Entrepreneurial Finance In The Process Of Entrepreneurship

***Dr. Ravi Sankar Kummeta,** Associate Professor,
Department of Management Studies, Anantha Lakshmi Institute Technology and Sciences,
Ananthapuram, A.P, Mail: ivar.shankar@gmail.com

Abstract

The increasing role of monetary intermediaries like risk capitalists and angels in nurturing entrepreneurial firms has led to great research interest within the domain of entrepreneurial finance. It requires specialized financial management skill because entrepreneurial growth companies must finance much higher asset growth rates than other firms. Entrepreneurial finance focuses on the financial management of a venture because it moves through the entrepreneurial process. The successful entrepreneurial process involves developing opportunities, gathering the desired assets, human capital and financial resources and managing and building operations with the last word goal of valuation creation. This text gives a thought of entrepreneurial finance sources like risk capital, crowd funding, business angels, Buy-out and their influence on the event of entrepreneurial process.

Key words: Entrepreneurial finance, venture capital, crowd funding, business angels, Buy-out.

Introduction

Entrepreneurial Finance is an emerging area of finance. There's no universally accepted definition for entrepreneurial finance; however it’s often defined because the study of the full system of raising money, funds or capital whether tangible or intangible for an entrepreneur or individual to hunt out investment opportunities in an environment, and be ready to establish and run an enterprise successfully. The business activities which are directed for procurement and conservation of the capital fund needed for meeting the financial requirements moreover as fulfillment of overall objective of the firm. Entrepreneurial finance focuses on the financial management of a venture because it moves through the entrepreneurial process. The successful entrepreneurial process involves developing opportunities, gathering the desired assets, human capital and financial resources and managing and building operations with the last word goal of valuation creation. Entrepreneurial finance requires specialized financial management skill because entrepreneurial growth companies are unlike other private or publicly traded companies. Specifically, Entrepreneurial Growth Companies must finance much higher asset growth rates than other firms and must tap external financial markets far more frequently.

Significance of the Study

Finance is that the back bone of the enterprise. the method of constructing financial decisions for brand spanking new business ventures is inherently different from established ventures. Additionally to providing risk capital to entrepreneurial growth firms, professional venture capitals provide managerial oversight including technical and business advice, assistance in developing and launching new products, and valuable help recruiting experienced management talent. The study is vital to grasp and analyze the entrepreneurial finance within the development of entrepreneurial process.

OBJECTIVES

1. To review the concept of entrepreneurial finance
2. To grasp the sources of Entrepreneurial finance
3. To analyze the role of entrepreneurial finance within the entrepreneurial process

REVIEW OF LITERATURE

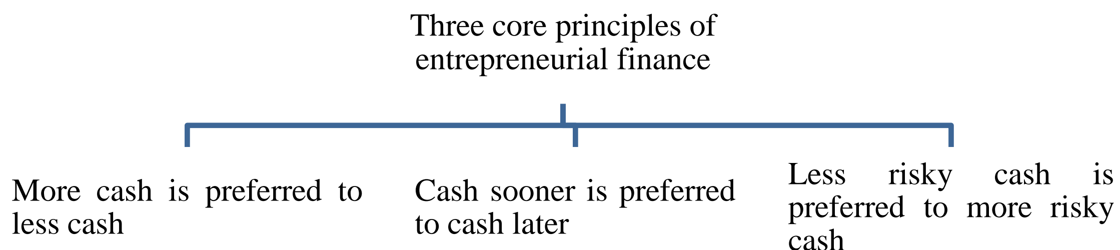
Copyright © 2020 Authors

Silva (2004) in his research article entitled "Venture Capitalists' higher cognitive process in small equity markets: a case study using participant observation", demonstrated that the VC investment process is characterized by more and earlier interaction between the VC and therefore the entrepreneur(s) than in previous models. Contrary to the findings in prior literature, the research revealed that the several activities within the stages of the decision-making process arise simultaneously instead of consecutively. The stages involved are Deal origination, Informal screening, Formal screening, Evaluation, Closing.

Young innovative firms play a key role in modern knowledge-based economies because they appear to be a vital source of latest jobs, radical innovations, and productivity growth, also as a disciplining device for the behavior of established firms (Block et al. 2016). Unfortunately, these firms often suffer from financing constraints, which limit their growth and threaten their survival (Brown and Earle 2015; Carpenter and Petersen 2002; Cosh et al. 2009). a good literature has addressed the theme of monetary constraints for young innovative firms. Lack of internal cash flows and collaterals, moreover as asymmetric information and agency problems, are the most reasons for the difficulties in rising external funding (see Hall and Lerner (2010) for a summary of the literature). The entrepreneurial finance literature addresses these problems and investigates ways how young innovative firms can access capital for financing growth, innovation, and internationalization.

