REŠERŠE LITERATURY K TÉMATU FINANČNÍ ŘÍZENÍ ZAČÍNAJÍCÍ FIRMY PRO UČEBNÍ TEXT 3PO101

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CORNWALL, J.R., VANG, D. O., HARTMAN, J. M. (2016). *ENTREPRENEURIAL FINANCIAL MANAGEMENT: AN APPLIED APPROACH.* NEW YORK, NY : ROUTLEDGE.[1]

Financial reports also can give crucial insight into the operating effectiveness of a business. They are often critical to making the right decisions. Which products make money? Should the company add a new type of service? When should management add more employees? Can the company afford to expand right now? These are questions that are answered through the language of accounting and finance. It is a myth that entrepreneurs can answer such questions simply based on intuition or gut feel.

Entrepreneurial financial management is defined in terms of six general activities and functions in the business. First, entrepreneurial financial management includes setting clear financial goals for the business that are consistent with the aspirations of the entrepreneur who owns the venture. What are the income and wealth goals that the entrepreneur is pursuing through the business? How will the business need to perform in order to allow the entrepreneur to realize these financial goals?

Second, using financial statements and reports to manage a growing business and to make informed decisions is a key element of entrepreneurial financial management. This is the process of becoming fluent in the language of business and being able to specifically apply this language to the unique circumstances found in each business venture.

Third, entrepreneurial financial management includes forecasting. The entrepreneur and their team use forecasts as a guide to assess the progress of the business and to determine how well it is meeting expected results. Forecasts also are used to communicate the potential of a business venture to outside funding sources such as banks and venture capitalists. Forecasting future financial results has been described as more art than science. However, there are tools and techniques that can drastically improve the accuracy of forecasts. Revenue forecasts should be developed hand-in-hand with the financial goals of the owners (what revenues will be required to reach the profit goals established for the business). Also, revenue goals should be consistent with data obtained through the marketing plan.

Fourth, entrepreneurial financial management includes effective managing of what can be the most precious resource: cash. Cash flow often is described as the lifeblood of a business. Cash

[1] Tato publikace není k dispozici v knihovní síti ČR. Rešerše byla vytvořena z blogů hlavního autora http://www.drjeffcornwall.com/

flow management includes both long-term planning for cash needs as well as day-to-day cash flow management.

Fifth, entrepreneurial financial management does include raising funds for entrepreneurial ventures. However, before racing off to obtain external funds, the entrepreneur must examine the impact of debt and equity on her ability to reach their goals throughout the life of the business. There are some creative first steps toward financing. They explore these issues of financing over the life of a business and start-up financing using the entrepreneur's own resources and the resources of family and friends. Additionally, if managed properly, growing businesses can often generate funds internally through the creative application of critical business functions such as marketing, staffing, operations, and so forth. It examines how a collection of techniques known as bootstrapping can lower expenses and reduce the need to raise outside funding. Many businesses do need external support to grow. They provide a complete overview of the various sources of external funding, including both debt and equity sources of funds.

Finally, entrepreneurial financial management includes the process of how the entrepreneur exits the business that she founded. All entrepreneurs eventually leave their businesses, either through planned exits, such as selling the business, going public, or transitioning to the next generation in a family business. Some exits, such as the death of the owner or bankruptcy, are not subject to careful planning.

Model for Entrepreneurial Financial Management

As shown, the process begins with a clear understanding of the financial goals of the entrepreneur, which is used to forecast and monitor performance. This model, based on the discovery-driven planning model developed by McGrath and MacMillan (1995), includes the assumption that profit goals should be clearly established and then engineered into the plans for a new venture.

The perspective of investors needs to be considered by entrepreneurs. In order to gain access to funding, entrepreneurs need to know the principles, expectations, and conditions that investors will have. In general:

1. Investors prefer less risk to more risk.

2. Diversified investors are primarily concerned with what is called nondiversifiable, systemic, or market risk.

3. Single-asset or nondiversified investors are concerned with the total risk of the investment, but such investors are relatively rare in the investment world.

