

## Aligning Visions, Navigating Success: Regulatory Focus and Entrepreneur-Investor Dynamics in Startups

Harita Maliseti

Research Scholar, School of Management Studies, University of Hyderabad, India.

Email: [harita327@gmail.com](mailto:harita327@gmail.com)

### Abstract

Exploring the critical domain of startup success, this study builds on the theoretical framework of Regulatory Focus Theory (RFT). Presented through the methodological lens of qualitative analysis, the paper was developed using the outcomes of interviews with 14 entrepreneurs and investors. The research methodology, underscored by a qualitative design, employed a purposive sampling technique to select its subjects, ensuring the representation and depth of insights. Throughout the paper, the focus is positioned on the RFT strategies of promotion and prevention in an attempt to uncover the underlying subtleties of success in the startup ecosystem. A compelling outcome is the contrast in the perception of success between entrepreneurs and investors that originate from the difference in regulatory focus between the two groups. The phenomenon not only defines the benchmarks of evaluation that each group applies to assessing startup performance but also the impact on their interaction dynamics in the trajectory of startup ventures. Moreover, the variation in the regulatory focuses of the two and their alignment or misalignment are pivotal factors that affect collaboration or conflict in the startup environment. Such findings are poised to offer a prism through which the complexities of startup success are not only understood but also strategically navigated. By interfacing RFT with empirical findings from the entrepreneurial forefront, this study contributes a novel lens to the academic discourse on startup success, carving pathways for informed strategic decision-making and policy formulation in the entrepreneurial landscape. Through this exploration, the paper aims to catalyse future research endeavours and foster a deeper understanding of the dynamics at play in the success trajectories of startups.

**Keywords:** Entrepreneur, Investor, Regulatory Focus, Startup Success.

### I. INTRODUCTION

Entrepreneurship, especially through startups, is increasingly recognized as a pivotal engine driving economic growth and societal advancement. Originating from ground breaking ideas and pioneering technologies, startups are acclaimed for their role in generating employment, advancing technology, and stimulating economic progress (Stahl, 2022; Martinez et al., 2019; Przepiorka, 2017; Muller et al., 2016). However, the journey of entrepreneurship is fraught with challenges, and the anticipated benefits hinge on the startups' ability to achieve success (Rasmus & Laguna, 2018; Hartog et al., 2010). The entrepreneurial field is paradoxical; despite a surge in startup formations worldwide, a substantial number falter early, struggling to overcome the hurdles of the market (IBM & Oxford Study, 2017; Investopedia, 2022). This contrast between the potential for impact and the high failure rate underscores the critical importance of deciphering the factors that determine entrepreneurial success (Baron 2007; Rasmus and Laguna 2018, 2019; Martinez et al., 2019). This background sets the stage for in-depth research aimed at revealing the challenges affecting the strategies of startups, and highlighting the path to sustainable business growth.

Traditionally, the evaluation of business success was largely based on financial metrics such as profitability, revenue growth, and market share success (Achtenhagen et al., 2017; Zhou et al., 2022; Obschonka, & Silbereisen, 2011). However, the changing business environment has created a broader view of what constitutes success. Recent research emphasizes the importance of both tangible and intangible dimensions of growth, including social support, customer satisfaction, and innovative capabilities (Rasmus & Laguna, 2018; Wach et al., 2021). It becomes clear that success in the world of entrepreneurship is not ideal for everyone. Individual entrepreneurs can define success in different terms, influenced by individual experiences (Wach et al., 2021; Fisher et al., 2016; Kirkwood, 2016), and this perspective can vary greatly among different stakeholders in the startup ecosystem (Angel et al., 2018; Rasmus and Laguna, 2018, 2019).

RFT, which was developed in the area of motivation and decision-making, classifies individuals according to two basic orientations: promotion and prevention (Brockner & Higgins, 2004). Although RFT has been applied in a variety of fields, its application in assessing entrepreneurial success, especially in understanding different conceptions of success, is still in its infancy (Scholer, Cornwall & Higgins, 2019). This qualitative study aims to bridge this gap, leveraging RFT to delve into the multifaceted perceptions of entrepreneurial success, thereby offering a richer, more nuanced understanding of what drives entrepreneurs and investors and how they gauge the achievements in startups related to them. By employing a qualitative research approach, we aim to dissect the nuanced relationship between entrepreneurs and investors, focusing on how their regulatory orientations—whether in harmony or discord—affect their perceptions and measurements of success.

