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(Article begins on next page | Il contributo inizia nella pagina successiva)

Venture-Builders' Program Design and the creation of Scaleups

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Abstract

The Venture-Building model has increasingly gained popularity in recent years across Europe as a promising model of innovation and entrepreneurship that can help mitigate the risks of startup creation and maximize the chances of success. In contrast with traditional business acceleration programs that support existing startups – who already have a founding team and a somewhat developed idea - with resources and networks, Venture-Builders are concerned with creating or building new startups starting only from an idea. They typically aim to create scalable companies or scaleups from the outset, drawing on the expertise of entrepreneurs-in-residence who have previous entrepreneurial successes under their belt.

As Venture-Builders have gained in popularity and success, a host of different actors, such as venture capitalists and business angels, universities, private companies and public sector institutions, have started to develop and implement their own Venture-Builders. These differ in various aspects, such as the infrastructure they make available to the startups, the degree of control they exercise, the extent to which they focus on specific sectors or technologies, where they seek ideas, how many ventures they build at the same time, and their relationship to funding sources. These aspects are, however, also connected with the ability of firms to scale and grow. Different Venture-Building models may thus be more, or less, suited to fulfilling the promise of creating scaleup companies, that exhibit sustainable growth, consistently over time.

Therefore, the paper attempts to shed light on the previously unexplored link between the features of the Venture Building process and the creation of scaleup companies.

Through a series of interviews conducted on Venture-Builders across Europe, set up by different types of actors, we create different archetypes of Venture-Builders and discuss their suitability to producing scaleups.

Key words: *Venture-building model; Startup Studio model; Venture-building process; Entrepreneurship; Scaleup*

Framing of the research.

The Venture-Building model has increasingly gained popularity in recent years across Europe and beyond. In contrast with traditional business acceleration programs, that support existing startups - that already have a founding team and an idea - with resources and networks, Venture-Builders are concerned with creating new startups from scratch, starting only from an idea (Kohler and Baumann, 2015; Pauwels et al., 2016). They often use a Factory metaphor to symbolize the churning out of startups – that they have “built” – consistently over time. The business ideas that are transformed into startups are either developed internally or sourced from external ideators. Startup execution is guided by a team of Entrepreneurs-in-Residence selected by the Venture-Builder that typically have had previous entrepreneurial or domain experience (i.e. marketing, sales, business design, talent acquisition, etc.) (Lesage, 2022). The startup stage follows rigorously outlined processes, where the Venture-Building team supervises and actively engages within the start-ups through thorough idea and solution validation steps to mitigate potential failures and de-risk the startup process (Sgambati, 2022). In addition, the newly minted startup teams are provided with resources and networking opportunities. In this way, Venture-Builders boast that they can create companies that will move more quickly from the startup to the scaleup phase.

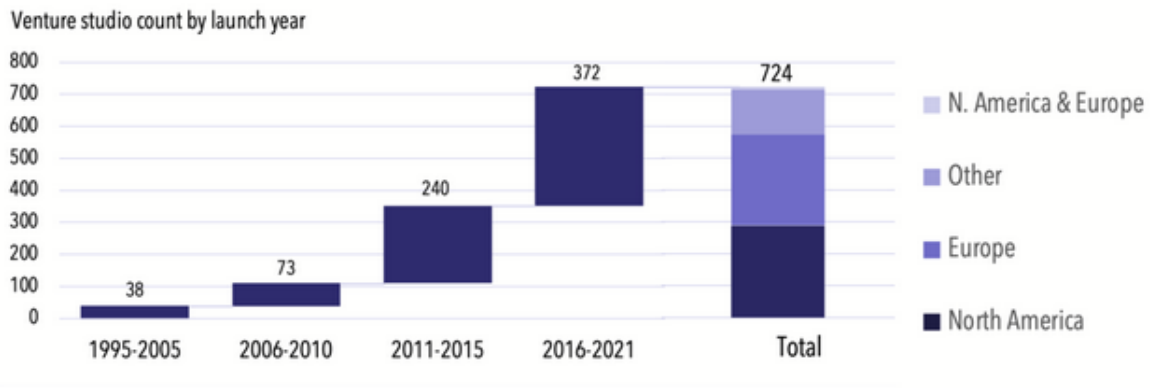
Venture-builders cultivate large talent pools that they can draw on to build capable teams for each startup idea. Building several ideas at a time in a repeatable fashion improves resource allocation for talent and capital, which can be redistributed between different startups as the projects advance and either fail, pivot, or continue. In addition to the team, which is an essential resource for any startup success, Venture-Builders also provide financial resources, attracting them both through their network and through their reputation in the funding (and founding) landscape. Finally, repeatable processes, that typically follow a lean startup methodology or a stage-gate process with multiple reviews, help to keep the startups on track towards achieving product-market fit (Kohler and Baumann, 2015).