Concept of Entrepreneurial Finance

Entrepreneurial finance is that the applying and adaptation of monetary tools, techniques and principles to the planning, funding, operations and valuation of an entrepreneurial venture.



Growing ventures need financial assistance from the inception within the sort of seed fund until developmental finance. Finance plays a significant role within the entrepreneurship development. Within the process of Entrepreneurship development entrepreneurial finance can access in various forms and in each source it's mutual good thing about fund providers. This study explains the importance of entrepreneurial finance to the promising young entrepreneurs who have long-run business plans.

SOURCES OF ENTREPRENEURIAL FINANCE

To develop the entrepreneurship process huge amount of capital funds are required in various forms. a number of the important sources of entrepreneurial finance are discussed here under.

Financial Bootstrapping: it's a term wont to cover different methods for avoiding using the financial resources of external investors. It involves risks for the founders but allows for more freedom to develop the venture. Differing types of monetary bootstrapping include Owner financing, equity, Minimization of accounts payable, joint utilization, minimization of inventory, delaying payment, subsidy finance and personal debt.

External Financing: Businesses often need more capital than owners are able to provide. Hence, they source financing from external investors: angel investment, working capital, also like less prevalent crowd funding, hedge funds, and alternative asset management. While

Copyright © 2020 Authors

owning equity during a personal company could even be generally grouped under the term private equity, this term is sometimes accustomed describe growth, buyout or turnaround investments in traditional sectors and industries.

Crowd funding: It refers to the efforts by entrepreneurial individuals and groups to fund their ventures by drawing on relatively small contributions from a relatively sizable amount of individuals using an Internet-based platform, without standard financial intermediaries (Mollick, 2013). As such, crowd funding could be a highly democratic tool that makes opportunities to show larger groups of individuals, who otherwise wouldn't have access to traditional channels of finance, into small scale entrepreneurs. Crowd funding developed primarily within the arts and creativity-based industries (e.g., recorded music, film, video games) (Agrawal et al., 2013). Nowadays, crowd funding is utilized as a financing source for projects and ventures in various industries (Schwienbacher & Larralde, 2010).

Crowd funding types: The literature identifies four main forms of crowd funding, where the principle distinction among each style of model relies on what investors receive reciprocally for his or her contributions, if anything (Agrawal et al., 2011, 2013; Ahlers, Cumming, Günther & Schweizer, 2012; Mollick, 2013): In donation-based crowd funding, funders donate to causes they need to support, with no expectation of monetary or other material compensation. this could even be considered a philanthropic or sponsorship-based incentive; Reward-based crowd funding offers funders a non-financial benefit in exchange for his or her investment; In lending crowd funding, funders receive fixed period income and expect repayment of the principal amount invested; In equity crowd funding, investors receive some sort of equity or equity-like arrangements (e.g., profit sharing) within the venture they support.

Business angels: in line with the worldwide Enterprise Monitor methodology, informal investors are all individuals who personally invested during a business start-up that wasn't their own, excluding stocks and mutual funds. Informal working capital are often further divided into equity financing provided by family and friends – so-called “love” money – and other individuals who haven't got a pre-existing relationship with the entrepreneur, mentioned as business angels. during this section we'll target the latter group. Consequently, business angels are high net worth individuals who invest their own money, either alone or with others, directly in unquoted businesses within which there's no family or friend connection, within the hope of achieving a giant financial return (Mason, Botelho & Harrison, 2013).

Formal venture capital: Formal venture capital refers to investments by professional investors in young, growth oriented ventures. Risk capital financing provides backing to startup companies and little businesses that are believed to possess long-term growth potential. Venture capitalists are the well-off investors, investment banks and the other financial institutions. However, it doesn't always take a monetary form; it can also be provided within the type of technical or managerial expertise. Risk capital is one potential option, so as to fulfill the need of equity finance when the banks did not provide loans to potential business.

