Financing the Venture: Institutional, Relational, and Capability Barriers to Startup Financing

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Abstract

Despite a substantial body of research on entrepreneurial finance, little is known about how founders themselves experience and interpret the failure to secure capital. This study investigates startup funding failure as a multi-level phenomenon by centering the lived experiences of entrepreneurs based primarily in the United States and Canada. Drawing on semi-structured interviews with ten participants, including early-stage and serial founders, startup consultants, incubator and ecosystem professionals, and investor-side intermediaries, we use reflexive thematic analysis to surface the structural, relational, and psychological mechanisms that interrupt the financing process. Funding failure emerges as neither random nor primarily a function of business quality. It arises from the interaction of institutional and regulatory asymmetries that create unequal access to capital, capability gaps in financial literacy and investor readiness, and misalignments between entrepreneurial ambition, venture maturity, and investor expectations. We engage these findings with pecking order theory, the resource-based view, and capital structure theory, and show that each framework, while illuminating, cannot fully account for the emotional, relational, and institutional dimensions that shape financing outcomes in practice. An integrative conceptual model of startup funding failure is proposed, together with implications for theory, practice, and policy.

Keywords: entrepreneurial finance; startup funding failure; qualitative research; institutional barriers; investor-entrepreneur dynamics

1. Introduction

Startups occupy a paradoxical position in the contemporary economy. They are celebrated as engines of innovation, job creation, and economic dynamism, and they are at the same time among the most financially precarious organizational forms in existence. The distance between entrepreneurial ambition and the capital required to realize it remains one of the more consequential problems in management and organizational scholarship. Yet decades of research on venture finance have proceeded largely from the vantage point of investors, financial intermediaries, and institutional frameworks. How entrepreneurs interpret the failure to raise capital has received comparatively little attention.

The omission carries both theoretical and practical costs. Standard models of entrepreneurial finance, among them pecking order theory (Frank et al., 2020), the resource-based view (Freeman et al., 2021), and capital structure theory (Brusov & Filatova, 2023), treat financing decisions as rational, sequential, and driven principally by firm-level characteristics such as cash flow, collateral, or growth potential. These frameworks offer real insight. They also rest on assumptions of market transparency and bounded rationality that fit poorly with the messy, socially embedded, and emotionally charged conditions under which early-stage fundraising actually takes place. Emerging qualitative evidence indicates that many founders experience the process as opaque and inconsistent, and as shaped at least as much by relational access and institutional gatekeeping as by business fundamentals (Saleem & Atiq, 2023).

This study addresses the gap through a qualitative investigation grounded in the perspectives of entrepreneurs who have navigated, struggled with, or ultimately failed to secure adequate financing. Four questions guide the inquiry. How do entrepreneurs describe the challenges they face in securing startup financing, and how do those challenges shape their strategic decisions, growth potential, and capacity for creation? What are the primary causes of funding failure as founders experience and interpret them? What downstream consequences follow for ventures and the ecosystems in which they sit? And what strategies do entrepreneurs develop in response to financing constraints, under what conditions do those strategies succeed?

By foregrounding entrepreneurial voice, the paper makes three contributions that are distinct from prior work. It develops an integrative conceptual model that reframes startup funding failure as the product of interacting systemic, relational, and psychological mechanisms rather than as a singular financial event, which advances on existing frameworks that treat these dimensions separately. It extends and critiques dominant theories in entrepreneurial finance by demonstrating their limitations when applied to the lived realities of founding and specifies boundary conditions that the literature has not previously articulated. It also provides the first qualitative, multi-stakeholder analysis of funding failure to capture founder, investor-side, and ecosystem perspectives simultaneously across two national regulatory contexts, which permits a level of cross-contextual comparison that single-site qualitative studies cannot support. Taken together, these contributions respond to calls for more founder-centered and process-oriented inquiry in entrepreneurial finance scholarship (Lattacher & Wdowiak, 2020; Saleem & Atiq, 2023).

2. Theoretical Foundations and Literature Review

2.1 Dominant Theories of Startup Financing

Three bodies of theory anchor scholarly understanding of startup financing behavior. Each illuminates an important dimension of the phenomenon while leaving others in shadow.

Pecking order theory. Formulated originally to explain corporate capital structure choices, pecking order theory holds that firms prefer internal financing, turn next to debt, and resort to equity issuance only when other options are exhausted (Frank et al., 2020). The logic rests on information asymmetry. External investors cannot fully evaluate firm quality, so an equity issue signals weakness and attracts an adverse selection penalty. The hierarchy has particular resonance for startups, where internal capital is typically scarce and the asymmetry problem is acute. Founders know far more about their venture's prospects than investors do, which gives rational investors reason to discount equity valuations and demand compensatory premiums. The theory captures the financing preferences of many founders accurately enough. What it presupposes is a degree of rational sequentially that may not survive contact with the emotional, relational, and institutional realities of early-stage fundraising.

