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THE RELATIONSHIP BETWEEN STARTUPS' EARLY ADOPTION OF DIGITAL PLATFORMS AND STARTUPS' PRE-MONEY VALUATION

by

Bader Hassan A Faqeeh

Faculty Advisor

Dr. Kathy Ning Shen, Department of Marketing and Entrepreneurship

College of Business and Economics

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Abstract

The objective for this research was to explore whether there was a significant positive relationship between startups' early adoption of the digital platforms, namely, 1) mobile application, 2) a premium domain name website, and 3) the existence of active startup social media accounts, and startups' pre-money valuation. To achieve this objective, this research used a relatively novel method in entrepreneurial research to collect data, whereby LinkedIn's Sales Navigator was used along with an automation tool in order to send hundreds of automated connection and message requests to investors on LinkedIn who were sent a copy of the survey questions along with an explainer YouTube video asking them to answer a scenario-based survey questionnaire that presented them with 16 hypothetical startup companies divided into two groups.

By analyzing the results of 243 completed surveys received using Ordinary Least Squares regression analysis with standard errors clustered at the respondent level, referred to as the 'Hainmueller-method, this study produced findings in support of the main hypotheses that early adoption of digital platforms by startups had a strong positive relationship with startups' pre-money valuation. This study also found that adoption of mobile applications increased pre-money valuation by 6%, premium website increased valuation by 2.2%, while active social media accounts increased the valuation by 4.4%. These results clearly indicated that all the aforementioned digital platforms are important to potential investors when assigning valuation to the startup company. Therewith, all expectations formulated prior to fielding the experiment were confirmed by the analysis of the results.

On the other hand, the effects of the difference in grouping was also analyzed, and it was found that group A startup companies, which had three co-founders, management and startup experience, and a technical co-founder, received approximately 18.7% higher valuation than group B startup companies, which comprised of one founder each, with no experience in startup management and no technical co-founder.

By answering its research question, this research provides guidance to both investors and entrepreneurs. For the investors, this study provides a general framework for how other investors view the adoption of digital platforms vs. development of internal capabilities within the startup firm. For the entrepreneurs, this study offers a practical guidance and roadmap for their consideration of both digital platforms and internal capabilities. As can be concluded from the results, group B received 18.7 percentage less valuation than group A, despite being in the same technological maturity level for the eight companies across both groups. This means that, if all things being equal, entrepreneurs should probably focus more on building internal capabilities such as bringing more co-founders with management or startup experience and a strong technical team than focus on building or developing a mobile application. While startup companies with existing strong founding team may expect to receive higher valuation for their adoption of digital platforms, they can use this study as a guidance as well to prioritize the development of these digital platforms. For example, startup firms with strong founding team who have limited budgets that can be only spent on one of the three digital platforms may find it more rewarding to spend it on developing a mobile application than to acquire a premium website. Alternatively, startup companies that already have a mobile application developed may want to focus more on activating their social media accounts rather than purchasing a .com premium domain name as they would expect to receive a higher valuation for having active social media accounts vs. having a premium domain name.

Keywords: Startups' valuation, Digital platforms, Mobile application, premium website, active social media accounts.