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Entrepreneurial Finance Perspective: Highlighting from the Supply Side

Abstract

The emergence of the entrepreneurial finance theory in developing the financial theory was still relatively new. Up until the early 1990s, the topic of entrepreneurial finance was still rarely discussed, although actually many aspects could be explored more in-depth by academicians. There was no consensus about the definition of entrepreneurial finance. It can be mapped out that past literature studies or previous research just looked at entrepreneurial finance from the financing provider side (supply side). A supply side test examined the fund provider (financier) perspective as a test center like formal and informal equity (venture, capitalists, angel investors, corporate venturing, crowdfunding), as well as formal and informal debt like bank debt, loans from friends and family members, and the release of other money (mezzanine) to develop start-up companies or micro, small, and medium enterprises. A synthetic meta-analysis in this research integrated and synthesized several qualitative research findings through better descriptions and facilitates the reconceptualization from a study. Based on this study, we found that actually there were still a lot of room from the topic of entrepreneurial finance to become future research, such as from the entrepreneur's side (demand side) related with financial management or small enterprise development.

Keywords: Entrepreneurial Finance; Financier; Meta-Synthesis; Micro, Small, and Medium Enterprise (MSME)

JEL Classification: B10, B26, B30

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Abstrak

Kemunculan teori entrepreneurial finance *dalam perkembangan teori keuangan masih relatif baru. Sampai awal tahun 1990-an, topik* entrepreneurial finance *masih sangat jarang dibahas, meskipun sebenarnya banyak aspek yang bisa dieksplorasi lebih dalam oleh para akademisi. Belum ada konsensus mengenai definisi* entrepreneurial finance, *namun penulis dapat memetakan bahwa kajian literatur maupun riset sebelumnya baru melihat* entrepreneurial finance *dari sisi pemberi dana* (supply side)*. Kajian sisi suplai menyoroti perspektif pihak pemberi dana* (financier) *sebagai pusat kajian seperti* formal and informal equity (venture, capitalists, angel investors, corporate venturing, crowdfunding), *serta* formal and informal debt *seperti hutang bank, pinjaman dari teman, keluarga dan pelepas uang lainnya* (mezzanine) *untuk pengembangan usaha* start-up *maupun UMKM. Analisis meta sintesis digunakan dalam riset ini untuk mengintegrasikan dan mensintesis beberapa temuan penelitian kualitatif melalui pendeskripsian yang lebih baik dan memungkinkan rekonseptualisasi dari suatu studi. Berdasarkan kajian ini, sebenarnya masih ada ruang kosong dari topik* entrepreneurial finance *ini yang bisa dijadikan agenda penelitian mendatang, yakni dari sisi pengusaha* (demand side) *terkait dengan pengelolaan keuangan maupun pengembangan usaha kecil.*

Kata Kunci: Entrepreneurial Finance; *Penyedia Dana; Meta Sintesis; Usaha Mikro Kecil dan Menengah (UMKM)*

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MSME financing decisions tend to experience restraints because they are faced with two problems, which are agency problems and information asymmetry (Paré, Rédis, & Sahut, 2009). One of the problems with financing is related to financial resources, which can be obtained from internal or external company sources. The more developed a company is, and then its internal funds will not be sufficient so that funds will be needed from external sources.

Each financial source has different characteristics. Oranburg (2016) explained that a company's financing in the start-up stage could use debt or its financial capital. Debt is considered beneficial for a start-up enterprise because creditors are not involved in the company's management so that the entrepreneur has full control over the company's advances; there is a financial responsibility that routinely disciplines entrepreneurs in running a business. An entrepreneur's credibility can also increase one's credit rating so that it facilitates borrowing again in the future. However, access to debt can become an obstacle for a start-up company, because in general, business has cash flow limitations that will make it difficult to pay one's monthly obligations. Therefore, if this occurs, a risk of default will surface, which has the potential to reduce the opportunity to receive credit again in the future.

Using one's equity for a start-up company also has positive and negative aspects (Oranburg, 2016), because there is no risk of payment failure. As for the risk sharing between an entrepreneur and investors, it makes investors tend to be willing to reinvest their profit to develop the enterprise. Here, financing providers (financiers) play a great role in stimulating MSME entrepreneurs to assemble resources and innovate to develop their businesses through financing sources and composition (Wu, Si, & Wu, 2016). This phenomenon can be explored through entrepreneurial finance studies in the next section.