4. Investors prefer more return to less.

5. Investors prefer the return to occur sooner rather than later.

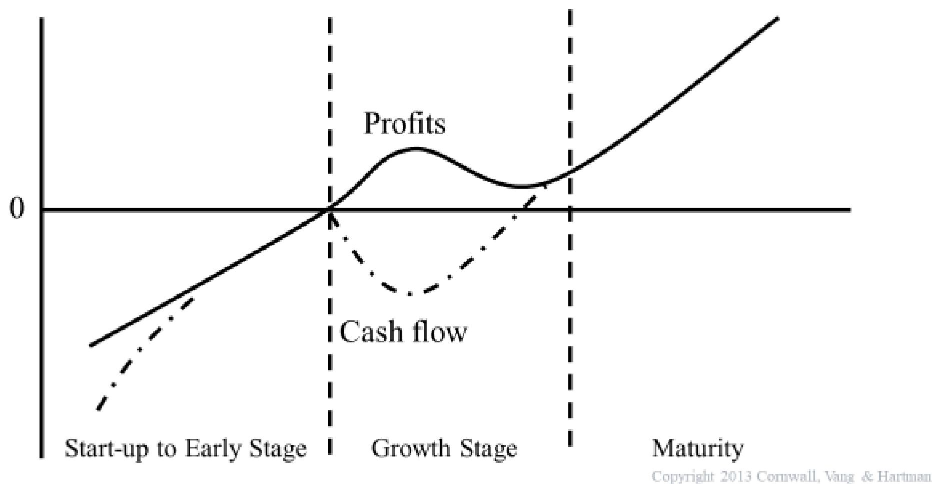
6. Investors prefer more liquidity (the ability to turn an investment into cash) to less liquidity.

7. Investors face many different opportunities to invest their money, so raising funds is competitive; the entrepreneur's request for funds must reasonably appear to offer less risk, more return, a faster return, or more liquidity than other requests.

8. No investors are immune to these principles, expectations, and conditions.

Example of Cash Flow Over Life Cycle of Business

Figure 8.1



Reasons for Cash Flow Problems:

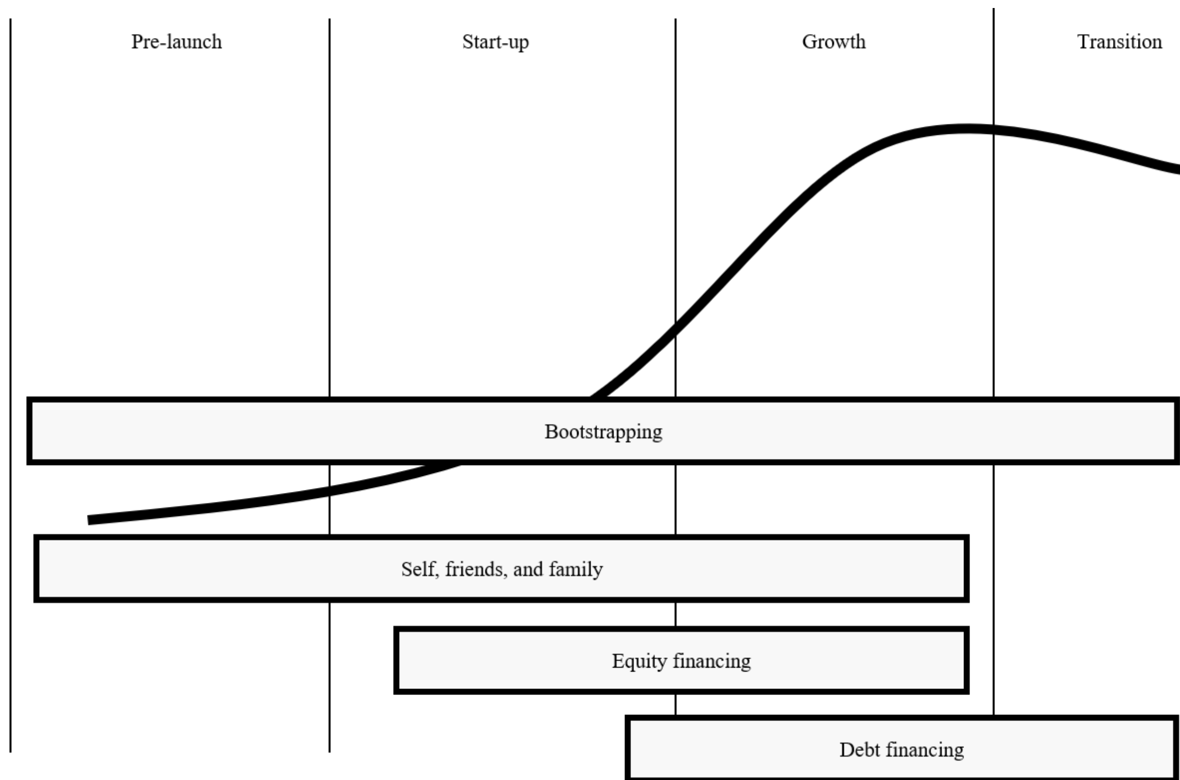
- Difficulty in collecting receivables
- Seasonality of sales
- Unexpected variation in sales
- Policies on how payments are made to suppliers
- Large expenditures up front for customer projects
- Capital projects
- Ineffective inventory management