Buyouts: Buyouts are styles of finance accustomed change the ownership or the type of ownership of a company through a variety of means. Once the company is private and freed from variety of the regulatory and other burdens of being a public company, the central goal of buyout is to urge means to create this value. This could include refocusing the mission of the corporate , selling off non-core assets, freshening product lines, streamlining processes

Copyright © 2020 Authors

and replacing existing management. Companies with steady, large cash flows, established brands and moderated growth are typical targets of buyouts.

There are several variations of buyouts:

• Leveraged Buyout (LBO): a mixture of debt and equity financing. The intention is to unlock hidden value through the addition of considerable amounts of debt to the record of the corporate.

• Management buyout (MBO), Management provides (MBI) and Buy-In Management Buyout (BIMBO): private equity becomes the sponsor of a management team that has identified a business opportunity with a price well above the team's wealth. The difference is within the position of the purchaser: the management is already working for the company (MBO), the management is new (MBI) or a mix (BIMBO).

• Buy and built (B&B): the acquisition of several small companies with the target of constructing a pacesetter (highly fragmented sectors like supermarkets, gyms, schools, private hospitals).

• Recaps: re-leveraging of an organization that has repaid much of its LBO debt.

• Secondary Buyout (SBO): sale of LBO-company to a different private equity firm.

• Public-to-private (P2P, PTOP): takeover of public company that has been 'punished' by the market, i.e. its price doesn't reflect actuality value.

IMPACT OF ENTREPRENEURIAL FINACE

Entrepreneurial finance follows majorly three principles within the strategy of an entrepreneurship. Finance is that the life blood for all the enterprises. Without finance there'll be no business. To run the business efficiently and effectively, we'd like readymade cash. The business activities which are directed for procurement and conservation of the capital fund needed for meeting the financial requirements also as fulfillment of overall objective of the firm.

1. In entrepreneurial finance, investment decisions and financing decisions are the identical.
2. Portfolio Theory (valuation supported risk) doesn't apply to new ventures cleanly.
3. The Entrepreneur must signal intentions to investors often by willingly undertaking irreversible, non-diversifiable financial risks.
4. Real options analysis could even be a valuable technique for valuing the complete venture.
5. Liquidity is that the only real way during which new ventures return value to investors.
6. The Entrepreneur is that the last word residual claimant and driver of valuation goals.

New ventures don't have a marketplace for his or her financial claims, and thus must raise funds for projects from investors. the result's that corporations can often finance projects with expectations of a positive net return on investment that a replacement venture would reject the identical project unless they go to boost investment. Likewise corporations can diversify their risk. Through risk management techniques, established corporations can shift project risks so on reduce overall corporate risk.

Copyright © 2020 Authors

ISSN: 2278-4632
Vol-10 Issue-6 No. 17 June 2020

CONCLUSION

There are many styles of financing available for entrepreneurs. There's quite enough funding available to new entrepreneurs. This might assist to choose the source of funding that suits best at the side of business situation and company stage. Reciprocally it increases the chances that simply will rise funding. There are many sources from which entrepreneurs will get support like founders money, friends, family, angel investors, crowd funding, subsidies from various schemes, capital fund, debt financing from various financial institutions, factoring, leasing, suppliers, initial coin offering and initial public offering. They have significant impact on the growth and development for new ventures as well as existing enterprises.

REFERENCES

1. Silva, J. (2004) "Venture Capitalists' decision-making in small equity markets: A case study using participant observation", Venture Capital, Vol.6, Pp. 125-145.
2. Agrawal, A. K., Catalini, C., & Goldfarb, A. (2013). Some Simple Economics of Crowdfunding. NBER Working Paper, No. 19133.
3. Ahlers, G., Cumming, D., Günther, C., & Schweizer, D. (2012). Signaling in Equity Crowd funding. Working paper.
4. Aernoudt, R. (2005). Business angels: the smartest money for starters? international Journal of Business, 10, 3.
5. Black, B. S., & Gilson, R. J. (1998). Venture capital and the structure of capital markets: banks versus stock markets. Journal of Financial Economics, 47(3), 243-277.
6. Bronwyn H.Hall and JoshLerner, (2010)' The Financing of R&D and Innovation,' Handbook of the Economics of Innovation, Volume 1, Pages 609-639
7. Block el al, (2016),'Crowdfunding: A Literature Review and Research Directions
8. Mason, Botelho & Harrison, (2013),' The Transformation of the Business Angel Market: Evidence from Scotland
9. Brown, J. D., & Earle, J. S. (2015). Finance and growth at the firm level: evidence from SBA loans. IZA Working Paper No. 9267.

Copyright © 2020 Authors