The purpose of this paper is to describe the evolution of the financial theory that has been collaborated with the entrepreneurial theory so that it results in the entrepreneurial finance theory. The main focus of this paper is the supply side perspective of funding for MSMEs. The evolution of this theory can enrich insights and knowledge in the finance sphere for the scope of start-up companies or MSMEs. The appearance of research topics related with MSMEs provides a different perspective in financial management, which up until now has been dominated by corporate companies.

Financial management can be understood as a way to manage financial resources as well as how to allocate the funds effectively and efficiently in business activity. This financial management can be applied at the simplest scale, meaning for individuals (personal finance), entrepreneurial finance, and a wider scope at the corporate level (corporate finance). Entrepreneurial finance highlights more on the financial decision-making process for new companies. This is done by micro, small, and medium enterprises. Meanwhile, corporate finance discusses the control of financial operations (funding sources and allocation) that are integrated with overall company operational activities. The presence of a theory synthesis between finance and entrepreneurship can add to the dynamic of the current theory development.

The scope of discussion regarding finance consists of related elements like fund providers, fund recipients, and the funding itself. Meanwhile, when discussing entrepreneurship, it is related to the entrepreneur and the company itself. Financing for micro, small, and medium enterprises can be seen from two sides, the funding provider (supply) side, and the funding recipient (demand) side. This paper only emphasizes dialog from the side of fund providers (supply side) in developing and expanding a small enterprise or a pioneering enterprise. Besides that, this paper also offers another side about entrepreneurial finance studies that can be explored further, keeping in mind that as of this writing, nothing has been specifically discussed regarding this topic.

MSME play an important role in stimulating domestic requests through creating job fields, innovation, as well as involvement potency in the global value chain in the international commerce sphere. When there was an economic crisis in Indonesia in 1997-1998, SMEs were better able to face the economic fluctuations compared to large-scale companies. Shinozaki (2014) mentioned factors which contributed to the sustainability of SMEs during the financial crisis in Asia in 1997/1998: Financial Accessibility. MSMEs relied more on financing sources from their capital because they had limited access to formal financial sources so that they avoided the banking and financial crisis compared to big companies: (1) location and Niche Marketing. The ability of MSMEs to create market niches and local based business operations facilitated MSMEs to ride out the crisis; (2) internationalization and export-orientation. MSMEs switched from the domestic market to the international market by still relying on non-imported basic materials; and (3) specialization and clustering. MSMEs worked in coordination with other companies to reduce production costs, share and discover new technology, as well as expand the marketing network to survive during the financial crisis period.

MSMEs have a classic problem in developing their businesses, which is limited access to external financing. Typically, funds are considered as a vital element to begin a business for someone. Although an entrepreneur can start a business by looking for one's own financing, a business can also begin by first doing entrepreneurial activities that ultimately can bring in funds (Rita, Wahyudi, & Muharam, 2018). Related with financing, the government has done many efforts to support MSMEs, such as an inclusive financial system where every person has the right to obtain access and complete service from financial institutions to be on-time, comfortable, informative, and with affordable costs (Anonim, 2012).

MSME credit statistics from Bank Indonesia until 2016 recorded that there is banking support in channeling credit to micro, small, and medium enterprises (Anonim, 2012). Every year, SME credit has growth, and in general that growth is higher compared with the total banking credit. In the last four years, SME credit has increased by almost 60 percent (Table 1). This means that annually, SME credit increases an average of 15 percent. Nevertheless, this amount is still far less than non-SME credit.