Financing Over the Life of a Venture

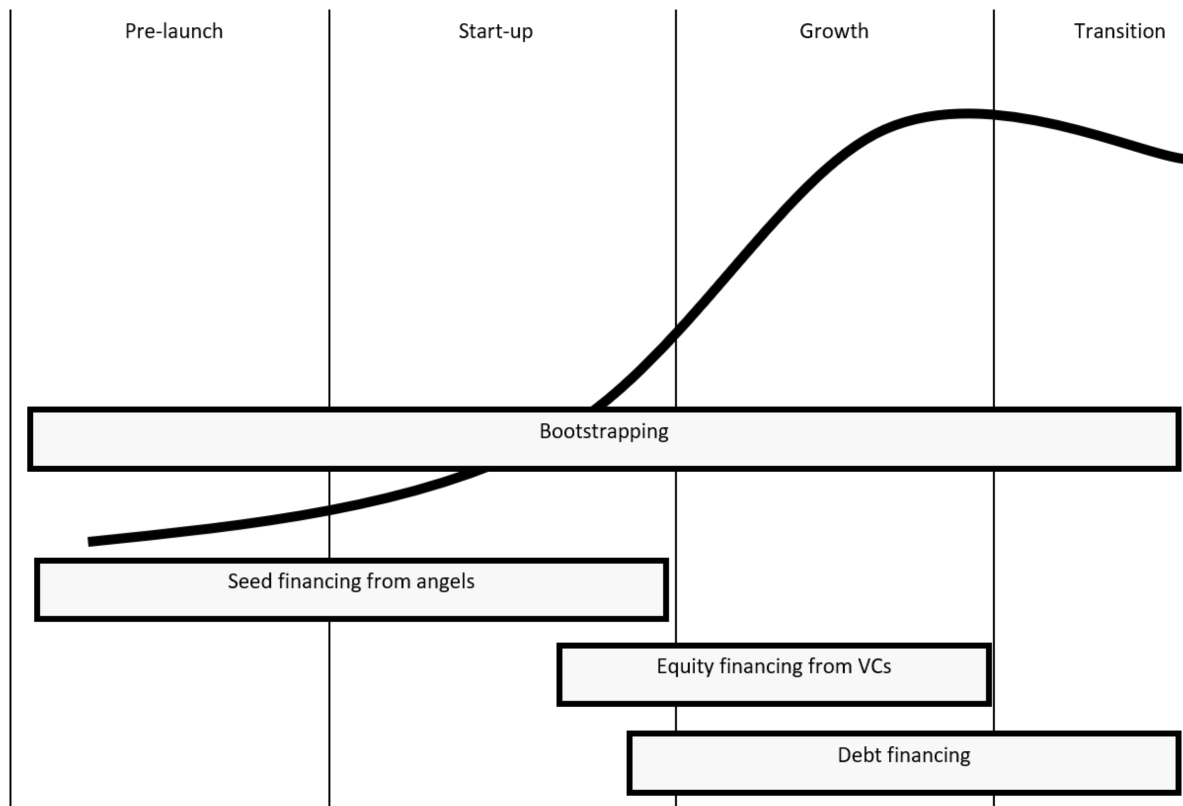
- Venture Capitalists Fund Most Businesses
- Banks Lend to Start-ups
- SBA lends money directly to entrepreneurs