Venture-builders are thus a promising model of innovation and entrepreneurship that can help mitigate the risks of startup creation and maximize the chances of success (Sgambati, 2022). Thanks to the success rates of this model, coupled with an increasing attention on entrepreneurship as a driver of economic growth, in the past years the creation of new Venture Builders has risen rapidly (Fig. 1), with 560 active venture-builders globally in 2021, expected to double to 1200 by 2023 (Alhokail et al., 2023, 2019). By 2019 Europe caught up with the USA in terms of the number of Venture Builders, and these had collectively raised as much Venture Capital as was available to traditional start-ups exiting accelerators (Alhokail et al., 2019).

Fig. 1 Acceleration of Venture Studio Creation

VENTURE STUDIO MOVEMENT ACCELERATING

At Enhance Ventures, we compiled the most comprehensive list of venture studios around the world. Our research shows an accelerating global trend:



Venture builders have become a new norm; as of January 2022, there are 724 venture builders active around the world

The venture builder movement is accelerating with >50% launched in the last 6 years; growth especially strong in Europe where the studio count has caught North America

Actual number likely higher since Asia and especially China and Japan are underrepresented due to lack of data

Enhance Ventures Global Venture Studio Database, Enhance analysis; list of ~32 studios provided by Chris Gorges

This proliferation of Venture-Builders has created a large heterogeneity in the actors who are engaging in venture-building, which encompass venture capitalists, business angels, private companies, universities, and government institutions. In addition, the different Venture-Builders encompass a variety of design features that differ according to the vision of their founders. This has created a proliferation of models and terms, such as Startup Studio, Startup Factory, Company Builder, Venture Studio, Startup Foundry, and Startup Nursery (Lawrence et al., 2019). These different models may have an impact on the growth rates and the ambitions of start-ups that are born through the venture-Building model, thus impacting the number of scaleups that can emerge and thrive in the market.

Scaleups are defined as companies that achieve both high growth and wealth creation, and who thereby create a virtuous cycle where the wealth that is created can be used to fuel further growth. This happens thanks to a scalable business model, where scalability implies that the value proposition can be replicated such that revenues increase faster than costs (Monteiro, 2019). The transition from a startup to a scaleup is typically visible when the startup starts to harvest its first few clients, known as gaining market traction. At this stage, the more loosely structured startups need to acquire a more formal structuring that can support rapid growth (Picken, 2017).

Venture-Builders' Design

Examining Venture-Building models, Alokail et al., (2019) identified six dimensions which can be used to describe different archetypes that have emerged over the years. These six dimensions are named: The Guild, The Control, The Idea, The Funding, The Volume, and The Focus.

The Guild: The Guild is the infrastructure package that Venture-Builders supply to their startup companies. It includes the Entrepreneurs-in-residence, technological know-how, finance, and physical spaces. The Guild may be shared horizontally between different startups in the portfolio to increase cost-effectiveness, or it can be distributed vertically for each business.

The Control: Venture-Builders have different rules governing the equity they hold in startups, according to their coaching intensity and required degree of control. Venture Builders who own significant amounts of equity, also have a higher control over their startups' decisions and may coach the startup for longer periods even beyond graduation from the Venture-Builder program itself. According to Alhokail et al., (2019), founders' equity stakes could range from 1% to 90%, which creates some very different conditions for the start-ups themselves.