Table 1. The Development of MSME Credit Debit, Non-SME Credit Debit, the Amount of MSME* Credit Accounts, and Banking Credit from 2012 – 2016 (Billions Rupiahs)

Outstanding Credit	2012	2013	2014	2015	2016
MSME Credit	552,226.1	639,471.5	767,577.6	830,656.2	858,405,00
Non-MSME Credit	2,226,731.2	2,744,758.9	3,012,536.6	3,345,787.1	3,392,951.18
Number of MSME Credit Account (unit)	9,076,322	9,997,332	12,822,775	13,718,951	14,563,578
Credit per MSME (Millions)	60,842	63,964	59,860	60,548	58,941
Banking Credit	2,778,957.3	3,384,230.3	3,780,114.3	4,176,443.3	4,251,356.18

Source: Bank Indonesia (2016)

Table 2. Growth of MSME Outstanding Credit, Non-MSME, Number of MSME Credit Accounts, and Banking Credit from 2013–2016 (Percentage)

Outstanding Credit	2013	2014	2015	2016	Average	Proportion
MSME Credit	16	20	8	3	11	20
Non-MSME Credit	23	10	11	1	10	80
Number of MSME Credit Accounts	10	28	7	6	12	
Credit per MSME	5	-6	1	-3	-1	
Banking Credit	22	12	10	2	11	100

Source: Bank Indonesia (2016, processed)

MSME credit statistics from Bank Indonesia until 2016 recorded the presence of support from banks to channel credit to MSMEs.

Based on Table 2, it shows that the amount of banking credit dispersed by banks from 2013-2016 experienced an increase, an average of 11 percent annually. During that period, the amount of MSME, non-MSME credit, and the total MSME credit accounts experienced respective increases of 11 percent, 10 percent, and 12 percent per year. The average percentage of benefiting from MSME credit during this period was 20 percent, while non-MSME credit reached 80 percent (ratio 1:4). Even more troubling is that the average growth in total credit per MSME went down by 1 percent in the last five-year period. Even though the total credit increased by 11 percent annually, the increase in the number of MSMEs was bigger than the growth of their outstanding credit. This data shows that access to financing for MSMEs is still very limited.

MSMEs in Asia and Africa experience constraints in accessing external funds, so that it impedes their business growth (Xiao, 2011; Edewor, Imhonopi, & Amusan, 2014; Shinozaki, 2014; Wang, 2016). Various studies have been done which discuss formal financing in the form of equity, such as those done by Leach & Melicher (2010), Balboa, Marti, & Zieling (2011), and Oranburg (2016); or debt by Mallick & Yang (2011) and Comeig, Brio, & Fernandez-Blanco (2014) to develop businesses. Meanwhile, MSME financing is also related to informal financing sources. Wing (2010) found evidence that more than 90 percent of new enterprises use informal financing sources, and more than 60 percent of start-up financing comes from the entrepreneurs themselves (founders). Other financing sources can be in the form of bootstrapping (Wing, 2010; Neely & Van Auken, 2012;), angel investors (Wong, Bhatia, & Freeman, 2009; Mitter & Kraus, 2011), or crowd funding (Chemmanur & Fulghieri, 2014).

The problem of financing access affects MSME growth. Table 3 shows a recapitulation of the total number of MSMEs in Central Java Province from 2012-2016.

In referring to Table 3, it reveals that the total number of MSMEs that were under the Small and Medium Enterprise Cooperative Agency of Central Java Province for five years experienced an increase, but from year to year the increase experienced a reduction (12 percent in 2013; 10 percent in 2014; 9 percent in 2015; and 6 percent in 2016). One of the reasons for the reduction in the number of MSMEs was due to financing. The availability of financial resources plays a significant role in a business because having a sufficient amount of financial capital can affect better innovation opportunities and business processes (Gergely, 2016). A good financial system will increase the probability of innovation success in small businesses, which eventually can accelerate economic growth. In contrast, a poor financial system causes innovation stagnation that results in many MSMEs being unable to compete (Abor & Quartey, 2010). This means that a financial system plays an important role in the productivity growth and economic development of a country.

Table 3. Time Series Data for Central Java Province MSMEs from 2012-2016

Description	Unit	Year				
		2012	2013	2014	2015	2016
Non-Agriculture Production	Unit	26,171	30,103	34,309	38,084	39,799
Agriculture	Unit	13,242	15,819	17,738	19,010	19,335
Commerce	Unit	32,055	33,958	35,829	38,243	42,198
Service	Unit	9,115	10,459	11,805	13,600	14,018
Total MSMEs	Unit	80,583	90,339	99,681	108,937	115,751

Source: Small and Medium Enterprise Cooperative Agency of Central Java Province (2016)

This paper contributes to providing a different viewpoint regarding financial management from the side of MSMEs rather than the corporate level (large scale companies). The differences between these two are seen from the policy side or in applying financial decisions that involve investments or taking advantage of profits. This is because MSMEs are often restricted by information asymmetry problems and agency problems that cause every financial decision made to be different from corporate decisions.

