016; Elziere, 2015) or on the study of the financial impact of Startup Studios in more developed entrepreneurial ecosystems (Scheuplein & Kahl, 2017). Here, the focus is given to the broader conceptualization of the Startup Studio model.

Moreover, this thesis contributes to the literature on entrepreneurial ecosystems by studying the emergence of this incubation model in Portugal, in order to exploit the existing idiosyncrasies of the Startup Studio model and the benefits that can arise from implementing this model in small and open entrepreneurial ecosystems. It is not enough to see how the studio incubators behave in bigger and more developed entrepreneurial ecosystems, where typically there is enough "space" for trying new models and entrepreneurial activity is already well perceived and supported. Being of increasing importance to understand the underlying implications of the Startup Studio model to evaluate if this model is a viable alternative and how it can be correctly implemented in small and emerging entrepreneurial ecosystems to foster their willingness and necessity to innovate and sustain their economic development.

5.4 Managerial Implications

This study contributes for the outline of relevant guidelines for Startup Studio directors and founders. The ability of adaptation of the Startup Studio model has shown to enable the successful implementation of this model in smaller economies entrepreneurial ecosystems, if the correct variables are taken into consideration

To start, one of the most important aspects to take into consideration in the Startup Studio model in small and emerging entrepreneurial ecosystems, both for current managers of Startup Studios or wanting-to-be founders of a studio incubator, is the studio incubator funding. We know that due to particularities of this type of economies, funding will be supported from an external source. Thus, higher efforts need to be given to foment investors relations and how to the Startup Studio is communicated to the public. There is a need to show a strong, reliable, innovative image. Moreover, special concern needs to be given to appropriate government support and incentives. The studio incubator model relies on a higher initial funding to support the early development of startups and a suitable exit market. Therefore, government needs to take close attention to the allocation of public financial support to these types of incubators.

Another relevant aspect in the Startup Studio model is the team set up. It is of vital importance to guarantee that the studio incubator team has people able to take one project from start to finish – i.e., the core team needs to be able to assure the initial development of any project. Consequently, the management structure of Startup Studios must be carefully planned to foster the internal idea generation and incentivize the effort in developing the startups. Here, a more horizontal structure can be beneficial to promote innovation and flexibility.

Finally, since the experience level of the smaller economies Startup Studio founders is still not at par with founders in bigger economies, which can depicture a weaker performance of the startups initially developed. the studio incubator should be backed by a mentorship-like or network mechanism – for example: thigh connections to universities as a source of knowledge and innovation, internal training programmes in relevant entrepreneurship subjects (like business plan development, capital raising, startup evaluation, growth hacking, etc.), conferences between other startup studios (national and international) – which gives founders/managers and teams of these studio incubators the opportunity to discuss the most prominent issues and seek help from industry experts.

6. Limitations & Future Research

6.1 Limitations

Despite its many contributions, this study has some limitations. Namely, this study has a prominent sample limitation, mainly resulting from the difficulty to identify adequate study subjects. First, and as a result of the Self-Identification dimension discussed in our findings, some enterprises identify themselves as Startup Studios, Venture Builders or Startup Factories without the proper application of the Startup Studio model and underlying concept. From the 6 startup studios identified initially, only four of them met the ideology of the Startup Studio concept. From Which one is not active anymore and the other never replied to any of the contacts made, which made it impossible to include them in the study. Second, and as a consequence of the first limitation, is the possibility of startup studios only unveil the companies they create, without identifying the studio as founder or without announcing it, which make it almost impossible to track the parent company/incubator or other enterprises that can meet the Startup Studio concept assumptions. Finally, during our research and our interviews we had the opportunity to probe the participants of the study if they could identify other existing Startup Studios. Most times, the participants would identify the same Startup Studios as found in our research. However, some indicated Startup Studios in an embryonic stage or still in development, which means that can exist more established startup studios that are still not "public". Nonetheless, the scope of our study was the organizational and operational characteristics of established Startup Studios and their potential to leverage the economic development of small and open economies. Thus, Startup Studios in development would not meet the necessary conditions of our interest.

