

5. Performance Of Business Finance In Entrepreneurship

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Abstract:

The effects of financial openness on changes in entrepreneurship rates in the economy are estimated for emerging and developed markets. Controlling for the effects of political risk in conjunction with capital controls, capital controls have a negative effect on entrepreneurialism in emerging market countries, but can have a positive effect on entrepreneurialism in developed markets. The imposition of financial controls have a greater effect in magnitude in developed markets than in emerging markets, indicating that development of the internal financial system plays a role in extenuating the effects of capital controls. The effect of the imposition of financial controls is not uniform across the various financial instruments. In particular, the imposition of capital controls on derivatives and real estate in developed markets is associated with a negative effect on entrepreneurialism, unlike for other financial instruments in developed markets. However, in emerging markets, the effects on entrepreneurialism of financial controls seem to be more uniform when controlling for the interaction of political risk and financial controls. In controlling for the effects of political risk on financial liberalization, the effects of financial controls between emerging markets and developed markets are not the same. In general, the imposition of financial controls in emerging markets is associated with a decline in entrepreneurialism, while the imposition of such controls in developed markets is associated with an increase in entrepreneurial activity.

Key words:

Entrepreneurship, Financial Regulation, Business Finance Scope and Requirement.

Introduction:

The development of research in entrepreneurial finance is apparent in the proliferation of work focusing on the financial aspects of entrepreneurship: a

field of management science which is beginning to organize itself along the same lines as other existing fields such as strategy, marketing or finance. Business finance refers to money and credit employed in business. It involves procurement and utilization of funds so that business firms may be able to carry out their operations effectively and efficiently. The following characteristics of business finance will make its meaning more clear:

- Business finance includes all types of funds used in business.
- Business finance is needed in all types of organisations large or small, manufacturing or trading.
- The amount of business finance differs from one business firm to another depending upon its nature and size. It also varies from time to time.
- Business finance involves estimation of funds. It is concerned with raising funds from different sources as well as investment of funds for different purposes.

Business finance refers to money invested in business. Finance is the basic of business. It is required to purchase assets, goods, raw materials and for the other flow of economic activities. **Business finance** can be defined as “The provision of money at the time when it is needed by a business”.

Need And Importance:

Business finance is required for the establishment of every business organisation. With the growth in activities, financial needs also grow. Funds are required for the purchase of land and building, machinery and other fixed assets. Besides this, money is also needed to meet day-to-day expenses e.g. purchase of raw material, payment of wages and salaries, electricity bills, telephone bills etc. You are aware that production continues in anticipation of demand. Expenses continue to be incurred until the goods are sold and money is recovered. Money is required to bridge the time gap between production and sales. Besides producers, 4 :: Business Studies may be necessary to change the office set up in order to install computers. Renovation of facilities can be taken up only when adequate funds are available.

- To meet contingencies Funds are always required to meet the ups and downs of business and unforeseen problems. Suppose, some manufacturer anticipates shortage of raw materials after a period. Obviously he would like to stock raw materials. But he will be able to do so only when money would be available

- To promote sales In this era of competition, lot of money is required to be spent on activities for promoting sales like advertisement, personal selling, home delivery of goods etc.
- To avail of business opportunities Funds are also required to avail of business opportunities. Suppose a company wants to submit a tender but some minimum amount is required to be deposited along with the application. In the case of non-availability of funds it would not be possible for the company to apply.

Business is related to production and distribution of goods and services for the fulfillment and requirements of society. For effectively carrying out various activities, business requires finance which is called business finance. Hence, business finance is called the lifeblood of any business a business would get stranded unless there are sufficient funds available for utilization. The capital invested by the entrepreneur to set up a business is not sufficient to meet the financial requirements of a business.

Scope Of Business Finance:

Scope means the research or study that is covered by a subject. The scope of Business Finance is hence the broad concept. Business finance studies, analyses and examines wide aspects related to the acquisition of funds for business and allocates those funds. There are various fields covered by business finance and some of them are:

Financial Planning And Control:

A business firm must manage and make their financial analysis and planning. To make these planning's and management, the financial manager should have the knowledge about the financial situation of the firm. On this basis of information, he/she regulates the plans and managing strategies for a future financial situation of the firm within a different economic scenario.

The financial budget serves as the basis of control over financial plans. The firms on the basis of budget find out the deviation between the plan and the performance and try to correct them. Hence, business finance consists of financial planning and control.

Financial Statement Analysis:

One of the scopes of business finance is to analyze the financial statements. It also analyses the financial situations and problems that arise in the promotion of the business firm. This statement consists of the financial aspect related to the promotion of new business, administrative difficulties in the way of expansion, necessary adjustments for the rehabilitation of the firm in difficulties.

Working Capital Budget:

The financial decision making that relates to current assets or short-term assets is known as working capital management. Short-term survival is a requirement for long-term success and this is the important factor in a business. Therefore, the current assets should be efficiently managed so that the business won't suffer any inadequate or unnecessary funds locked up in the future. This aspect implies that the individual current assets such as cash, receivables, and inventory should be very efficiently managed.