Resource-based view. The resource-based view treats the firm as a bundle of strategically valuable and difficult-to-imitate resources and capabilities (Freeman et al., 2021; Miller, 2019). Applied to entrepreneurial finance, it suggests that startups with superior human capital, proprietary technology, and strong network ties should attract capital more readily, since such resources signal competitive advantage and reduce investor uncertainty. The emphasis on resource possession, however, underweights resource visibility and interpretability. Holding valuable resources counts for little if they cannot be credibly communicated to gatekeepers who operate within particular epistemic frameworks, relationship norms, and institutional contexts (Majumdar, 2020). The view also under-theorizes how the structural distribution of capital reinforces existing resource inequalities and systematically disadvantages founders without access to established investor networks.

Capital structure theory. The Modigliani-Miller proposition and its successors hold that firms optimize capital structure by balancing the tax benefits of debt against the costs of financial distress, arriving at a mix that maximizes firm value (Brusov & Filatova, 2023). For startups this optimization is largely theoretical. Most early-stage ventures have insufficient track records to access debt at reasonable cost, lack the collateral financial institutions require, and face regulatory and structural constraints that foreclose meaningful choice. The assumption that firms exercise genuine agency in structuring their financing sits uneasily beside evidence that founders typically accept whatever terms are available rather than optimizing across a menu of real options.

2.2 Toward an Integrative Understanding of Funding Failure

Taken individually, these three frameworks yield important but partial accounts of startup financing. A fuller understanding requires integrating their insights and supplementing them with attention to the social, emotional, and institutional dimensions they collectively underemphasize. Several gaps in the existing literature make that task urgent. Prior quantitative work has examined financing outcomes, meaning whether capital was secured, in what amounts, and on what terms, rather than the processes through which founders navigate, interpret, and respond to the financing encounter (Lattacher & Wdowiak, 2020). Qualitative studies that do engage founder experience have tended to concentrate on post-failure learning (Amankwah-Amoah et al., 2022) or on single-country contexts (Goswami et al., 2023; Majumdar, 2020), which leaves cross-national comparative accounts of the financing process itself underdeveloped. The psychological and emotional dimensions of funding failure, including the shame, self-doubt, and anticipatory rejection that shape financing behavior, have received minimal theoretical attention despite their practical salience. The present study addresses these gaps by foregrounding the interpretive experience of founders across two national contexts, generating processual and psychological insight that the extant literature has not systematically produced.

Recent scholarships have begun to integrate multi-level perspectives. Zapata-Molina et al. (2025) show that survival through the so-called valley of death depends on more than financial resources, since founder resilience, ecosystem integration, and access to non-financial resources all play a part. Lange et al. (2024) show that business angels operate as relational intermediaries whose network connections and mentoring relationships matter as much as their capital. Quas et al. (2022) document how institutional gaps in the financing ecosystem, and particularly the relative scarcity of growth-stage capital, systematically impede the scaling of innovative ventures.

This emerging body of work converges on a view of startup financing as socially embedded, institutionally conditioned, and temporally dynamic. It suggests that funding failure is rarely attributable to a single cause and more often reflects the interaction of several mechanisms operating across individual, organizational, and environmental levels. The present study builds on that foundation with qualitative evidence from those who have navigated the dynamics directly.

2.3 The Startup Financing Landscape: Structures and Constraints

Startups operate within a layered financing landscape that has changed considerably over the past decade. Traditional sources such as bank loans, angel investment, and venture capital now coexist with reward-based and equity crowdfunding, revenue-based financing, and blockchain-enabled capital formation (Adwani, 2025; Sukachova et al., 2025). The proliferation of options has expanded the theoretical menu available to founders without necessarily resolving the practical problem of access. Each modality carries distinct costs, eligibility requirements, and relational expectations that interact with founders' capabilities, networks, and regulatory environments in complex ways.

A persistent structural feature of the landscape is the concentration of capital in particular geographies, industries, and founder demographics. Oranburg (2020) documents that white male entrepreneurs in major financial centers continue to attract venture funding at significantly higher rates than minority, female, and geographically peripheral founders, a pattern market mechanisms have not corrected. Pallathadka (2022) observes that institutional ecosystems, including accelerators, incubators, and investor networks, function as filtering mechanisms that amplify existing social capital advantages rather than democratizing access. These features help explain why funding failure is not randomly distributed but concentrated among founder populations that are already disadvantaged.

Financial literacy and managerial capability represent a further set of constraints. Jaggurotu et al. (2024) document that many early-stage failures are precipitated not by market rejection but by cash flow mismanagement, underestimation of burn rates, and failure to secure follow-on financing before initial capital runs out. Prohorovs et al. (2019) find that investor readiness, meaning the capacity to present a compelling and credible case to sophisticated counterparties, ranks among the strongest predictors of successful capital attraction. Findings of this kind imply capability-level factors alongside institutional ones and suggest that any comprehensive account of funding failure must be attended to both.

3. Research Design and Methodology

3.1 Philosophical Positioning and Rationale for Qualitative Inquiry

The study is anchored in an interpretive, constructivist epistemology (Jamshed, 2014). We treat funding failure not as a discrete and objectively measurable outcome but as a meaning-laden phenomenon whose significance is constructed through founders' interpretive frameworks, relational experiences, and institutional encounters. That positioning makes qualitative inquiry not merely appropriate but necessary, since it is precisely the subjective and interpretive dimensions of funding failure that standard quantitative methods are least equipped to capture. The approach aligns with a growing recognition in entrepreneurship scholarship that phenomenological and experience-centered methodologies are essential for generating theoretically generative knowledge about the lived realities of founding (Lattacher & Wdowiak, 2020).