The Focus: Venture-Builders can choose to operate across different sectors, covering a wide spectrum of technologies and markets, or they may operate vertically in a specific sector or on a specific technological solution (e.g. Artificial Intelligence or Deep Tech). The first approach is called the "Generalist" while the second is called "Specialist" (Alhokail et al., 2019). The first approach creates a critical mass of diversified investments that can mitigate overall risk, while the

second approach benefits from a strong specialization of resources and know-how that leads to synergies that can be exploited by all startups in the program.

The Idea: Idea generation is a critical component of the Business Model of Startup Studios. Sourcing might be done externally or internally. External sourcing may take two forms: fostering external early-stage firms or scanning the market for the best venture to produce a Copycat (Sgambati, 2022). Internal idea sourcing, on the other hand, is a procedure that involves the commitment of Startup Studio specialized employees to generate new ideas.

The Volume: Startup studios can develop a few or many businesses concurrently. This is likely the most challenging choice to make when designing a Venture-Builder's Business Model. On the one hand, undertaking a small number of ventures, lessens the benefits and the synergies of the studio model, while on the other hand, overseeing too many initiatives concurrently degrades both the quality and number of human resources available to the guild for individual ventures. As a result, being able to balance resources and the number of ventures is a Key Success Factor for startup studios.

Funding: Startup studios can choose to finance their portfolio with their own resources or can choose external funding. Hybrid solutions are common, with external partners piggybacking onto the funding that the Venture-Builder makes available for the start-ups.

These dimensions are also very much related to startup growth once it reaches the market and may result in very different success rates in creating companies that rapidly advance towards the scaleup stage. This paper thus maps the different models of Venture-Builders in Europe and relates their model to the effective capability of building scaleup companies.

Purpose of the paper.

Literature has emphasized how, from the outset, Venture-Builders aim to create startups with scalable business models. Indeed, Venture-Builders themselves also broadcast the objective of creating scale-ups rather than traditional start-ups. A comparison of the top 21 companies to emerge from Venture-Builders with the top 21 companies that graduated from acceleration programs revealed that companies from accelerators raise 105% more money, but companies from Venture-Builders have a 26% higher growth (Szigeti, 2016). This would imply that Venture-Builders are indeed more adapted to creating scale-ups. However, an analysis on outliers cannot be considered representative of the overall success rate of Venture-Building, which, similarly to startup creation, follows a power-law distribution with a very long tail of unsuccessful cases and a few very successful ones (Clauset et al., 2009). We contend that there are design features of Venture-Builders that are more or less effective in producing scaleup companies and attempt to investigate this further.

Methodology.

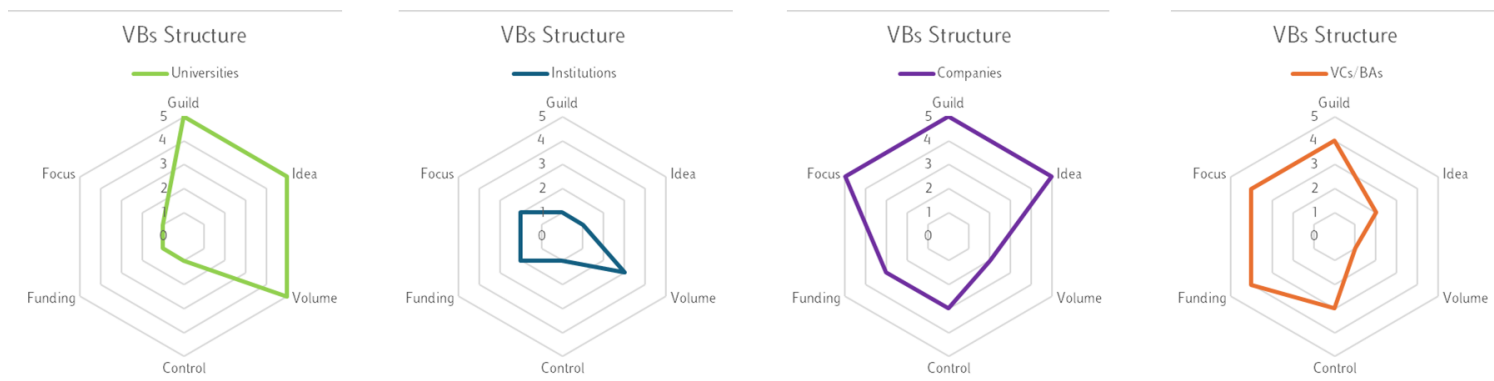
The research is based on multiple case studies through desk research of 32 Venture-Builders in Germany, The Netherlands, The UK and Spain, and interviews conducted between 2023 and 2024 of 6 venture-builders in Italy and Greece, where we used the owners and managers of the venture-building programs as key informants. The desk research and interviews enabled us to explore the different components of the actors' Venture-Building model following Szigeti (2016). From the individual cases, we derived different archetypical models of venture-builders. Considering differing contexts, the case conclusions develop propositions that express which of these models are more suited to producing scaleups rather than startups, presenting some case studies to illustrate the theory.