6.2 Future Research

The infancy of the startup studio concept and the fact it is still barely adopted in Portugal makes it difficult to compare the different approaches used in order to make a generalization of the startup studio concept in the Portuguese scope. However, once the number of studio-like enterprises in Portugal increases it will be possible to understand the differences between the various type of incubation model in practice. A replication of this study with a broader sample and including different incubator types would allow to better define the startup studio concept

as a new emerging incubation model as well as the exploration of the existing differences between models. Moreover, a look at the companies the startup studios create, and their performance would also represent a benefit to the literature, to find out the impact the startup studio characteristics have on the companies it creates – especially with a focus on speed and standard business development processes. Once the concept is more developed, it would also be important to study each of the Startup Studio characteristics individually in order to explain their emergence and the benefits and caveats that can be found by choosing to undergo such approach.

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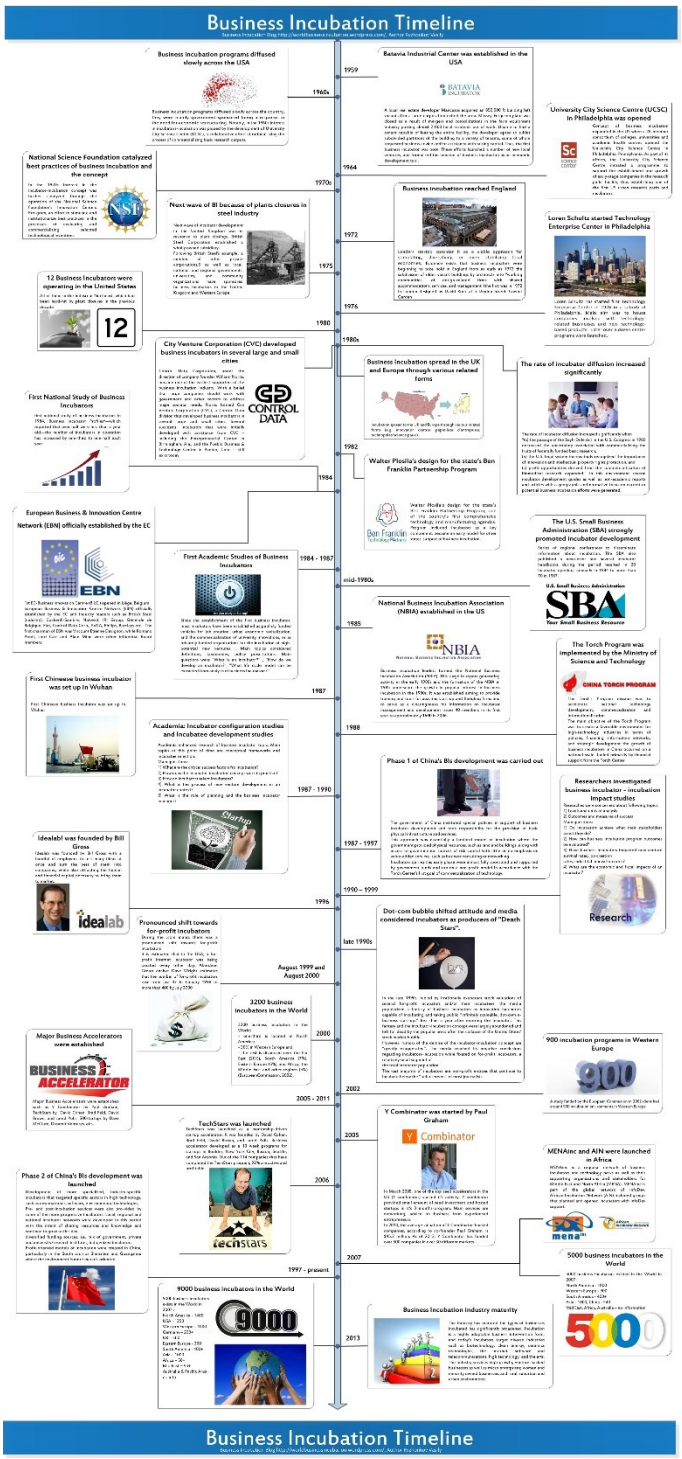
8. Appendix