3.2 Data Collection: Semi-Structured Interviews

Primary data were collected through semi-structured interviews with ten participants recruited by theoretical sampling to ensure conceptual coverage across the key dimensions of the financing encounter: founder experience level, venture stage, sector, geographic context, and stakeholder role (Adhabi & Anozie, 2017). Theoretical sampling, consistent with a constructivist grounded approach, guided participant selection iteratively, so that each interview informed the rationale for subsequent sampling decisions with the aim of reaching theoretical saturation within each analytically relevant category (Strauss & Corbin, 1998). Saturation was assessed theme by theme rather than for the sample as a whole. A saturation matrix was maintained in which each analytically relevant category was tracked across successive interviews, and a theme was treated as saturated once additional interviews within that category generated no new codes, properties, or dimensions. Sampling in a given dimension was concluded at that point, while sampling continued in dimensions where new conceptual information was still emerging, and the later interviews within each category served principally to confirm and consolidate existing themes rather than to generate new ones. The logic prioritizes theoretical comprehensiveness over statistical representativeness, which suits a study aimed at theory extension rather than population inference (Eisenhardt, 1989).

The sample included first-time and serial founders at idea, pre-seed, and early stages; startup ecosystem and incubator professionals, including accelerator and entrepreneurship-program directors and an educator; and investor-side participants, comprising the principal of a crowdfunding intermediary and an accelerator-based investor-network mentor, which together provided both demand-side and supply-side perspectives on the financing encounter. The multi-stakeholder design was deliberate. Incorporating investor and ecosystem accounts alongside founder accounts allowed claims about the financing process to be triangulated from several vantage points, which strengthens the credibility of the emergent themes. Most participants were based in the United States and Canada, and the accounts of these participants permit comparison across two distinct regulatory and institutional contexts; one founder was based outside North America while serving North American markets.

Table 1

Participant Characteristics

Participant	Role / type	Stage / engagement	Location
P1	First-time founder (consumer social app)	Idea / pre-seed (bootstrapped)	Canada
P2	Serial entrepreneur & business consultant	Multiple ventures (idea–prototype)	United States
P3	President, crowdfunding / investment intermediary	Investor-side / intermediary	United States

Participant	Role / type	Stage / engagement	Location
P4	Founder, startup consultant & speaker	Operating venture; ecosystem	Canada
P5	Accelerator mentor & investor-network associate (former founder)	Investor-side / ecosystem	United States
P6	Fintech founder & university educator	Early stage / prototype (bootstrapped)	Canada
P7	Senior manager, startup incubator / platform	Ecosystem (pre-seed to growth)	Canada
P8	Entrepreneurship-program director (former accelerator director)	Ecosystem (early-stage)	United States
P9	Municipal small-business advisor	Ecosystem (early-stage / small business)	Canada
P10	Software / technology founder	Early stage (bootstrapped)	Sri Lanka

Note. Participants are identified as P1–P10 to preserve anonymity. Roles are described in general terms, and organization names, programs, and precise locations have been withheld to prevent identification, consistent with the study's ethics protocol. Investor-side denotes participants engaged in the supply side of financing through intermediary or accelerator roles rather than as institutional venture capitalists. One participant (P10) is based outside North America while serving North American markets; all other participants were based in the United States and Canada.

Interview protocols were designed to elicit rich and contextualized accounts of participants' financing experiences. Core question areas covered founders' narratives of their financing journeys, their interpretations of the factors that contributed to funding difficulty, the emotional and strategic and operational consequences of financing constraints, and the adaptive strategies they developed in response. Interviews were conducted remotely by video conference, audio-recorded with participant consent, and transcribed verbatim. Each lasted between 45 and 90 minutes, yielding approximately 140,000 words of primary data.

3.3 Analytical Approach: Reflexive Thematic Analysis

Data was analyzed using reflexive thematic analysis, following the six-phase procedure established by Braun and Clarke (2006) as operationalized for management research by Naeem et al. (2023). Analysis proceeded iteratively through familiarization with the data corpus, systematic generation of initial codes, development and refinement of candidate themes, critical review of theme coherence and data fit, and final theme definition and naming. Eleven primary themes were identified across the data and subsequently organized into four clusters corresponding to the four research questions: the experience of financing challenges, the causes of funding failure, the consequences of funding shortfalls, and adaptive strategies and solutions. Table 2 sets out the resulting structure.

Table 2

Thematic Structure of the Analysis

Cluster (research question)	Primary themes
1. The experience of securing financing (RQ1)	Process complexity, duration, and opacity of investor decision criteria; relational gatekeeping and warm-referral dependence

Cluster (research question)	Primary themes
2. Causes of funding failure (RQ2)	Institutional and regulatory barriers; relational and network constraint, including investor and entrepreneur mismatch; capability deficits in financial literacy and investor readiness
3. Consequences of funding shortfalls (RQ3)	Strategic compression; operational and human capital constraint; psychological strain and anticipatory withdrawal
4. Adaptive strategies (RQ4)	Ecosystem navigation; alternative financing adoption; deliberate relational capital development

Note. Themes were generated inductively and subsequently organized against the four research questions. Cluster labels correspond to the four findings subsections reported in Section 4.

