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# 1. Introduction: entrepreneurial finance in context in the twenty-first century

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Entrepreneurial finance has, and continues to be, a major avenue for entrepreneurship research and scholarly inquiry (Storey, 1994) because of the changing nature of the constituent empirical phenomena and theories, especially in light of the Global Financial Crisis (GFC) and newly emergent forms of innovative financing models such as microfinance and crowdfunding. Accordingly, this handbook draws comprehensively upon the current cutting edge theories, knowledge, research findings and analysis of the interaction between small and medium-sized enterprises (SMEs), entrepreneurs, and financial institutions globally. As well as including regional and international perspectives through research that deals with the business environment in the United Kingdom (UK), Europe, North America, the Middle East, Oceania, and Central, East and South Asia, it is augmented by deeper insights into the implications for practitioners (including SMEs, entrepreneurs and financial institutions) and policy-makers. Its constituent chapters thus offer novel and unique contextualized theoretical and empirical insights and contributions (Welter, 2011; Zahra, 2007; Zahra et al., 2014).

In this introductory chapter we highlight the novel contributions of each chapter, as well as their method(s), key findings(s) and, finally, we conclude by offering some future directions for research into entrepreneurial finance across different distinctive spatial, sociocultural, political and economic development contexts. The handbook has been structured in such a way so as to provide four discrete ‘bundles’ of chapters with a differential focus upon various cutting-edge research topics and a mix of countries with both developed and emerging economies at different and distinctive stages of economic development (Porter, 1990; Porter et al., 2002; Amorós and Bosma, 2014).

Across the broad spectrum of research topics related to entrepreneurial finance that are covered in the handbook, rather than dividing this volume into sections, we have opted instead to group together – in four discrete bundles – sets of chapters from similar locations in terms of their broad level of economic development (that is, either developed or emerging economies). As a result of this rather innovative, though some would say

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idiosyncratic, approach to structuring the handbook, the volume commences with the first bundle that comprises three chapters focusing on various issues of entrepreneurial finance in Western developed economies. Hence Talbot, Mac an Bhaird and Whittam (Chapter 2) investigate credit unions as a potential source of start-up finance in the UK; Deakins (Chapter 3) conducts a general review of entrepreneurial finance in New Zealand; and Nitani and Riding (Chapter 4) consider internationalization and entrepreneurial finance in Canada.

Steve Talbot, Ciarán Mac an Bhaird and Geoff Whittam (Chapter 2) investigate recent policy proposals in the UK to utilize credit unions as a new source of finance for entrepreneurial new ventures by undertaking qualitative interviews with Chief Executive Officers (CEOs) of credit unions. Driven by new laws that would make such financial innovation possible and perhaps even feasible – if not necessarily desirable – Talbot et al. offer some reasons for the low levels of credit union lending to SMEs and, therefore, make some helpful suggestions for ways forward.

Next David Deakins (Chapter 3) draws on qualitative interviews of technology-based small firms to provide a case study of New Zealand as an example of a geographically peripheral country which has been rather isolated from the effects of the GFC, but has underdeveloped sources of equity capital and is, therefore, a fascinating laboratory for research into entrepreneurial finance.

A powerful mixed methods study in the context of Canada from Miwako Nitani and Allan Riding (Chapter 4) addresses how portfolio firms utilize post-investment venture capital (VC) to effect internationalization and how the value of this activity can be measured. Focusing on an intervention by an export credit agency, they make a number of novel empirical observations in connection with risk, contacts and intelligence and legitimacy (which they term ‘accreditation’).

The second of our four bundles then provides insights into entrepreneurial finance in two<sup>1</sup> emerging economies: capital structure and pecking order in Turkey by Demirbaş and Demirbaş (Chapter 5); and indigenous exports and networks for resource acquisition in the Sri Lankan tea industry by Peiris, Akoorie and Sinha (Chapter 6). Dilek Demirbaş and Safa Demirbaş (Chapter 5) undertook a literature review to examine the capital structure of SMEs in Turkey and, in so doing, they find that, in line with studies in more developed country contexts, Turkish SMEs also adopt the ‘pecking order’ of internal or family/friends sources of finance before seeking external finance.

Indu Peiris, Michèle Akoorie and Paresha Sinha (Chapter 6) conducted case studies of Sri Lankan tea exporters to identify how they have utilized their networks in order to acquire resources as part of their

internationalization process. They highlight their key contributions to be related to their unique contextualization (the Sri Lankan tea sector); utilizing case studies – rather than the usual positivist approach – to explore the *process* of bootstrapping; confirming how bootstrapping contributes to performance; and identifying the temporal specificity of bootstrapping.