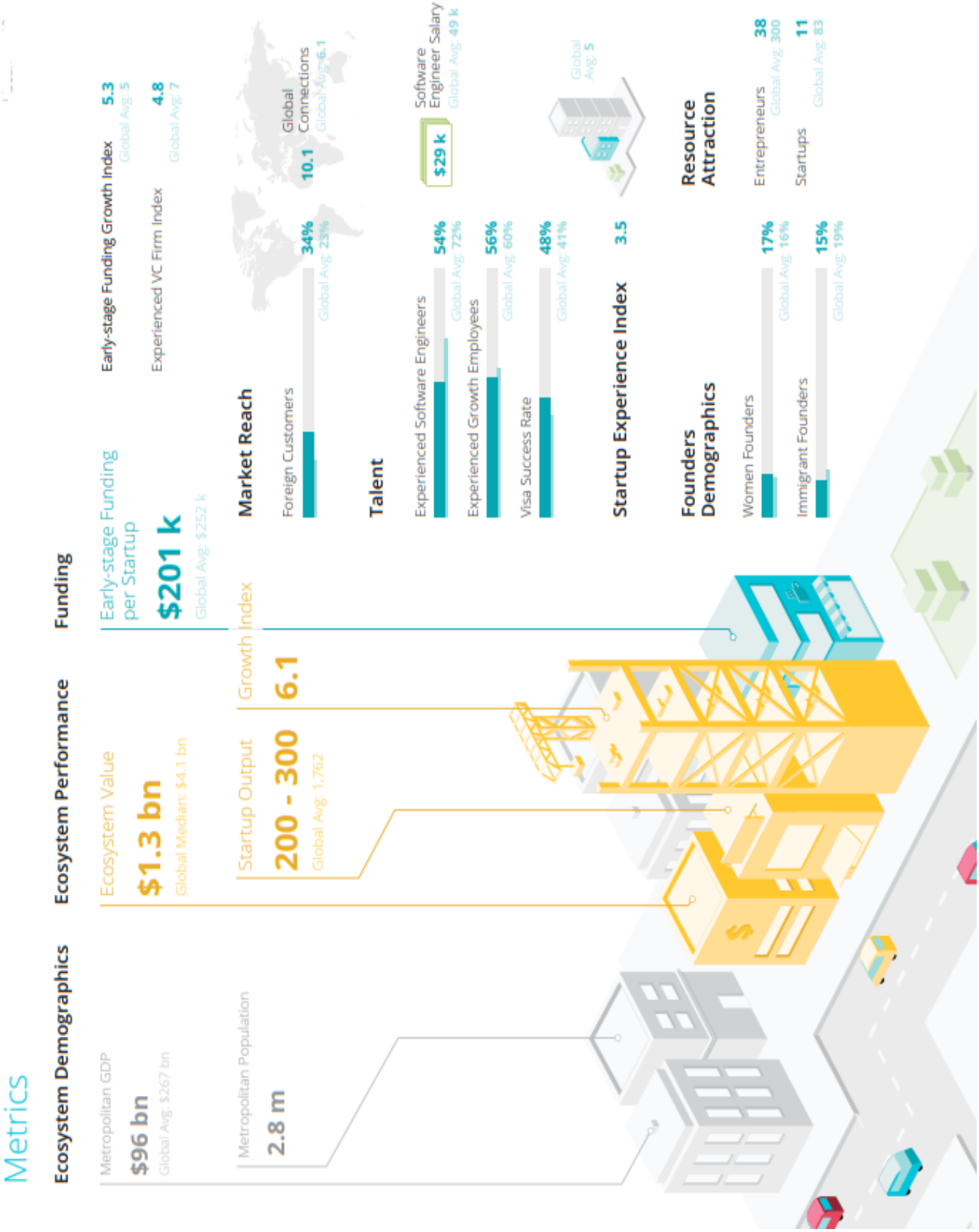
Appendix A: Business Incubators Timeline