Member-checking was conducted with a subset of participants after the candidate themes had been developed. Selected participants were sent written summaries of the candidate themes together with the anonymized quotations used to illustrate them, and were invited to comment on whether the interpretations reflected their own experience and to flag any characterization they regarded as inaccurate or removed from its original context. The feedback received was confirmatory in substance; it prompted minor refinements to two theme labels and to the framing of a small number of illustrative extracts but did not lead to the addition, removal, or merging of any theme. Reflexive memos were maintained throughout to document interpretive decisions and to manage researcher positionality. Trustworthiness was addressed across the four dimensions set out by Lincoln and Guba (1985). Credibility was supported through member-checking and prolonged engagement with the corpus. Transferability was addressed through thick description of participant contexts and the financing environments they navigated. Dependability was ensured through a detailed audit trail of coding decisions and theme evolution. Confirmability was strengthened by grounding all interpretive claims in verbatim participant quotations, which allows readers to assess the inferential chain from data to finding directly. Quotations appear throughout the findings for that reason.

3.4 Ethical Considerations

All participants provided informed consent before taking part, including specific consent to audio-recording. Data was handled in accordance with institutional ethical guidelines, and confidentiality was protected by anonymizing all identifying details in the reported findings, including venture names, sectors specific enough to permit identification, and the names of investors and programs referenced during interviews. Participants were advised that they could decline to answer any question and could withdraw at any point without consequence. Because several participants discussed financing difficulties that carried reputational sensitivity within relatively small entrepreneurial communities, quotations were selected with particular attention to the risk of indirect identification, and minor non-substantive edits were made where a detail would have rendered a participant recognizable.

4. Findings

4.1 The Experience of Securing Financing: Complexity, Opacity, and Relational Gatekeeping

Across participant accounts, the search for startup financing was described as more complex, more time-consuming, and more relationally demanding than anticipated. Founders emphasized that the process required not only formal materials such as business plans, financial models, and pitch decks but extensive relationship cultivation over long horizons. Several noted that the opacity of investor decision criteria made it difficult to calibrate a presentation or to diagnose the reasons for a rejection.

> *"The finances are there, but it is more about connections than ability. You can have the best product in the room, but if you don't know the right people, the door stays closed."*

That observation, offered by a Canadian founder with prior entrepreneurial experience, captures a theme running across multiple accounts: access to capital is mediated by pre-existing social ties and network position rather than by venture quality alone. First-time founders without established investor relationships described especially acute frustration with the dynamic.

> *"It was not regulation that was the issue but persuading investors with no track record. Every investor wants to see traction, but you can't get traction without investment. It becomes circular."*

This circularity, in which no traction means no investment and no investment means no traction, was identified by several participants as among the most structurally frustrating features of early-stage financing. It reflects the information asymmetry problem that pecking order theory identifies while adding a relational dimension that the theory does not address. Overcoming asymmetry requires not only credible signals but credible relationships. Founders without access to warm introductions frequently found the channel between their venture and potential capital effectively closed.

Participants also described the process as emotionally exhausting in ways that carried downstream effects on strategic decision-making. Uncertainty, repeated rejection, and the vulnerability inherent in exposing an entrepreneurial vision to scrutiny combined to produce a psychological strain that several founders reported as affecting their judgment, their persistence, and their willingness to take calculated risks.

4.2 Causes of Funding Failure: An Institutional, Relational, and Capability Framework

The analysis identified three analytically distinct but empirically intertwined clusters of causes: institutional and regulatory barriers, relational and network constraints, and capability-level deficits in financial literacy and investor readiness.

Institutional and regulatory barriers. Participants in both national contexts described institutional structures that created friction in the financing process. Government grant programs were frequently cited as valuable in principle and burdensome in practice, with lengthy application timelines, complex eligibility criteria, and allocation processes perceived as opaque and occasionally subject to political influence.

> *"The grant is there, but by the time you navigate the bureaucracy and get an answer, you've already had to make decisions about survival without it. The timing never aligns with what a startup actually needs."*

Regulatory burdens were most pronounced for founders in regulated industries, where compliance costs consumed disproportionate shares of limited capital. Participants in the United States emphasized capital gains implications and the complexity of securities regulation governing equity fundraising. Canadian participants were more likely to raise regional disparities in government support and the limitations of local innovation ecosystems outside major metropolitan centers.

Relational and network constraints. The barrier cited most consistently was the network dependence of investor access. Established investor networks, including venture capital firms, angel groups, and accelerator networks, were described as operating primarily through warm referrals and pre-existing relationships, which creates a significant disadvantage for founders from outside established entrepreneurial communities.

Investor and entrepreneur mismatches emerged as a related cause. Participants described encounters with investors whose risk tolerance, return expectations, and investment timelines were systematically misaligned with the stage and trajectory of their ventures. Several recounted receiving term sheets that proved untenable on dilution, control provisions, or milestone expectations. Failure to close a financing round therefore reflects not only investor unavailability but the quality of the matching process between founders and potential backers, a distinction with practical consequences that the literature has tended to collapse.