The third bundle comprises four chapters on entrepreneurial finance in developed countries with Mason, Harrison and Botelho (Chapter 7) examining business angel exits in the UK; Baldock and North (Chapter 8) investigating the finance gap for innovative SMEs and the role of UK government VC funds; Brush, Edelman and Manolova (Chapter 9) exploring investment readiness and entrepreneurial team diversity in the United States (US); and Heilbrunn and Kushnirovich (Chapter 10) studying the financing patterns of entrepreneurial minorities and migrants in Israel.

Colin Mason, Richard T. Harrison and Tiago Botelho (Chapter 7), drawing upon interview evidence and a review of secondary data, observe that business angels do not adopt an ‘exit-centric approach’ to their investments. Their main recommendation is that further research and policy intervention/support is required.

Robert Baldock and David North (Chapter 8) investigate the government’s VC funds and the finance gap that exist for innovative SMEs. Their mixed method surveys of Hybrid Venture Capital Fund (HVCF) recipients (demand side) and fund managers (supply side) show, first, that the gap in equity finance may stunt innovative SMEs’ growth. Indeed, while government can contribute to filling the gap, ‘over-engineering’ should be avoided. They conclude that exits should be planned for, and timely follow-on funding should be factored in, so that optimal growth and exit can be achieved.

Candida G. Brush, Linda F. Edelman and Tatiana S. Manolova (Chapter 9) studied investment readiness and entrepreneurial team diversity drawing upon a large quantitative survey of firms. Although diverse top management teams (TMTs) demonstrated a higher degree of investment readiness, TMT diversity alone was not responsible for increasing the possibility that the new start-up would even enter the ‘administrative review stage’ of the process by which angel investors select investees.

Sybille Heilbrunn and Nonna Kushnirovich (Chapter 10) examine financing patterns and social stratification among entrepreneurial minorities (for example, Arabs and Palestinians) and migrants (for example, Former Soviet Union and Ethiopian), utilizing a quantitative survey. As well as identifying a number of variations in financing patterns between minority and majority entrepreneurs, most significantly they found that social stratification ‘encounters’ entrepreneurship at different intersections, particularly in terms of educational and institutional barriers – and

hence their social class – that thus impact upon their ability to obtain finance.

The fourth and final bundle of chapters on emerging economies comprises the final four chapters in the handbook, commencing with Li's (Chapter 11) consideration of the equity funding gap for technological entrepreneurs in China. Then Sandhu, Hussain and Matlay (Chapter 12) conduct a study of the role of informal lenders in financing small/marginal farmers in the Punjab region, India. In the penultimate chapter Subalova, Al-Dajani and Bika (Chapter 13) consider microfinance and diversity in Kazakhstan. Finally, Hussain, Mahmood and Scott (Chapter 14) examine microfinance, gender and poverty alleviation in the Punjab region of Pakistan.

Following the earlier chapters on venture capital and more informal sources of equity finance such as business angels, Jun Li (Chapter 11) utilizes interviews, case studies and documentary evidence review to investigate government-supported Venture Capital Guiding Funds (VCGFs) in China, providing fascinating evidence on the contextual drivers for public VC in China (primarily associated with a finance gap), the design of such publicly backed VC interventions and their overall impact. Although we know much about VC in the Western context, Li's chapter is hence contextually novel.

Navjot Sandhu, Javed G. Hussain and Harry Matlay (Chapter 12) use interviews to explore informal lending to small/marginal farmers in the Punjab, India. In so doing, they unveil some unique contextually novel insights, including particularly distinctive types of informal lenders such as the retail merchants (*arthiyas*), and focus upon the actual practice of lending (in terms of the process of decision-making), and how these are determined by cultural, human capital, reputational and other largely culturally determined contextual factors. Their main recommendation is a rather interventionist, and so perhaps controversial, one: to regulate informal lenders in India. Discuss.

Madina Subalova, Haya Al-Dajani and Zografia Bika (Chapter 13) investigate how microfinance contributes to firm growth in Kazakhstan, drawing upon interview evidence from both key stakeholders from microfinance institutions (MFIs) and entrepreneurs/SMEs who access MFI funding. They find differential capital structures, evaluative criteria and customer bases (in other words, investees in terms of the characteristics of entrepreneurs, for example, level of income, that they invest in) and offer unique theoretical and empirical contextualization by focusing upon this distinctive Central Asian, FSU emerging economy and the important role of MFIs in driving growth.