- Entrepreneurs Tend to Rely on One Single Source of Funding
- Government Grants are a Good Source of Money for Small Businesses

Financing a Small Business - Modest Growth



Financing a High-Growth, High-Potential Venture



Start-up Financing From the Entrepreneur, Friends and Family

- Self-financing
- Advantages and Disadvantages of Self-financing
- Friends and Family Financing
- Structure of Funds Invested
    - Loan
    - Equity

Bootstrapping

Defined as the "process of finding creative ways exploit opportunities to launch and grow businesses with the limited resources available for most start-up ventures."

Zdroj: Cornwall, J. (2010). *Bootstrapping*. Englewood Cliffs, NJ: Pearson/Prentice-Hall.

SLOVAK STARTUPS REPORT 2016. THE SLOVAK ALLIANCE FOR THE INNOVATIVE ECONOMY (SAPIE)

Sources of financial support you have used:

87% Own capital

15% 3F (fools, friends, family)

13% Bank loan

19% Local business angel

11% Business angel from abroad

15% Local VC fund

9% VC fund from abroad

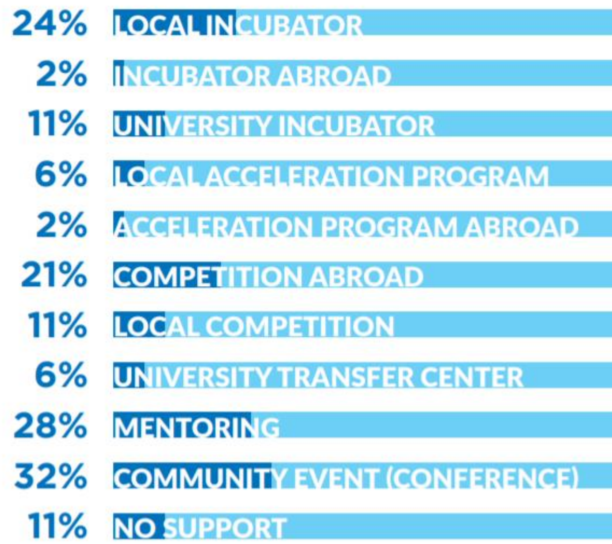
11% Crowdfunding

21% Public support

9% Scientific grant

9% Strategic business investor

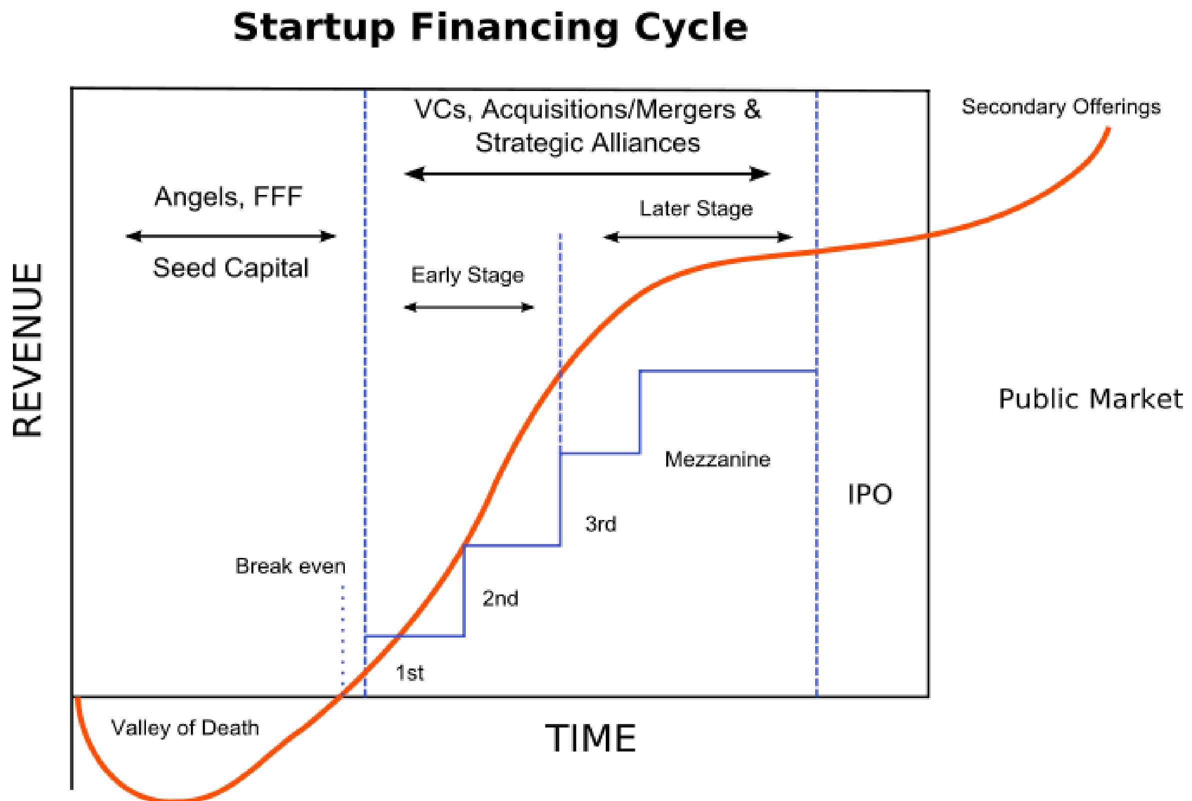
Sources of non-financial support received