Capability-level deficits. Structural factors dominated participant accounts, but capability deficits featured prominently as well. Financial literacy emerged as a critical competency gap. Many founders described entering the financing process without sufficient understanding of valuation methodologies, capitalization table dynamics, or the implications of particular term sheet provisions, which created information asymmetries working against them in negotiations with more experienced counterparties.

> *"I didn't know what I didn't know. I walked into my first investor meeting without understanding what a liquidation preference was, and I could see it in their eyes. You lose credibility very quickly when you don't know the basics."*

The capacity to construct and defend credible financial projections was identified as a particular gap. Founders described investors demanding evidence of rigorous financial planning while they themselves often lacked the accounting expertise or market data to build such projections with confidence. The dynamic reinforced a perception that financing processes are designed to screen for capabilities already held rather than to identify and support ventures with genuine potential.

4.3 Consequences of Funding Failure: Strategic, Operational, and Psychological Dimensions

Funding shortfalls produced consequences at several levels. Strategically, capital constraints forced significant compromises in growth trajectory, hiring, and market entry timing. Several participants described a phenomenon best labeled strategic compression, in which the range of viable options narrowed sharply under financial pressure and pushed founders toward decisions they recognized as suboptimal but felt unable to avoid.

> *"The shortage of finances compelled us to do nothing with great haste. Even to employ a single person seemed dangerous. We were in a kind of suspended animation, unable to move forward but unwilling to close."*

This account from a first-time founder captures a pattern distinguishing novice from experienced entrepreneurs in the data. Founders without prior financing experience reported greater difficulty maintaining strategic perspective during funding crises and more frequently defaulted either to extreme conservatism or to reactive pivoting that undermined venture coherence. Experienced founders described a greater capacity for strategic reframing, treating funding failure as information rather than verdict, which is consistent with work on entrepreneurial resilience following venture setbacks (Amoa-Gyarteng, 2023).

> *"We took funding failure as an indicator, not a halt. We restructured, reduced burn, and waited for the right moment. Having been through it before meant we knew it wasn't necessarily terminal."*

Operationally, shortfalls generated cascading consequences for human capital, product development, and market positioning. Participants described delayed hiring, reduced marketing investment, and protracted development cycles that allowed better-funded competitors to establish positions which later proved difficult to displace. Funding failure, even where not immediately fatal, shapes venture trajectories in ways that compound over time.

The psychological dimensions received less emphasis in prior quantitative research but emerged prominently here. Founders described shame, self-doubt, and social stigma attached to financing difficulty, particularly within entrepreneurial communities where securing investment functions as a primary signal of venture legitimacy. These consequences had tangible strategic implications. Several participants described delaying or forgoing financing attempts because they anticipated rejection, which effectively imposed tighter capital constraints on themselves than their institutional environment required.

4.4 Adaptive Strategies: Ecosystem Navigation, Alternative Financing, and Relational Capital

Despite the severity of the challenges described, participants demonstrated considerable strategic creativity in response to capital constraints. Their adaptations fell into three clusters: ecosystem navigation, alternative financing mechanisms, and deliberate relational capital development.

Ecosystem navigation involved the strategic use of incubators, accelerators, and coworking environments not simply as sources of mentorship and workspace but as mechanisms for obtaining warm introductions to investors, credibility signals for potential partners, and learning environments that built financing capability over time. Founders in technology sectors were more likely to leverage global accelerator programs and international investor networks. Those outside technology relied more frequently on local mentorship networks, community development financial institutions, and public-private partnerships.

> *"Mentorship kept us alive, whereas crowdfunding put us on the map. They weren't substitutes for each other; they played completely different roles in keeping the venture viable."*

Alternative financing mechanisms, including bootstrapping, crowdfunding, revenue-based financing, and microlending, emerged as important responses to institutional capital market constraints. Participants who used these alternatives successfully stressed the importance of treating them not as inferior substitutes for venture capital but as vehicles appropriate to particular stages and needs. Crowdfunding in particular was described as delivering benefits beyond capital, including market validation, community building, and the creation of a customer-investor base that subsequently strengthened the venture's position in conventional investor conversations.

Deliberate relational capital development involved systematic effort to build investor relationships over long horizons, well before an active fundraising round. Participants who had navigated several financing cycles described cultivating what might be called an investor relations mindset, maintaining ongoing contact with potential investors through progress updates, milestone announcements, and informal relationship-building rather than approaching them only at the point of need.

5. Discussion

5.1 Reconceptualizing Startup Funding Failure

The findings support and extend the emerging view that startup funding failure is a systemic, multi-level phenomenon rather than a firm-level financial event. Capital constraints are produced at the intersection of institutional structures that create unequal access, relational dynamics that concentrate capital within established networks, and capability gaps that leave many founders ill-equipped to navigate sophisticated investor environments. No single-level explanation captures the phenomenon in its full complexity.

The reconceptualization matters for both theory and practice. Theoretically, it implies that accounts of financing behavior grounded exclusively in rational choice models, firm-level resource endowments, or capital structure optimization will systematically miss the social, emotional, and institutional mechanisms that most powerfully shape outcomes for early-stage ventures. Practically, it implies that interventions targeting any single level of the problem, whether through financial literacy programming, regulatory reform, or investor education, will achieve limited effect in isolation.