Finally, Javed G. Hussain, Samia Mahmood and Jonathan M. Scott (Chapter 14) examine how microloans can reduce both financial and

human poverty for low-income women and their wider households in the context of the Punjab, Pakistan. Utilizing a binary logistic model to analyse their quantitative survey data, Hussain et al. reveal that financial poverty is, indeed, alleviated by microloans (especially where spouses act jointly as household heads) – whereas the impact on human poverty is much more tenuous and limited (with loan size being insignificant, but with human poverty being considerably more likely to be reduced for larger rather than smaller families).

## ENTREPRENEURIAL FINANCE IN CONTEXT: CONCLUDING THOUGHTS AND FUTURE DIRECTIONS

These chapters investigate contextually a myriad of themes from the domain of entrepreneurial finance (Table 1.1) across diverse spatial and economic development contexts. Instead of providing a concluding chapter, we offer future research avenues here. Future research could explore the following key issues. First, now that we know more about why credit unions are ‘reluctant’ to lend to SMEs and in particular to smaller businesses because of the potential risk to their business models and various other issues (Talbot et al., Chapter 2), further research could explore how – and more importantly if – these perceptual barriers and the limitations of the credit unions’ extant business models could be overcome in order to enable them to lend to SMEs. While it might well be the case that the barriers are actually insurmountable, nonetheless introducing credit unions as a novel source of lending to small firms is to be welcomed and perhaps should have its ‘proof of concept’ tested to breaking point to establish whether there is any way that it can be implemented (through, for example, learning from exemplars of good practice which have surmounted these barriers).

Second, to what extent can we learn from highly contextualized research of a ‘unique environment’ such as New Zealand (Deakins, Chapter 3) that is extremely positive as a place to ‘Do Business’ and has not been as ravaged by the GFC to anywhere near the extent as the US, UK and elsewhere have been? Future research could offer detailed, longitudinal comparative perspectives by comparing and contrasting particular entrepreneurial phenomena (theoretical concepts related, in this case, to entrepreneurial finance) in New Zealand to other locations with unique spatial and developmental contexts. Hence currently ‘taken for granted’ concepts and models could be stress-tested through focused micro-level research that could test their validity.

Table 1.1 Chapters: geography, themes, method(s) and key finding(s)

Ec Dev	Chapter: Authors	Geo	Theme	Method(s)	Key Finding(s)
D	2. Talbot, Mac an Bhaird and Whittam	UK	Credit unions Start-up finance	Qualitative interviews	Reluctance to lend to SMEs and other risks, for example, to business model reduces the level of lending by credit unions.
D	3. Deakins	NZ	Finance (general)	Qualitative interviews	Relatively sheltered from GFC but underdeveloped sources of equity capital.
D	4. Nitani and Riding	CA	Internationalization Export credit agency	Qualitative interviews and quantitative data analysis	Risks of SME internationalization are 'moderated' by investors, as well as providing the SME with contacts, intelligence – and legitimacy ('accreditation') with various key stakeholders.
E	5. Demirbaş and Demirbaş	TU	Financing Capital structure	Literature review	In line with studies in more developed country contexts, Turkish SMEs also adopt the 'pecking order' of internal or family/friends sources of finance before seeking external finance.
E	6. Peiris, Akoorie and Sinha	SL	Internationalization Networks	Qualitative case studies	Explore the process of, and motivations for, the use of networks (social capital) in order to bootstrap. Highlight its contribution to performance and its temporal specificity.
D	7. Mason, Harrison and Botelho	UK	Business angels Exits	Interviews and review of secondary data	Angels do not adopt an 'exit-centric approach' to their investments. Further research and policy intervention/support is required.

D	8. Baldock and North	UK	Government VC funds Finance gap Innovative SMEs	Mixed method surveys of HVCF recipients and fund managers	Gap in equity finance may stunt innovative SMEs' growth. Find that government can contribute to filling the gap; 'over-engineering' should be avoided; exits should be planned for, and timely follow-on funding should be factored in, so that optimal growth and exit can be achieved. Although diverse top management teams (TMTs) more investment ready, TMT diversity alone was not responsible for increasing the possibility that the new start-up would even enter the 'administrative review stage' of the process by which angel investors select investees. Various variations in financing patterns between minority and majority entrepreneurs. Social stratification 'encounters' entrepreneurship at different intersections (for example, education and institutions) – and hence social class – that impact upon their ability to obtain finance. Provides evidence on contextual drivers for public VC in China, the design of publicly backed VC interventions and their overall impact.
D	9. Brush, Edelman and Manolova	US	Investment readiness Entre. team diversity Angel investment	Quantitative survey	
D	10. Heilbrunn and Kushnirovich	IS	Financing patterns Social stratification Minorities, migrants	Quantitative survey	
E	11. Li	CN	Equity funding gap Tech entrepreneurship	Interviews, case studies and documentary evidence review	