### II. REVIEW OF LITERATURE

Within the dynamic sphere of entrepreneurship, the concept of startup success emerges as both a common goal and a complex puzzle. Traditionally framed in financial terms—such as revenue growth and market share—success has evolved to encompass a broader array of indicators, reflecting the diverse aspirations and achievements of stakeholders in the startup

ecosystem (Fisher, Maritz, & Lobo, 2018). The quest to define and measure success has led scholars to propose various multidimensional criteria, incorporating both tangible and intangible elements (Staniewskia & Awruk, 2019; Angel et al., 2018). This shift recognizes that financial considerations alone cannot adequately capture the value of a startup, given the importance of customer satisfaction, innovation and social impact.

The challenges of defining startup success are further compounded by the subjective nature of success among different stakeholders. For example, entrepreneurs and investors may have different perspectives based on their personal goals, risk appetite, and strategic preferences (Obschonka, & Silbereisen, 2011; Zhou et al., 2022). This diversity requires a more nuanced understanding of success that can accommodate the different perspectives.

In this context, Regulatory Focused Theory (RFT) offers a promising lens to examine the foundations of entrepreneurial success. The RFT distinguishes between promotion-focused individuals who are motivated by aspiration and gain seeking, and prevention-focused individuals who are motivated by safety and harm avoidance (Brockner & Higgins, 2004). This division provides a framework for examining how entrepreneurs' and investors' regulatory foci influences their strategies, risk behaviors, and definitions of success.

The interactions between entrepreneur and investor regulatory orientations are critical to shaping startup trajectories. Research has shown that a focus on promotion can lead to greater innovation and risk-taking, while a focus on prevention prioritizes stability and risk mitigation (Zhao and Thompson, 2019). These differences have important implications for initial strategic direction and alignment between stakeholder expectations and objectives.

Investment decisions are also influenced by regulatory focus. Studies have shown that prevention-focused investors may exhibit behaviors such as the disposition effect that indicate a cautious approach to investing. Conversely, growth-focused investors may be attracted to opportunities that promise higher returns, albeit with higher risk (Marocco and Talamo, 2022; Hillenbrand et al., 2020). This qualitative study aims to dissect the nuances of startup success through the prism of RFT, shedding light on how the alignment or mismatch of regulatory foci between entrepreneurs and investors influences their combined startup journey.

### **III. RESEARCH METHODOLOGY**

This study employed a qualitative research design to understand the perceptions of startup success among entrepreneurs and investors within the entrepreneurial ecosystem. The primary aim was to understand how the two major stakeholders define success and how their regulatory focus influences their strategic decisions on the pursuit of this perceived success.

#### **Data Collection**

The research sample consisted of 14 participants, of whom 10 were entrepreneurs and 4 were investors, representing a range of startups across industry, size and stage of development. They participants were selected through purposive sampling to ensure a broad range of insights about the required startup success narrative. Each participant was directly involved in the startup ecosystem, thus providing a rich source of knowledge and perspectives gained from their experiences.

Data was collected through in-depth, semi-structured interviews, taking into consideration the personal experiences, perceptions, insights and reflections of participants on startup success. Each interview lasted for a duration of approximately 45 minutes to an hour, which facilitated detailed responses. The interview guide consisted of six key sections, with questions tailored to suit both entrepreneurs and investors:

#### **1. Personal and Organizational Background**

- Entrepreneurs shared an overview of their startup journey, including firm age, revenue growth, and initial motivations for becoming entrepreneurs.
- Investors discussed their investment journey, motivations behind investing, and the returns they have experienced.

#### **2. Understanding of Startup Success**

- Entrepreneurs described how they define success for their startups and specific milestones or achievements that signify success.
- Investors shared their perspectives on what constitutes a successful startup investment and when they feel their investment has been fruitful.

#### **3. Attributes of Success**

- Entrepreneurs identified key factors that indicate startup success and how they prioritize these factors.
- Investors reflected on important factors that indicate startup success from their investments and their prioritization in the evaluation process, including how these priorities have evolved over time.