It is worth being precise about the relationship among the three dimensions, since the claim is not simply that several things matter at once. They are analytically distinct in that each has a different locus and a different remedy. Institutional asymmetry resides in policy and regulatory design and is addressed through reform. Relational constraint resides in the structure of investor networks and is addressed through intermediation. Capability gaps reside in the founder and the founding team and are addressed through education and preparation. Yet they are empirically intertwined, because each dimension tends to reproduce the others. A founder excluded from investor networks acquires financing capability more slowly, since much of that capability is learned through exposure to investor conversations. A founder without that capability performs poorly in the few conversations that network access does yield, which weakens the referral that might have generated the next introduction. Institutional design shapes both, by determining which programs exist, who can practically reach them, and how much time and expertise an application demands. Recognizing this interdependence is what distinguishes a multi-level account from a list of contributing factors.

5.2 Implications for Theoretical Frameworks

The findings identify specific limitations in each of the three dominant frameworks while clarifying what each continues to explain.

Pecking order theory captures founders' preference for internal financing and their sensitivity to the dilution costs of equity, but it cannot account for the emotional and relational factors that disrupt rational financing hierarchies in practice. Participants departed from theoretically optimal sequences not through ignorance but through exhaustion, urgency, or exclusion from preferred channels. An adequate account of startup financing behavior must incorporate these dynamics without reducing them to irrationality.

The resource-based view correctly identifies human capital, networks, and proprietary capabilities as determinants of financing success, but it underweights the distinction between possessing resources and being able to signal their value credibly to gatekeepers who operate within particular institutional and relational contexts. Legitimacy, visibility, and interpretability of resources appear to matter as much as resource quality itself, and they matter most for founders outside established entrepreneurial communities.

Capital structure theory's assumption that founders exercise genuine agency in structuring their financing is the assumption these findings challenge most directly. Participants consistently described accepting available terms rather than optimizing across genuine options. That is not irrationality but structural constraint. Where collateral requirements preclude debt, investor terms are non-negotiable, and alternative channels carry significant costs and limitations, capital structure outcomes reflect institutional conditions far more than managerial optimization.

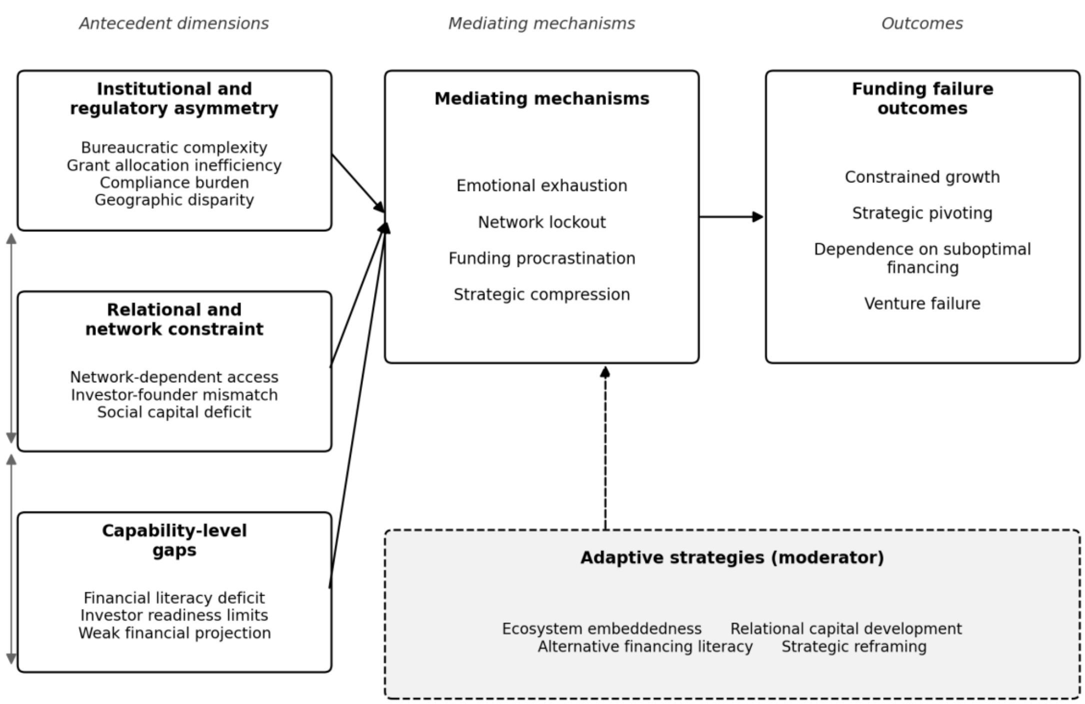
5.3 An Integrative Model of Startup Funding Failure

Building on the findings and the theoretical engagement above, we propose a conceptual model that reframes startup funding failure as the product of three interacting dimensions. The first is institutional and regulatory asymmetry, encompassing bureaucratic complexity, grant allocation inefficiency, regulatory compliance burden, and geographic disparity in ecosystem development. The second is relational and network constraint, encompassing network-dependent investor access, investor and entrepreneur mismatch, and the social capital deficits experienced by founders outside established communities. The third is capability-level gaps, encompassing financial literacy deficits, investor readiness limitations, and insufficient capacity for financial planning and projection.