MCLELLAN CH. (2014). UNDERSTANDING THE ENTERPRISE STARTUP LIFECYCLE.

The startup lifecycle

Getting a business off the ground and into profitability, and then either growing to become a thriving independent company or implementing an 'exit strategy' -- being acquired or going public -- typically involves a number of stages, outlined here:



Zdroj: Kmuehmel, wikipedie

Businesses can obviously fail too, and this is most likely to occur in the early stages, when the company is funded by seed capital, angel investors and/or 'friends, family and fools' (FFF), and is yet to generate significant revenue (see the Valley of Death, above).

Assuming the business survives to break-even, various early-stage and later-stage financing rounds may then be negotiated, allowing first- and subsequent-generation products to mature and hopefully penetrate their markets. Many promising companies are acquired during this period; if they're not, the next major milestone is often the IPO (Initial Public Offering), following which, all being well, a healthy share price provides existing private investors with a tangible return. Not all IPOs go as planned, however, and many startups choose to remain in

private hands if they have the means to finance their growth plans. Occasionally, public companies return to private ownership -- the most notable enterprise-tech example being Dell, which implemented a $24.4 billion leveraged buyout in February 2013.

ZWILLING, M. (2013).10 MORE CREATIVE WAYS TO FINANCE YOUR STARTUP. FORBES.

1. **Personal financing.** You may not think this is very creative, but I'm amazed at the number of "wannabe" entrepreneurs who haven't thought about saving any money before they start, or wouldn't think of using their own savings to start a business. No investor I know will put money into a deal if they see that you have no "skin in the game."

2. **Personal credit lines.** You qualify for a secured personal credit line based on your personal credit efforts. Credit cards can usually be acquired with even less history. We all know startups that have been built on one or both of these. The advantage is that you retain total ownership and control, as long as you make minimum payments.

3. **Family and friends.** These are people who should believe in you, without waiting to see if your idea works, or waiting until you have real customers, revenue, and hard assets. These commitments should always be positioned in writing as promissory notes, or so-called bridge-loans, which convert to equity at a rate determined by later investors.

4. **Peer-to-peer lending.** This is a process whereby a group of people comes together to lend money to each other. It's been around many years, in examples like small business groups or ethnic groups supporting similar efforts. In the startup context, look for a successful entrepreneur peer willing to fund similar new ideas.

5. **Crowdfunding**. Here you use the power of the Internet to find a crowd of like-minded people, with small amounts each, to back your efforts. This approach is now spreading beyond non-profits, pre-sales, and memento rewards, to soon include the ability to make small equity investments via the JOBS Act passed last year.