#### **4. Regulatory Focus in the Context of Success**

- Entrepreneurs discussed how the development of their company influenced their goals and motivations, focusing on profit or loss avoidance.
- Investors examined their preference for high rewards or minimum risks in investments and how this preference influences their investment choices, sharing experiences where this significantly impacted their decisions.

**5. Risk-Taking in Pursuit of Success**

- Entrepreneurs described situations of calculated risk-taking for greater success and the impact of competition on their decisions.
- Investors explored their approach to risk in startup investments, considering whether high rewards justify higher risks and how a startup's approach to risk has influenced their investment decisions.

**6. Reflections on Improvement and Growth**

- Entrepreneurs suggested changes or improvements for achieving success more effectively, focusing on personal development, organizational changes, and ecosystem support.
- Investors provided insights into what startups need to work on to achieve success more effectively, highlighting personal development, organizational changes, and ecosystem support.

**7. Cross-Role Perspectives**

- Both entrepreneurs and investors commented on the importance of investor-entrepreneur dynamics in achieving startup success.

The questions within each section were designed to elicit detailed responses, allowing for the exploration of the multifaceted nature of startup success. Tailored questions ensured relevance and specificity to each participant's experience.

**IV. DATA ANALYSIS AND INTERPRETATION**

Interviews were recorded with participants' consent, transcribed verbatim, and analyzed using thematic analysis. This method enabled the identification, analysis, and reporting of themes within the data. The research focused on extracting insights on success perspectives, the impact of regulatory focus on strategic decisions, and dynamics between entrepreneurs and investors. When the themes from the analysis were contrasted and compared across groups, similarities and differences in attitudes and strategies for startup success were revealed. This approach provided a comprehensive framework for examining the complexity and individual characteristics of startup success, and provided insights into the underlying factors influencing strategic decisions and outcomes in the entrepreneurial domain.

**Results**

Transcripts from interviews of entrepreneur and investor experiences provided rich insights into the dynamics of startup success, the impact of regulatory foci, and the types of motivations that drive individuals in startup ecosystems. Several themes emerged from the analysis, which included not only personal reflections into success and failure but also broader patterns within the entrepreneurial landscape.

**Theme 1: Diverse Definitions of Success**

Success in the startup world has long transcended traditional metrics like financial gain, broadening and branching into much deeper meanings which include personal fulfillment, societal impact, and the pursuit of unique and innovative solutions. As one interviewee puts it, "I like to solve challenges, do something new... it's not thrilling enough to work at a big company." This sentiment echoes across the conversations, with another stating, "For me personally, it would be if I'm impacting enough...betterment of humanity or nature." These reflections highlight the evolving definition of success to include broader, more meaningful objectives.

**Theme 2: Importance of Team Dynamics**

The critical role of team dynamics in the success of a startup is emphasized repeatedly. One participant notes, "the most important is the team... if you have the right people, everything then you build the right product and everything falls into place." This underscores the belief in the foundational importance of a cohesive, motivated, and skilled team capable of overcoming the myriad challenges startups face.

**Theme 3: Regulatory Focus and Adaptability**

Entrepreneurs navigate between the desire to achieve high aspirations and the need to manage risks and responsibilities. "You have to have that path as well...clear and certain" and "validate your hypothesis, build small hypothesis and then validate them" illustrate the balancing act between innovation and pragmatism. This duality of regulatory focus is essential for adaptability and sustained growth in the ever-changing startup landscape.

**Theme 4: The Evolving Role of Investors**

The role of investors extends beyond financial support to strategic guidance and network access. "Investors play with obviously capital is one thing...you are technically accountable to the whole board" captures the multifaceted relationship between startups and their investors. The focus is no longer on only the capital but also about the value-addition that comes from strategic advice and guidance, marking a shift towards more collaborative investor-entrepreneur relationships.

**V. DISCUSSION**

The qualitative analysis of interviews offers nuanced insights into the perceptions of success in the startup ecosystem. The themes that emerge in the interviews— diverse definitions of success, the importance of team dynamics, regulatory focus and adaptability, and the evolving role of investors—provide in-depth insights that are intricately linked to RFT and the broader purpose of the study.