These dimensions interact through four mediating mechanisms. Emotional exhaustion disrupts rational decision-making. Network lockout limits access to preferred financing channels. Funding procrastination delays action and compounds capital shortfalls. Strategic compression narrows the range of viable options available to a constrained venture. The consequences that follow include constrained growth trajectories, strategic pivoting, dependency on suboptimal financing alternatives, and, in severe cases, venture failure. Figure 1 presents the model.

Figure 1

An Integrative Model of Startup Funding Failure



Note. Arrows indicate the direction of influence. The adaptive strategies identified in Section 4.4 are modeled as moderators that attenuate the mediating mechanisms rather than as direct determinants of outcomes.

The model also specifies conditions under which adaptive strategies interrupt the causal chain. Ecosystem embeddedness, deliberate relational capital development, alternative financing literacy, and the experience-based capacity for strategic reframing all emerge from the data as mechanisms by which founders partially offset institutional and capability-level constraints. This positions the model as a diagnostic instrument as well as a prescriptive one, usable by founders assessing their own exposure, by intermediaries designing support programs, and by policymakers deciding where scarce intervention resources will do the best.

5.4 Boundary Conditions of the Model

Three boundary conditions govern how far the model should be extended. The first concerns institutional setting. Both national contexts examined here feature relatively mature capital markets, functioning securities regulation, and an established venture capital industry. In settings where formal capital markets are thin or where informal and family financing dominates, the relative weight of the three dimensions is likely to shift, and the relational dimension in particular may operate through kinship and community structures rather than through professional investor networks.

The second concerns venture type. Participants were drawn from ventures pursuing external equity or debt, which is the population for which the model is specified. Ventures that are deliberately bootstrapped, lifestyle businesses with no intention of raising outside capital, and internal corporate ventures face a different configuration of constraints, and the mechanism of network lockout has little purchase where external capital is not being sought.

The third concerns temporality. Interviews capture financing experiences at a particular moment in the capital cycle, and the salience of individual mechanisms is likely to vary with market conditions. Network lockout and investor mismatch should bind most tightly when capital is scarce and investors can be highly selective, while capability-level deficits may become more consequential in abundant markets, where founders secure terms they are not equipped to evaluate. The model treats these mechanisms as always present but not equally weighted and testing the cyclical variation would require longitudinal data the present design cannot provide.

6. Implications

6.1 Theoretical Contributions

The study makes three primary theoretical contributions. It provides qualitative evidence for the multi-level, socially embedded character of startup funding failure, lending empirical support to emerging accounts that challenge purely financial or purely rational-choice explanations of financing behavior. It extends each of the three dominant theories by identifying specific limitations that surface when they are applied to the lived realities of early-stage founding, while clarifying the dimensions of financing behavior each continues to illuminate. It introduces an integrative conceptual model offering a more comprehensive account of the causal mechanisms and mediating processes through which institutional, relational, and capability factors interact to produce funding failure.

Beyond these direct contributions, the study demonstrates the theoretical value of qualitative, founder-centered methodology in entrepreneurial finance research. The dominant paradigm in this field has favored quantitative methods suited to large-sample questions about financing outcomes. Such methods are indispensable, but they are poorly equipped for the interpretive and process-oriented understanding of financing mechanisms that the present study generates. A methodologically pluralist approach, in which qualitative and quantitative inquiry are treated as complementary rather than hierarchically ordered, would advance the field's theoretical development considerably.

6.2 Practical Implications for Entrepreneurs

For founders, the findings point to several priorities in capability development and strategic orientation. Financial literacy warrants treatment as a core competency rather than a supplementary skill. Founders who cannot engage credibly with valuation discussions, term sheet provisions, and capitalization dynamics are structurally disadvantaged in investor relationships, which limits both their ability to secure capital and their ability to protect their interests once they have. Mentorship networks and ecosystem engagement should be cultivated deliberately and early, not as alternatives to formal financing channels but as the means of building the relational capital that mediates access to those channels.

Founders would also do well to approach funding failure as strategic information rather than terminal judgment. The most resilient participants shared a capacity for iterative learning from setbacks, using rejection as data for refining investor targeting, pitch development, and venture positioning. This orientation, which might be characterized as financing resilience, appears cultivable through deliberate reflection and ecosystem support, which suggests a role for accelerators and mentors in developing it systematically rather than leaving it to chance.

6.3 Implications for Investors and Ecosystem Intermediaries

The multi-stakeholder design of this study surfaces implications for the supply side of the financing encounter that founder-only research cannot reach. The prominence of investor and entrepreneur mismatch in participant accounts suggests that a meaningful share of failed financing processes represents allocative inefficiency rather than correct screening. Both parties invest substantial time in conversations that could not have concluded successfully, given misalignment on stage, sector, or expected hold period. Clearer public articulation of investment criteria, including stage, check size, sector focus, and typical timeline, would reduce that waste at negligible cost to the investor.