Results

Venture-Building Models

The following descriptions were derived from the interviews and the desk research, and they concern different venture-building models according to the different types of actors that created the Venture-Builders (Fig.2). The Venture-Builders used to create these models are spread across Europe, both in highly innovative and low innovating regions. They typically concern high-tech industries and digital technologies (Daunfeldt et al., 2016), although there are also some generalists that have no particular focus.

Fig. 2 Venture-Building Models for Different Actors



Universities

Guild: Universities tend to compose teams from internal affiliates only (students, researchers, faculty, alumni), without providing external or expert CEOs and other key staff.

Control: Universities typically hold no control over the startups they create through venture-building

Idea: Idea generation is generally internal and is deputized to the students

Funding: Universities typically provide no funding for the startups, beyond some small awards (sometimes from external partners).

Volume: Universities tend to produce many businesses concurrently, to accommodate all the students with an entrepreneurial vocation. Out of all the groups built, there is an award at the end for a handful of the best ideas and executions.

Focus: Universities tend to be generalists in their focus, in line with their vocation as multidisciplinary institutions, but mirroring the disciplinary areas where their research efforts are present or strong.

Additional information: Universities often create these programs as part of their third mission. The key metrics they mentioned were the number of startups created, the number of students participating in the program, and the market cap of all the startups created over time.

Institutions

Guild: Institutions rely on external participants to form teams, without providing key staff

Control: Institutions typically hold no control over the startups they support

Idea: Idea generation is typically external and is entirely up to the startups

Funding: Institutions may provide funding, but it's generally limited to seed capital or capital to sustain the acceleration phase.

Volume: Institutions tend to produce several businesses concurrently

Focus: Institutions tend to be generalist, while focusing on broad issues for the municipality or region where they are embedded (e.g. smart cities, transportation, tourism)

Additional information: Institutions reported wanting to accelerate local innovation and inject new technologies into the current ecosystem as their main motivation for creating a venture-builder. They rely on partnerships with key actors from the local ecosystem to create the entrepreneurial ecosystem.

Corporations

Guild: Corporations tend to provide all the staff internally from their company

Control: Corporations tend to maintain at least partial control over the startups they create through venture-building

Idea: Ideas are created internally by employees and managers

Funding: Corporations typically provide seed funding for the startups and further funding for a subset.

Volume: Corporations typically focus on small to medium volumes

Focus: Corporations tend to have a more specialized outlook with a focus on their key markets and technological areas

Additional information: Corporations are looking to capitalize on internal under-used knowledge to open up new markets and new revenue streams. They often rely on external partners for the Venture-building program at least at the outset, because specialized knowledge is necessary to create a successful venture-builder. They fund the venture-building programs themselves.

Venture-Capitalists and Angel Investors (VCs)

Guild: VCs often provide the CEO and other key personnel in the venture. They typically look for professionals or researchers with technical expertise who need the complementary management expertise. They either personally participate in the ventures or look for capable managers within their personal network.