Meanwhile, this paper proposes a novelty in the form of an entrepreneurial finance synthesis, especially from the supply side through a meta-synthesis approach that has not been done in other past research. The results of this synthesis will provide recommendations about research areas that can still be developed for this topic.

METHODS

This research used a synthetic meta-analysis technique to integrate and synthesize the findings of several different qualitative studies that are interconnected (Hoon, 2013). This method identified the themes of various studies, produced a synthesis, and facilitated reconceptualization in all of the studies to produce a conclusion (results).

The pattern of synthesis research is to do a qualitative analysis of a previous finding (through past research)/ interrelated qualitative studies (Kinn et al., 2013). This method is called meta-synthesis from qualitative studies. Meta-synthesis is an approach which summarizes information through a description of various research results. Then it is compared in an analytical technical manner or a research model. This approach puts forward the epistemology status from the knowledge that is produced from this technique (Barnett-Page & Thomas, 2009; Kinn et al., 2013) because it is able to provide new insight and understanding of a particular topic.

This approach is almost similar with meta-analysis from the analysis side. Erwin, Brotherson, & Summers (2011) stated that a meta-analysis is a research approach where from many empirical studies, it researches the relationships between similar variables that will systematically be combined and quantitatively be integrated. In the early stage, the study that will be tested needs to be identified. It is then continued with a sufficient literature study. A data search can be explored from a computerized database, journals, thesis/dissertation results, books, and worksheets. This literature study is done continuously until no new research results can be found regarding that particular topic. The results are in the form of synthesis from previous research results and findings so that there will be a certain pattern from a specific topic and other things that have not been discussed before.

A meta-synthesis can be evaluated more in-depth and comprehensively than a literature study because it is not only limited to showing the similarities and differences of research results, but it can also determine a certain pattern or a new understanding of a particular study or area that has not been included in the previous research.

Several primary theories like the entrepreneurship theory and financial theory were reviewed to understand the structure and substance-related to entrepreneurial finance research. A basic approach argument is a form of grounded theorizing, which describes a big picture of the whole from studies of its components (Glaser & Strauss, 2017).

RESULTS

Several years leading up to the end of the 1990s, there was interest to research about financial market behavior and financial intermediaries in allocating finances to pioneering companies (start-ups) or developing companies, but there are still many issues which have not been explored (Mitter &

Kraus, 2011). Previous research looked at entrepreneurial finance from the fund provider side (supply side), which discussed fund providers (financiers) as study centers like formal and informal equity (ventures, capitalists, angel investors, corporate venturing, crowd funding), as well as formal and informal debt (like bank debt, borrowing from friends and family members), and from separate money sources (mezzanine) (Vasilescu, 2010; Wehinger, 2012; Fraser, Bhaumik, & Wright, 2015).

A synthesis of the entrepreneurial finance theory can be explored from two primary theories, the finance theory, and entrepreneurship theory.

Finance Theory

The finance theory explains how individuals or companies allocate a combination of various limited resources over time (Fama & Miller, 1972).

Based on this understanding, there are two important elements, which are the limited resources that must be provided – whether from inside or outside – as well as how to allocate them. In the resource context, one of the important resources of a company is funds. If internal funds are insufficient, an entrepreneur must engage in financing activity. This financial theory was subdivided to become the investment theory and financing theory.

The investment theory was initiated by Jorgenson (1971), who tested investment behavior in the neoclassic theory. This theory explains that an exogenous variable (selling) determines company investments. When sales increase, it is followed by increasing investments. Similarly, when sales decrease, then investments will also decrease. This theory states that a company's investment decisions are not influenced by its financial structure.

The benchmark of the modern financial capital structure theory was initiated by Modigliani & Miller (1958), in that in a perfect financial capital market condition without taxes, financing decisions are not relevant in a company owner's prosperity. Modigliani and Miller (1963) readjusted their opinion and stated that the presence of taxation would cause a company's value to increase if it has debt compared with a company's value that does not have any debt. This financial capital structure theory was further developed. Miller (1977) formulated a hypothesis about the balance between the advantages of tax savings that are obtained with bankruptcy costs that must be borne as a result of debt, with the creation of the trade-off theory. The next theory was the pecking order theory, which discusses a company's preferences in accessing alternative financing sources. The pecking order theory is an opposition of the trade-off theory, in that there is no optimal debt-to-equity ratio for a company.