6. **Microloans.** There are many private companies and non-profits that offer small loans, up to $35,000, to promote entrepreneurship, to individuals who would not normally quality for bank financing. Examples include Patriot Express loans, and Small Office/Home Office (SOHO) loans.

7. **Vendor financing.** If you need tangible products for inventory, many manufacturers and distributors can be convinced to defer your payment until the goods are sold by you. This really means an extension of the normal 30-day payment terms to a period of months or longer, depending on your credit worthiness and extra fees.

8. **Purchase order financing.** The most common scaling problem faced by startups is the inability to accept a large new order, since they don't have the cash to build and deliver the product. PO financing companies will often advance the required funds directly to the supplier, allowing the transaction to complete and profit to flow to the startup.

9. **Factoring accounts receivables.** This is similar in concept to PO financing, but applies the advance to unpaid amounts not yet due or collected from customers. In high volume startups starting to scale up, this will provide cash on your sales immediately, rather than waiting for 30 to 60 days or longer for payment.

10. **IRA financing.** Investment Retirement Account funds and 401(k)s are arguably the single most accessible alternative funding source available today for startups. You can't use your own self-directed funds for your startup, but many others are willing and able to loan you money from theirs, for the right terms, if they believe in you and your cause.

SHEVCHENKO, O. (2018). STARTUP FUNDING: HOW TO GET MONEY FOR AN EARLY-STAGE STARTUP. THE STARTUP.

The recipe for a successful business: one brilliant idea, strong enthusiasm and initial capital.

First, we'll look financing during the early startup phase—when the idea is, and what to do next, is still somewhat unclear. The methods presented below can be used in other stages, but I recommend that you begin with them as they're efficient and time-proven.

So, where do you start?

Idea phase. Is it worth it?

SAVING

- This is your money
- You haven`t to share your startup with nobody
- You decide how your startup will look like

- You could haven't enough money to start

CREDIT CARDS \ A LOAN FROM A BANK

- You can get money in a short period of time
- Minimum payments are quite low

- The absence of one payment can seriously damage your loan
- For a loan, you need a good credit rating
- Big interest rates

401 K PENSION PLAN

- You will pay to yourself, not to the bank
- Interest is much lower than in the bank
- You will have many options for repayment

- You can get taxes and penalties if you don't pay the loan on time
- This method better use if you are well versed in finance

BUSINESS ANGELS

- They are ready to take on high risks associated with the implementation
- It could be somebody of your friends or relatives
- Business angel can bring to the startup his invaluable experience

- You should share a business with an angel
- You aren't in full control
- If you chose a wrong angle, it will be difficult to get "divorce"

CROWDFUNDING

- You don't have to give away equity in your business or intellectual property rights
- You can get feedback early-on in the innovation process
- You can easily connect with your target audience

- You need more time and money in creating an attractive project page
- You must spend time on Marketing and PR for the project
- Limited financing

ACCELERATORS

- The network that helps to be successful
- You can learn the experience of similar companies in the accelerator
- Free marketing and PR

- Best programs are very selective
- A lot of requirements you should follow
- You're connected to the incubator's network for life

INCUBATORS

- A free or low-cost workspace
- Business access to services, mentorship, expertise, influence, and sometimes capital
- Investors trust the incubators' startups for investment

- The application process can be rigorous and competitive
- Work in the open space environment could be difficult for a large team
- The incubator can be oriented to a specific market or vertical

WRIGHT, F. (2017). HOW DO ENTREPRENEURS OBTAIN FINANCING? AN EVALUATION OF AVAILABLE OPTIONS AND HOW THEY FIT INTO THE CURRENT ENTREPRENEURIAL ECOSYSTEM. JOURNAL OF BUSINESS & FINANCE LIBRARIANSHIP.

The most popular entrepreneurial funding models.