Source: Ryzhonkov, V. (n.d.). Startup & Business Incubation Infographics | Entrepreneurship, Business Incubation, Business Models & Strategy Blog. Retrieved November 17, 2018, from https://worldbusinessincubation.wordpress.com/startup-business-incubation-infographics/



Appendix B: Deep dive into Lisbon Ecosystem

Source: Gauthier, J. F., Penzel, M., & Marmer, M. (2017). Global startup ecosystem report 2017.



Appendix C: Interview Guide

Startup Studio: _____ Date: _____/_____/_____

INTRODUCTION

(5 Minutes)

- Provide background of researcher
- Identify the purpose of the research:

  To understand what venture builders are, in order to help define the concept (that is not very clear in the current state of the literature), and how they can be distinguished from other incubation models, and from similar models taking into consideration the attributes of the Portuguese Entrepreneurial Ecosystem.
- Describe research involvement:
  - Interview (± 60 minutes)
  - Follow-up emails or phone conversations (if needed)
  - Applicable internal reports or documents
- Ask permission to record the interview (mention when starting to record) and inform that we (Católica) are compliant with data privacy protection. At any part of the study we will identify the subject's identity.
- Outline the flow of the interview. The interview has three sections and uses both open and closed-ended questions.

SECTION ONE

DEFINITION

While looking at your website, you describe yourselves as "Venture Builders", "Venture Studio" or "Startup Studio".

What do you mean by that? What is the main purpose of your organization?

Why do you describe the incubator to be a "builder"?

Why do you call it a studio?

SECTION TWO

DIFFERENCES

How different do you consider your "incubator" to be from other "typical" models? (like Startup Lisboa or Fábrica de startups?)

What would you say the main difference is? Why?

In what Aspects?

How do those differences relate to better outcomes, for your organization and for startups success?

Do you consider them competitors?

SECTION THREE
CHARACTERISTCS

How did you come up it the idea to create a Startup studio?

Who founded the studio?

What is their background?

Do they have other experience as entrepreneurs? **Tell me more about this**

Do you think that impacts the way they do things?

Tell me about how do you manage to choose/select ideas to support?

Who decides?

Where those ideas came from?

Who generates the ideas?

To whom do they belong?

Do you accept ideas from “outside”?

If yes, what do you add to the process that makes you different?

Do you think it is about having the right idea? Or the right momentum?

Do you focus on a specific type of ideas?

Or do you work with anything that comes up?

Focus on a particular technology? Industry? Sector?

Why? Why not?

How do you fund them? How do you get the money?

Do you have private investors?

Does any of the team members invests their own money?

Who gets equity? How is the equity divided?

Do you use any public funds? Or apply to get public funds?

What are your revenues sources?

Do you get any profit from your projects?

Do you get any service fees?

How do you organize your teams?

Do you have a team focused on a project at a time?

Do you have a team working in various projects at the same time?

Does each person have a specific role?

They get equity? How much?

How do you organize the operations of the studio itself? (Accounting, Management, Legal, HR, IT, etc.…)

Do you follow a specific methodology?

How do you evaluate your projects?

Which projects get support? Which are trashed out?

Does each projects function like an individual autonomous company?

What is the role of the Studio in the daily operations of the startups?

What do you offer to each project?

(Financial advisory, marketing support, networking, business know-how, funding, sales, etc.…)

In what aspects is your process different from other incubators?

Do you have a clear exit strategy for the startups?

Is there a point where you see that you should try to sell?

How do you decide if you should sell or grow it?

Do you spin off less successful projects/ideas?

FINAL REMARKS

- Thank you note
- Ask about availability for further clarifications if needed
- Recall they have my email in case there is any questions from their side