Table 1.1 (continued)

Ec Dev	Chapter: Authors	Geo	Theme	Method(s)	Key Finding(s)
E	12. Sandhu, Hussain and Matlay	IN	Informal lenders Small/marginal farmers	Interview evidence	Distinctive types of informal lenders (for example, retail merchants ( <i>arthiyas</i> )). Evidence on the practice of lending, and how influenced by largely culturally determined contextual factors.
E	13. Subalova, Al-Dajani and Bika	KA	Diversity Microfinance	Interview evidence	Differential capital structures, evaluative criteria and customer bases. Illustrate how MFIs contribute to firm growth.
E	14. Hussain, Mahmood and Scott	PA	Microfinance Gender Poverty alleviation	Quantitative survey using binary logistic model analysis	Financial poverty alleviated by microloans – esp. where spouses are jointly household heads. Impact on human poverty more tenuous and limited: loan size insignificant; human poverty more likely to be reduced for larger rather than smaller families.

Notes:

Ec Dev – level of economic development – D: Developed; E: Emerging.

In all cases, the developing economies are innovation-driven economies, using Porter's categorization (Porter, 1990; Porter et al., 2002). The emerging economies have been identified as a mix of efficiency-driven and factor-driven economies (Amorós and Bosma, 2014), but some are in transition from one phase to another.



Third, detailed policy-relevant research is clearly needed to investigate further the role that interventions such as the Export Development Corporation (and specifically its *Connect* program) as explored by Nitani and Riding (Chapter 4) can have in supporting SMEs to internationalize and, in particular, to enable them to obtain finance and other forms of capital (such as social capital – contacts) and legitimacy to enable this activity to succeed.

Fourth, can we distinguish genuinely unique aspects of entrepreneurial finance in SMEs in emerging economies? Hence, as Demirbaş and Demirbaş (Chapter 5) found that the pecking order hypothesis applied to Turkish SMEs just as to those from developed contexts, highly contextualized novel research studies are needed in such countries to explore at a more micro level the phenomena related to entrepreneurial finance and to identify unique and distinctive aspects that can be used to build rigorous new theories (Welter, 2011; Zahra, 2007; Zahra et al., 2014). In this sense, we call for more focused empirical research taking the approach of Chapters 6 (Peiris et al.), 12 (Sandhu et al.), 13 (Subalova et al.) and 14 (Hussain et al.) that adopt a contextualized, less Western-centric lens to approach the phenomena being investigated. Consequently, there are significant opportunities to conduct, respectively, future research in emerging economies on: the role of networks in internationalization; informal lending whether to farmers or other types of entrepreneurs or small-scale micro-enterprise founders; and the diversity of the microfinance sector in Central Asia and elsewhere. Similarly, marginalized, minority or migrant entrepreneurs within highly developed parts of, for example, the Middle East such as Israel (Heilbrunn and Kushnirovich, Chapter 10), ought to be subject to further detailed, contextualized research studies.

Fifth, and finally, in terms of the other chapters that focused on more developed countries, there is a clear need for further research that addresses key gaps in the extant literature in terms of business angel exit and the ‘exit-centric’ approach (Mason et al., Chapter 7), the finance gap facing innovative SMEs (Baldock and North, Chapter 8), the impact of investment readiness and entrepreneurial team diversity on angel investment (Brush et al., Chapter 9) and financing patterns and social stratification of minorities and migrants (Heilbrunn and Kushnirovich, Chapter 10). Indeed, while we might categorize China as an ‘emerging’ economy (and considering the crisis in its stock market in 2015 and its Government’s command-and-control approach to achieve a correction), for all intents and purposes China is rapidly moving from the efficiency-driven to the innovation-driven (Porter, 1990; Porter et al., 2002) stage and we need further detailed research into VC – especially that which supports high-growth firms – in China (Li, Chapter 11) to illustrate how

in this specific context entrepreneurial finance plays a major contributory role not only to its particular positive impacts upon, and outcomes for, SMEs and entrepreneurs, but also to economic development and growth more generally. All of these future studies would need to address the clear implications for policy and practice that are involved within each of these relevant and important themes of entrepreneurial finance in the twenty-first century.

## NOTE

1. One might ask why we have opted here in our second bundle to have two chapters when we have three chapters in our first bundle and four in both our third and fourth bundles? Our reply is simply that we have opted to go for a 3-2-4-4 formation rather than a 3-3-4-3 formation. Decrypt that one.

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