Self-funding/bootstrapping

Bootstrapping is defined as using one's personal cash, savings, or credit to directly fund a new business. Entrepreneurs choose this model for a variety of reasons. Some entrepreneurs prefer the lower-risk nature of self-funding so that any money lost is theirs alone and not owed to an outside funder. Additionally, if an entrepreneur can self-fund 100% of their venture, they do not need to give up ownership stakes or future equity if their business succeeds. However, the choice to self-fund is more often born out of necessity when an entrepreneur cannot secure outside resources. This is usually due either to a lack of outside interest in the company or because the entrepreneur lacks the necessary network or social connections to access private capital. The latter is particularly true for women and minorities, who may lack high-placed business connections.

Friends, family, and colleagues

Tapping one's close network of friends, family, and work colleagues is a longstanding tradition for entrepreneurs and is likely the second most popular small business financing model. It is estimated that more than 50% of entrepreneurs get funding from at least one of these three sources (Daniels et al., 2016). There are some clear benefits to asking a close relation for financing a new business. Much like bootstrapping, this model may be a viable option if the entrepreneur either cannot access or does not want to access private capital. The entrepreneur may also get a more favorable interest rate on their loan if they get it from a close relation. As an additional benefit, friends and family members may be able to tap their trusted network of potential investors, becoming advocates for the company (Zwilling, 2016). However, unlike bootstrapping, entrepreneurs may owe their friends, family, or colleagues equity or a controlling stake in the company if the business succeeds. Therefore, Geoffrey Gregson at the University of Edinburgh warns that this type of financing can put the entrepreneur in the awkward position of dealing with family members or friends who expect to play a major role in the company in return for their investment (Gregson, 2014). The actual process of getting money from friends, family, and colleagues can vary greatly. It can be informal, such as an uncle lending some money to his favorite nephew, or quite formal and legally binding. In the latter case, an entrepreneur might offer a friends and family round for investing in their company. In this round, the entrepreneur seeks capital from their close network in exchange for a convertible note (a loan where an investor has the option of converting their invested money into a stake in the company later.

Banks

Dressing up for a loan interview at the local bank may seem anachronistic to today's disruptive entrepreneur; however, one should not dismiss this model before weighing its relative advantages and disadvantages. To their advantage, banks often offer lower rates than self-funding on a credit card or accessing peer-to-peer private lending.

Yet there are some definite downsides when trying to get funding from a bank. First, banks require extensive financial documentation, proven cash flow, and, likely, high individual credit scores and collateral such as a home before approving a line of credit to a new business. As a result, applying for a bank loan requires a large investment in time: small businesses approach three separate financial institutions on average before they either obtain or give up looking for credit, taking 25 hours in total according to a 2014 Harvard survey (Mills & McCarthy, 2014). Second, there is not much flexibility in paying back a bank loan. You cannot ask for an extension or come up with an alternative plan. Instead, missed payments could result in asset seizures or bankruptcy. And finally, banks tend to disadvantage minority and female business owners.

Accelerators

Accelerators are a relatively recent phenomenon in the entrepreneurial ecosystem. As the name suggests, accelerator programs attempt to speed up the typical start-up process to under six months, with emphasis placed on networking with venture capitalists and investors. Additionally, accelerators usually feature a "Demo Day" at the end of the program where entrepreneurs can pitch their business to qualified investors in the hopes of securing more financing. In exchange for this opportunity, entrepreneurs usually give up a small amount of equity, in the range of 6% to 10%, to the sponsoring accelerator (Brookings, 2016). It is estimated that there are more than 700 accelerator programs in the United States (Hathaway, 2016a); the most well known being Y-Combinator and Techstars, founded in 2005 and 2006 respectively. Accelerators often provide work space, housing, and mentorship to their accepted entrepreneurs. This, combined with the built-in networking opportunities associated with the programs, make accelerators appealing to many entrepreneurs. Scholarship seems to support these advantages as well: Smith and Hanningan (2015) found that graduates from top accelerators received their next round of financing more quickly and were more likely to be acquired than a comparable set of entrepreneurs financed by angel investors (a model to be discussed below). Hallen, Bingham, and Cohen (2014) found positive benefits (quick financing, high levels of acquisition) for entrepreneurs in top accelerator programs, but these results dissipated when their sample of accelerators was broadened to include less reputable programs. Some disadvantages of accelerators were alluded to above. It seems that there are clear benefits to getting into a top accelerator program but, as the reputation of the program decreases, there does not appear to be a significant advantage to this model. Additionally, it is difficult to gain entrance to a top program. Y-Combinator, for example, accepts only 1.5% of its applicants (Rao, 2015). When researching accelerators, librarians should consult Harvard Business School's 2016 "What Startup Accelerators Really Do" for a review of the field (Hathaway, 2016b).