Entrepreneurship Theory

Through in-depth literature research, Mitter & Kraus (2011) stated that the financing topic for MSMEs could be tested from the finance theory and entrepreneurship theory. This means that in testing the financing aspect, it also needs to be connected with the entrepreneurial aspect. The entrepreneurial theory has been developed to become several theories, which are the economic entrepreneurship theory (Schumpeter, 1934); the psychological theory of entrepreneurship (Frese, 2009); the sociological theory of entrepreneurship (Hagen, 1960; Nga & Shamuganathan, 2010); the resource-based entrepreneurship theory (Alvarez & Busenitz, 2001; Alvarez & Barney, 2017); and the opportunity based entrepreneurship theory (Eckhardt & Shane, 2003; Guo et al., 2016).

The dynamic entrepreneurship theory was discovered for the first time by Schumpeter, who stated that entrepreneurship is an innovation process that produces new creations in a company, whether it is for product creating, method, market, input, and new organization (Schumpeter, 1934).

Schumpeter (1934) also stated that an entrepreneur plays a role to combine production factors to be processed. The combination of these production factors was done for the first time before being implemented by other people.

Entrepreneurial Finance Theory

Until the early 1990s, the topic of entrepreneurial finance (EF) was rarely discussed. Only in the last few years has there been interest in research about behavior in the finance market and financial intermediaries in allocating funds to start-up companies or small developing companies. However, there are still many unexplored issues (Mitter & Kraus, 2011). This theory connects the financial perspective and the entrepreneurial perspective, which is how to finance a company to start, especially a small enterprise through financing sources like angel investors, corporate venturing financing, and hybrid organization forms like business incubators (Denis, 2004; Klonowski, 2016).

Previous discussions about entrepreneurial finance were only seen from the fund provider side (supply side), meaning they discussed the financier as a testing center, such as formal and informal equity (venture, capitalists, angel investors, corporate venturing, crowd funding), formal and informal debt like bank debt, loans from friends, loans from family members, and separate from other money (mezzanine) (Fraser, Bhaumik, & Wright, 2015). Studies from the supply side are found in how fund-

Table 4. Summary of the Definitions of Entrepreneurial Finance

Researcher	Definition of Entrepreneurial Finance (EF)	Element
(Denis, 2004)	It is fulfilling external financing sources to fund a company in the start-up stage.	Fund, business, fund provider
(Paré, Rédis, & Sahut, 2009)	It is alternative financing that can be used by MSMEs to create business opportunities through creating an organization and values.	Fund, business, fund provider
(Koch et al., 2010)	It is a financing scenario in a pioneering business (start-up business) and a new company that is growing (growth of a young company).	Fund, business, fund provider
(Markova & Petkovska-MirČEvska, 2010)	It is informal venture capital (business angel) that can be utilized by new small and medium enterprises as an alternative financing source.	Fund, business, fund provider
(Mitter & Kraus, 2011)	It is a study about when and how much funding should be collected, how to increase opportunities for financing access success, the efficient allocation of funding sources to create business opportunities, and how to make decisions to solve financial problems.	Fund, business
(Chemmanur & Fulghieri, 2014)	It is the role of an intermediary financial institution to assist in financing small businesses and start-ups as well as supports product market innovation, in order that it creates future business growth.	Fund, business, fund provider
(Urim & Imhonopi, 2015)	It is financing which is in the form of debt and/or one's own financial capital, whether formal or informal, that is provided by an institution or non-institution that is able to be accessed by a new business, a developing business, or an established business.	Fund, business, fund provider
(Giordani, 2015)	It is financing from a venture financier or angel investor for a new business project that is classified as risky and has a high prospect of success.	Fund, business, fund provider
(Klonowski, 2016)	It is an academic discipline which teaches about mobilizing financial resources, allocating resources, managing risks, optimizing financial contracts, as well as creating and improving value in a small business entrepreneurial context.	Fund, business
(Wu et al., 2016)	It is a field which studies about fulfilling and allocating funds for new business through innovative activities.	Fund, business

ing sources and financing composition are able to make entrepreneurs assemble resources and do innovations to develop their businesses.