### ***Diverse Definitions of Success and RFT***

The variations in the perceptions of success can directly be attributed to the divergent regulatory focus dispositions of investors and entrepreneurs. Entrepreneurs were observed to often adopt a promotion-focused approach, where the focus was on realizing their aspirations and passion along with maximizing gains. This is reflected in the broad way they have defined success, with attributes like personal growth, societal contributions, and innovation taking the forefront. For instance, the statement, "I like to solve challenges, do something new...it's not thrilling enough to work at a big company," points at a promotion-focused approach that gives priority to innovation and personal fulfillment over other conventional success measures. Conversely, investors displayed a more prevention-focused mindset, defining success in terms of risk mitigation, financial returns, and the sustainability of the startup, which align with traditional benchmarks of entrepreneurial success.

### ***Importance of Team Dynamics and RFT***

The emphasis on team dynamics by both entrepreneurs and investors highlights their crucial role in navigating the startup's regulatory focus. A cohesive team that shares a common regulatory orientation can synergize closer to the startup's vision, whether they are prevention-focused (increase and innovation) or prevention-focused (sustainability and risk mitigation). The consensus among interviewees about the pivotal role of the team exemplifies this synergy, suggesting that the alignment of team members' regulatory focuses with that of the startup can extensively have an effect on its achievement trajectory.

### ***Regulatory Focus and Adaptability***

The theme of regulatory focus and adaptability reveals how entrepreneurs dynamically toggle between promotion and prevention strategies based on the startup phase, market conditions, and internal challenges. This flexibility is essential for the survival and growth of startups, allowing them to pivot strategies in response to external pressures or opportunities. The iterative process of hypothesis validation mentioned by an entrepreneur illustrates a balanced regulatory focus, where promotion strategies (pursuing innovative solutions) are tempered by prevention considerations (ensuring feasibility and minimizing losses).

### ***Evolving Role of Investors and RFT***

The evolving role of investors reflects a complex interaction between their regulatory focus and that of the startups they invest in. While investors traditionally adopt a prevention-focused strategy which prioritizes financial sustainability and risk aversion, the findings suggest a move towards a more nuanced role. Investors not only provide capital but also strategic guidance, network access, and moral support, aligning more closely with the startup's promotion-focused pursuits. This alignment, or lack thereof, between investors' regulatory focus and that of the startup, emerges as a critical determinant of the partnership's success and the startup's growth trajectory.

## **VI. CONCLUSION**

This study has unravelled how the impact of promotion focus or prevention focus—known as regulatory foci—affects what entrepreneurs and investors think makes a startup successful. Through a qualitative analysis of in-depth interviews, it becomes evident that the regulatory focus not only shapes individual benchmarks of success but also significantly influences the dynamic interplay between entrepreneurs and investors within the startup ecosystem.

Entrepreneurs, typically driven by a promotion focus, are inclined towards passion, innovation, growth, and the realization of their goals. This orientation shapes their perception of success, prioritizing breakthroughs, market disruption, and societal impact over conventional metrics like financial returns. Conversely, investors, with a predominant prevention focus, evaluate success through the lens of risk mitigation, financial sustainability, and return on investment. This dichotomy underscores a fundamental disparity in success perceptions, potentially leading to divergent expectations and priorities between these two pivotal startup stakeholders.

The implications of this disparity are multifaceted. On the one hand, a startup can accomplish exceptional innovation and market presence if its strategy and operations match the ambitions of its founders, who are primarily focused on promotion. However, obtaining the required money and strategic direction can become difficult if prevention-focused tactics that appeal to investor priorities—like risk management and financial prudence—are not included.

The alignment of regulatory foci between investors and entrepreneurs appears to be a critical factor in determining successful and tranquil partnerships. When such alignment is reached, it improves resource allocation, strategic decision-making, and eventually the market performance and sustainability of the startup. It also helps to foster mutual understanding and a shared vision for success.

Looking forward, the interplay between regulatory foci and startup success presents a fertile ground for future research. Researchers are urged to investigate the complex processes by which regulatory focus affects investor decision-making, entrepreneurial behavior, and their interactions. Furthermore, examining methods to promote motivational matching and how it affects the resilience, flexibility, and growth of startups may yield insightful information. Through a strategic understanding and navigation of various regulatory orientations, investors and entrepreneurs can establish more robust relationships that are oriented towards a common goal of success. This alignment—which is based on the recognition and incorporation of various regulatory foci—is essential to helping startups realize their full potential and move in the direction of sustainable growth and lasting impact in an ever-evolving market landscape.