Angel investors

Angel investors are high net worth individuals who identify and finance entrepreneurs in exchange for equity, in the range of 15%, of a new company (Center for Value Research [CVR], 2016). On the surface, this arrangement sounds much like a VC firm; however, angel investors do not work on behalf of a group of investors. This frees them to invest in companies that may not deliver value for a long time. In this vein, angel investors often invest in companies with missions they believe in, or in industries in which they have a lot of knowledge to provide mentorship. This characteristic of angel investors augments their popular image as investors who may fund an entrepreneur out of personal interest or a sense of social responsibility. Practically, angel investors sometimes fund an entrepreneurial project through its entire growth stage whereas others invest only in the early stages as a bridge to formal venture capital at a later stage. As a result, angel investors play a crucial role as an indispensable intermediary between entrepreneurs and formal VC (DeffainsCrapsky & Klein, 2016). To provide some figures, a total of 71,110 entrepreneurial ventures received angel funding in 2015, which represented a slight decline of 3.1% from 2014 investments. As of 2015, there were 304,930 individual angel investors in the United States (CVR, 2016). Getting more granular data on angel investors is difficult as they are not required to report their activities. Entrepreneurial researchers Deffains-Crapsky and Klein (2016) have noted as well that the role of angel investors remains understudied. Therefore, it is hard to discern how many entrepreneurs get funding from angel investors as a percentage of those who seek it out. When looking into this model, librarians can discover new trends and reports on the field by going to the website of the University of New Hampshire's Center for Venture Research (Center for Venture Research, 2017). Entrepreneurs themselves may be more interested in the Angel Investment Network, (Angel Investment Network, 2017) however, as this website allows entrepreneurs to provide information about their venture and get connected to potential funders.

Peer-to-peer lending

A fairly recent phenomenon, P2P lending offers entrepreneurs the opportunity to get financing directly from a peer investor via an online platform. The premise behind this model is twofold: first, P2P platforms connect an entrepreneur to many individual investors within minutes; and, second, because of the overhead savings associated with P2P platforms, they can offer smaller loan amounts that would not be worth a larger bank's time. To get financing, entrepreneurs need to fill out financial information on a P2P site where they will be prescreened for approval or denial (strong credit scores help). If approved, an entrepreneur will enter information about their business so that investors can evaluate their prospects for repayment. Even if the loan amount is small, however, there are some downsides and risks associated with P2P lending. The first is that not all states allow P2P lending from all P2P platforms. Entrepreneurs will have to consult each platform's legal section for information on whether they can borrow, though the major P2P platforms seem to be available in the majority states. And second, but more importantly, because of the risk involved, P2P loans often entail high interest rates. It should be noted that P2P platforms are mainly used by individuals to underwrite consumer debt rather than fund a new business (Bruton, Khavul, Siegel, & Wright, 2015).

Crowdfunding

The most recent viable entry into the financing ecosystem, crowdfunding, is a way for entrepreneurs to advertise their projects or businesses to a global network of potential investors. In exchange for an investment in their project, entrepreneurs typically offer some type of nonmonetary compensation to investors. These can range from an exclusive product prototype such as a piece of clothing or a watch or first access to a new music album or movie. Though the model is evolving (and may eventually include monetary payment), entrepreneurs so far seem to appreciate its flexibility in paying back investors as well as the free advertising that comes with a flashy crowdfunding campaign. Research from the SBA argues that crowdfunded projects can serve as "proof of concept" to demonstrate an entrepreneur's viability (Small Business Administration [SBA], 2016a). This research shows that high-performing crowdfunding projects resulted in higher publicity and a stronger customer base, which resulted in the entrepreneur being able to raise funding outside their initial project in the form of venture capital or angel investment.

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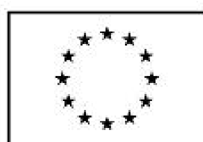

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