This theory was devised because the corporate finance theory was considered as not being relevant for MSMEs. The assumptions that are tied to the modern enterprise financial theory are not completely appropriate with the condition of small enterprises. For instance, companies are assumed to have open access to the financial capital market, whereas MSMEs do not necessarily have this. Company owners have limited obligations and diversified portfolios, but this is not the case with MSME entrepreneurs (owners-managers). Moreover, there is a gap problem with asymmetric information and an agency problem between small businesses and large businesses. This unique characteristic of small businesses can produce a series of various financial problems. As a consequence, small businesses may make different decisions from corporate businesses, regarding financial decisions, the kinds of financial controls, institutions, and business practices (Jenkins, 2009).

DISCUSSION

There is no consensus regarding the definition of entrepreneurial finance, but several studies that have been previously summarized can lead to an understanding construction about entrepreneurial finance as showed in Table 4.

Mitter & Kraus (2011) stated that based on the existent literature there are many definitions of entrepreneurial finance. Nevertheless, it discusses the intersection between finance and entrepreneurship.

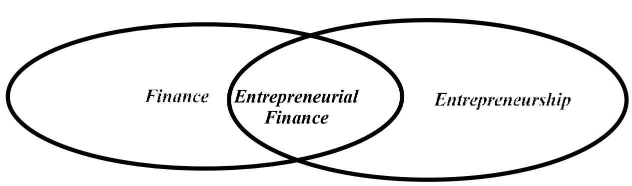

Figure 1. Visualization of Entrepreneurial Finance Develop in this Research

In other words, entrepreneurial finance is defined from a fund provider dimension (financier), which affects a company's development. In this context, there are financing and business elements (Denis, 2004; Paré, Rédis, & Sahut, 2009; Mitter & Kraus, 2011; Chemmanur & Fulghieri, 2014; Giordani, 2015; Urim & Imhonopi, 2015; Klonowski, 2016); as well as fund provider elements (Chemmanur & Fulghieri, 2014; Giordani, 2015; Urim & Imhonopi, 2015).

CONCLUSION AND SUGGESTIONS

Conclusion

Financing for MSMEs can be highlighted from two sides, the fund provider side (supply side) and the fund recipient side (demand side). Meanwhile, when examining the definition formulation in Table 3, it summarizes that entrepreneurial finance is related to financing sources, the funding structure/composition that facilitates entrepreneurs to develop their businesses. As of the writing of this research, there was no known research that examined the entrepreneurial side (demand side). This means that it has not been empirically mentioned about how an entrepreneur strives to obtain and utilizes funds to develop one's business. Meanwhile, in the fund providing model, there are fund providing elements, fund recipient elements (the entrepreneur), business elements, and the funding itself. Mitter & Kraus (2011), as well as Klonowski (2016), alluded to the role of entrepreneurs in obtaining and using funds for their enterprises, but it is not specifically explained about the entrepreneurs' policies or behaviors. The scope of discussion on finance consists of several related elements, such as fund providers, fund recipients, and the funding itself. Meanwhile, when discussing entrepreneurship, it cannot be separated from the entrepreneur element or the business element. This means that if a study about finance and entrepreneurship is connected in the form of providing funds from the fund provider to the entrepreneur, it will create funding, entrepreneurial, and business elements.

Suggestions

In a financing model, two viewpoints can be seen, which are from the funding provider (financier) perspective and the funding recipient (entrepreneurial) perspective. In contrast to the argument above, there is still one component from the synthesis of finance and entrepreneurship that has not been covered, which is the entrepreneur aspect.

The role of the MSME entrepreneur needs to be discussed in conducting financing activities, investing, or profit allocation to develop a company. This is interesting because based on differences in characteristics and problems faced by MSMEs compared with corporate companies; it is quite likely that there are significant differences in financial management behavior or business behavior. This discussion is strongly connected with the behavioral finance theory. Some suggested research topics include entrepreneurial behavior connected with company performance, whether financially or non-financially, or antecedents that are suspected of influencing the entrepreneurial aspect to optimize MSME performance.

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