Control: VCs take a percentage of control of the final idea, to sustain their business model.

Idea: Ideas are typically scouted from the external landscape, both the professional world and the research and university sector.

Funding: VCs may provide their own funding to start-ups and seek to attract external funding from other VCs. In this case, credibility of the venture-building staff is critical to attract and retain funding sources. Credibility implies having already created successful businesses in the sectors they focus on.

Volume: VCs typically go for very low volumes, as the venture-building staff is personally invested in each venture and is part of the founding team.

Focus: VCs are often sector-specific and pursue a sectoral or even more narrow focus, where they are the most knowledgeable and credible.

Additional information: VCs and Angel Investors treat venture-building as a business, in which they obtain returns by providing all the building blocks to sustain great ideas. Their credibility is thus on the line with each new startup. They use their own funding, however, may also resort to external investors such as other VCs, banks, and private companies.

Venture-Building Models and Scaleups

Literature has examined several conditions that are important in the creation of scaleups. First, when companies reach the scaleup phase, they have a significant increase in the resources they need to fuel their growth. These resources must come from the broader entrepreneurial ecosystem in which the company is embedded, to which they typically get access through the Venture-Builder itself and the networks in which it is embedded (Mohr et al., 2014). In addition, the Board of directors and the managers of such a scaleup also play a role in this search for resources, through their personal networks but also increase the ability of scaleups to capitalize on the resources they receive (Zahra et al., 2009). Scaleups also often need human resources, that must be hired and trained. In this context, both the networks of the startups but also the mentorship and guidance from top management can be of great importance in this process. This is even more important in the event that the startups are in high-tech sectors and need advanced expertise for their further development, which seems to be often the case (Daunfeldt et al., 2016).

From this point of view, the different Venture-Building models have distinct advantages. On one hand, the more specialized models such as those of VCs/Angels and Corporations have in-depth domain knowledge and networks of human resources they can tap into, as well as providing specialized founders and managers through the guild. In addition, they can usually mobilize more capital. Universities can mobilize specialized human resources but have less to offer in terms of entrepreneurial experience and access to funding. Public institutions rely on external actors to mobilize all necessary resources, and thus seem to be in a weaker position to provide these essential assets.

Literature also focuses on the amount of control that the scaleup founders have over the company. In particular, control is expressed as a currency that may be exchanged for external resources including funding (Wasserman, 2017). Thus, the more the scaleups are dependent on external resources, the more they will have to relinquish control over their firm in exchange for these. Venture-Builders who retain a large amount of control over their startups, such as the VC/Angel models and the corporate models, may in future hamper the businesses' ability to acquire precious resources at the scaleup phase. The university and public institution model, by hardly taking any control, may leave more flexibility to the startups in this sense.

Finally, the power-law distribution would imply that creating scaleups is also a numbers game. Therefore, those Venture-builders who create many tens of startups at the same time, i.e. typically those of universities, have higher probabilities of producing scalable businesses that ultimately see above-average returns.

Research limitations. *The paper is based on an analysis of venture-builders in Europe. This is original w.r.t previous literature which has focused more on the US market, however European conditions for entrepreneurship are significantly different than in other global regions and could give rise to Venture-building models that are not easily replicable elsewhere. There are also country-level indicators that influence the dynamism and thus the potential for producing scaleups of the business environment (Bravo-Biosca et al., 2016), and these could in future be factored into the discussion.*

Managerial implications.

The results of this research could help inform Venture Capitalists to understand the potential returns they could receive by backing a Venture-Builder. It could help innovators who are considering pursuing the Venture-Building route or the Accelerator route to understand tradeoffs between the support they are receiving and the capital they are relinquishing. Finally, it could support policymakers who are considering promoting or supporting these types of initiatives as part of regional and national innovation strategies.

Originality of the paper. *The paper attempts to shed light on the previously unexplored link between Venture Studio Design and the creation of scaleup companies. As the Venture Builders or Venture Studio model becomes more popular, different actors are experimenting with different designs according to their specific roles, objectives and experiences, we assess on a theoretical basis which of these models may be more suited to producing scaleups.*

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