**REFERENCES**

1. Achtenhagen, L., Ekberg, S., & Melander, A. (2017). Fostering growth through business development: Core activities and challenges for micro-firm entrepreneurs. *Journal of Management & Organization*, 23(2), 167-185.
2. Angel, P., Jenkins, A., & Stephens, A. (2018). Understanding entrepreneurial success: A phenomenographic approach. *International Small Business Journal*, 36(6), 611-636.
3. Brockner, J., Higgins, E. T., & Low, M. B. (2004). Regulatory focus theory and the entrepreneurial process. *Journal of business venturing*, 19(2), 203-220.
4. Fisher, G., Kotha, S., & Lahiri, A. (2016). Changing with the times: An integrated view of identity, legitimacy, and new venture life cycles. *Academy of Management Review*, 41(3), 383-409.
5. Fisher, R., Merlot, E., & Johnson, L. W. (2018). The obsessive and harmonious nature of entrepreneurial passion. *International Journal of Entrepreneurial Behavior & Research*, 24(1), 22-40.
6. Hartog, J., Van Praag, M., & Van Der Sluis, J. (2010). If you are so smart, why aren't you an entrepreneur? Returns to cognitive and social ability: Entrepreneurs versus employees. *Journal of Economics & Management Strategy*, 19(4), 947-989.
7. Hillebrand, S., Teichert, T., & Steeger, J. (2020). Innovation in family firms: An agency and resource-based lens on contingencies of generation and management diversity. *British Journal of Management*, 31(4), 792-810.
8. Kirkwood, J. J. (2016). How women and men business owners perceive success. *International Journal of Entrepreneurial Behavior & Research*, 22(5), 594-615.
9. Laguna, M., & Razmus, W. (2019). When I feel my business succeeds, I flourish: Reciprocal relationships between positive orientation, work engagement, and entrepreneurial success. *Journal of happiness studies*, 20(8), 2711-2731.
10. Marocco, S., & Talamo, A. (2022). The contribution of activity theory to modeling multi-actor decision-making: A focus on human capital investments. *Frontiers in Psychology*, 13, 997062.
11. Müller, S. (2016). A progress review of entrepreneurship and regional development: What are the remaining gaps?. *European Planning Studies*, 24(6), 1133-1158.
12. Nicolás Martínez, C., Rubio Bañón, A., & Fernández Laviada, A. (2019). Social Entrepreneur: Same or Different from the rest?. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 30, 443-459.
13. Obschonka, M., Silbereisen, R. K., & Schmitt-Rodermund, E. (2011). Successful entrepreneurship as developmental outcome. *European Psychologist*.
14. Przepiorka, A. M. (2017). Psychological determinants of entrepreneurial success and life-satisfaction. *Current Psychology*, 36(2), 304-315.
15. Razmus, W., & Laguna, M. (2018). Dimensions of entrepreneurial success: A multilevel study on stakeholders of micro-enterprises. *Frontiers in psychology*, 9, 370133.
16. Scholer, A. A., Cornwell, J. F. M., & Higgins, E. T. (2019). Regulatory focus theory and research: Catching up and looking forward after 20 years. In R. M. Ryan (Ed.), *The Oxford handbook of human motivation* (2nd ed., pp. 47–66). Oxford University Press.
17. Stahl, G. (2022). Performing the Entrepreneurial Self. In *Self-Made Men: Widening Participation, Selfhood and First-in-Family Males* (pp. 157-180). Cham: Springer International Publishing.
18. Staniewski, M. W., & Awruk, K. (2019). Entrepreneurial success and achievement motivation—A preliminary report on a validation study of the questionnaire of entrepreneurial success. *Journal of Business Research*, 101, 433-440.
19. Wach, D., Stephan, U., Weinberger, E., & Wegge, J. (2021). Entrepreneurs' stressors and well-being: A recovery perspective and diary study. *Journal of Business Venturing*, 36(5), 106016.
20. Zhao, Y., & Thompson, P. (2019). Investments in managerial human capital: Explanations from prospect and regulatory focus theories. *International Small Business Journal*, 37(4), 365-394.
21. Zhou, X., Zhang, L., & Su, X. (2022). Entrepreneurial institutional environment and entrepreneurial orientation: The mediating role of entrepreneurial passion. *Frontiers in Psychology*, 13, 840548.