The reliance on warm referral as a primary screening device carries a similar cost. It is an efficient heuristic from the investor's point of view, since a trusted intermediary performs an initial quality filter at no charge. It is also, as the accounts here indicate, the single most consistent mechanism by which capable founders outside established networks are excluded from consideration. Intermediaries occupy the position best suited to addressing this. Accelerators, incubators, and angel groups already function as credentialing bodies, and the value they add to a founder without prior network access is correspondingly larger than the value they add to one who is already connected. Program selection criteria that recognize this asymmetry would improve both equity and returns, since the marginal unfunded venture in an underserved network is likely to be of higher quality than the marginal funded venture in a saturated one.

6.4 Policy Implications

For policymakers, the findings identify several structural inefficiencies in the financing ecosystem that regulatory and programmatic intervention could productively address. Grant programs supporting early-stage ventures would benefit from reforms reducing application complexity, shortening decision timelines, and improving the predictability of allocation criteria. The gap between grant program design and operational startup reality, and particularly the temporal mismatch between bureaucratic timelines and entrepreneurial urgency, represents a significant source of preventable financing failure.

Tax policy affecting angel investment and early-stage equity participation offers another lever for expanding effective capital supply in underserved markets. Credit guarantee programs modeled on successful implementations in other jurisdictions could expand institutional debt access for founders who lack traditional collateral while keeping lender risk exposure manageable. Targeted investment in financial literacy programming, investor-readiness coaching, and mentorship infrastructure in geographically and demographically underserved communities would address the capability dimensions of financing inequality that market mechanisms alone are unlikely to correct.

Finally, the comparison between the United States and Canadian participants carries direct policy relevance, delivering the contrast anticipated in Section 3.2. Participants in both countries described the same three-dimensional structure of constraint, but the institutional dimension expressed itself differently in each setting, and the policy levers that follow differ accordingly. Participants in the United States located the sharpest institutional friction in the complexity of securities regulation governing equity fundraising and in the tax treatment of capital gains and early-stage equity participation, which points toward the simplification of the exemptions available to early-stage issuers and the calibration of tax incentives for angel and seed investment. Canadian participants, by contrast, emphasized regional disparities in the availability of public support and the comparative thinness of innovation ecosystems outside the major metropolitan centers, where the binding constraint is less regulatory complexity than the uneven geographic distribution of capital and programming; this points toward place-based interventions, regional co-investment vehicles, and the extension of accelerator and mentorship infrastructure into under-served regions. In both countries institutional design conditioned the relational and capability dimensions; the divergence lies in which institutional levers matter most, and a policy response calibrated to one national context should not be assumed to transfer to the other without modification.

7. Conclusion

This study sets out to investigate startup funding failure through the interpretive lens of entrepreneurs who have navigated the financing process. The findings reveal a phenomenon considerably more complex, more socially embedded, and more institutionally conditioned than prevailing theoretical frameworks suggest. Funding failure is not primarily a consequence of business quality, market conditions, or individual competence. It is the product of interaction between institutional structures that create unequal access to capital, relational dynamics that concentrate investment within established networks, and capability gaps that leave many founders ill-equipped to navigate sophisticated investor environments.

The integrative conceptual model developed here offers a more comprehensive diagnostic framework for understanding those dynamics and a more adequate foundation for designing interventions that could meaningfully reduce preventable financing failure. The findings are grounded in the North American context and must be interpreted accordingly, though the theoretical mechanisms identified are likely to apply, with appropriate contextual modification, across a wide range of entrepreneurial environments.

Several limitations should be acknowledged. A theoretically sampled group of ten participants provides rich qualitative data but cannot support claims about the prevalence of particular experiences across the broader founder population. The geographic focus on North America, primarily the United States and Canada, limits generalizability, particularly to institutional contexts with different regulatory structures, levels of capital market development, or entrepreneurial cultures. Retrospective accounts are also subject to recall and rationalization effects, since founders reconstructing a financing history may impose more coherence on it than the process possessed at the time. Future research should extend this work through larger and more geographically diverse samples, longitudinal designs capable of tracking how financing experiences evolve, and comparative analyses of successful and unsuccessful ventures able to identify more precisely the conditions under which adaptive strategies work.

The voices of entrepreneurs who have struggled to secure capital deserve more sustained attention in management scholarship than they have typically received. Understanding funding failure from the inside, as a lived and interpreted and strategically consequential experience, is not merely an academic exercise. It is a precondition for the theoretical insight and the practical intervention that might make the entrepreneurial process more equitable, more efficient, and more conducive to the innovation and job creation that startups, at their best, deliver.

Declaration of Interests

The author declares no competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data Availability

Interview transcripts are not publicly available because participants did not consent to open release of the raw data, and the material contains details that could permit identification of individuals and ventures. Anonymized excerpts beyond those reported here may be made available on reasonable request, subject to the terms of the original consent.

Use of Generative AI

In accordance with APA guidance on generative AI tools, the author confirms that the research design, data collection, analysis, interpretation, and conclusions presented in this paper are the author's own. Generative AI tools were used only for language editing and formatting assistance, and all content was reviewed and verified by the author, who takes full responsibility for the final manuscript.

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