Financial Needs Of Business:

Every Business needs capital. Capital is required at the time of beginning of the business. It is also needed when the business is in operation. As an enterprise grows in size and expands, it's needed finance to establish. The capital requirements for business are divided into two classes which are discussed as under:

- Fixed Capital
- Working Capital

Fixed Capital:

Every business required a sufficient amount of fixed capital for beginning its operational activities. As the name indicated, the amount of capital invested in various fixed or permanent assets, which are necessary for conducting the operation of a business is known as fixed capital. These fixed assets might be land, building, machinery, equipment etc. The fixed assets normally do not change their form and cannot be withdrawn from the business at a short notice. They can, however be disposed off. Fixed capitals thus are the funds required for the purchase of those assets that are to be used over and over for a long period of time in business.

Investments in non-current assets such as goodwill, patent, rights, copyrights, long term receivables etc also form a part of fixed assets. The amount of capital required for investment in fixed assets varies with size, nature and method of production of business. Large scale industries, like railways, oil drilling operations, hydro and thermal electricity project etc required more fixed capital. Summing up fixed capital comprises of fixed assets and other non-current assets.

Importance Of Fixed Capital:

The importance of fixed capital can be judged from the fact that a business cannot be made operative without it. Right from the very beginning i.e. conceiving an idea of business, purchase of land, construction of building, purchase of machinery etc capital is needed. Further, for the expansion and modernization of machinery also fixed capital is required. So it is essential to have an adequate amount of fixed capital in an enterprise.

Working Capital:

In balance sheet terms, working capital is the difference between current assets and current liabilities of a business. Current assets refer to those assets, which are easily changed into cash within a short period of time in the business, in an accounting year. It consists of cash in hand and bank balances, bills receivable, short term investments, and inventories of stocks. While on the other hand, current liabilities are those which are intended to be paid within a short period of one accounting year out of the current assets. It consists of bills payable, short term loans, bank overdraft, dividends payable, taxes payable etc.

Working capital also called circulating capital, which is the life blood and nerve center of a business. Working capital is mostly used for the purchase of raw material, payment of wages, seasonal urgent demands of the Business, purchase of more goods for sale, meeting the expenses of advertising, providing credit facilities to the customers etc.

Examples; Current assets – Current liabilities= Working Capital

\$5 Million – 3 Million = 2 Million

The difference between the current assets and current liabilities is surplus; the business has a positive working capital. In case the difference is negative, then the business has a negative or deficient working capital.

Importance of working capital:

The importance of **working capital** is discussed as under:

Solvency of business: It helps in solvency of the business. The flow of production remains uninterrupted.

Good will: The entrepreneur is able to pay wages to the workers and other bills in time. This helps in creating goodwill of business.

Loans on favorable terms: A business with high solvency and greater goodwill can easily obtain loans from banks.

Cash Discounts: A business with adequate working capital can obtain cash discounts on the purchases. This helps in reducing cost.

Enables to face crisis: An adequate working capital enables an enterprise to face business crisis.

Regular payment of dividend: A sufficient amount of working capital enables a business to earn profit and pay dividend to investors in time.

Money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it to modernize it to expand or diversify it. It is required for buying a variety of assets, which may be tangible like machinery, furniture, factories, buildings, offices or intangible such as trademarks, patents, technical expertise etc. Also, finance is central to run a day to day operations of business like buying materials, paying bills, salaries, collecting cash from customers etc needed at every stage in the life of a business entity. Availability of adequate finance is very crucial for survival and growth of a business.

Future Lines Of Research:

This analysis of research in entrepreneurial finance highlights several lines of research which deserve to be developed further given their contribution to the understanding of the entrepreneurial phenomena.

1. Financing needs of new firms: lack of knowledge about new firms financing requirements, according to the type of business, the degree of

risk, the stage of development, the financing alternatives, the development potential (export, expansion, innovation), etc. These lines of research could be linked to other researches on the merger of personal and professional assets, belonging to company creators, and CEO entrenchment

2. Sources of alternative financing Denis (2011) estimates that up until now the bulk of research in entrepreneurial finance related to companies financed by venture capital. Studies on the role of sources of alternative financing, such as Business Angels, corporate venture or from Individual operators (such as the business incubators) would make it possible to improve our overall knowledge of the funding of new ventures. This research will allow us to look into the optimal balance between the sources of funding for early stage companies and to better understand how corporate venture or business incubators can be integrated in this balance.
3. Contracts between creator(s) and financier(s) Although many studies have already been devoted to it, the question of the optimal contract between creator(s) and financier(s) (in particular venture capital) still needs to be looked into more deeply. Information asymmetries which can occur between the different parties could cause conflicts of interests (Denis, 2011). This issue encompasses the nature of contracts, restrictive clauses, the costs of financing, monitoring the investment, etc (Rassoul, 2012).
4. The role of the legal and institutional environment The role of legal and institutional environments deserves to be looked into more closely, in particular the establishing of optimal financing contracts (Denis, 2013), but also the intervention of the State in high-risk firms despite their strong potential (innovation, startup,...), or about the existence of a stock market for SMEs with strong growth (Saint-Pierre and Mathieu, 2013).
5. Innovating firms Another line of research is to make an in-depth analysis of the characteristics of innovation projects and firms with a high level of intangible assets: their development Phases, risk, contract, rate of success, etc.(Saint-Pierre and Mathieu, 2003). At the end of this presentation, several conclusions can be drawn. Entrepreneurial finance is developing as a field of research with two main focuses For researchers in entrepreneurship, it means taking the financial element more into account as it is indissociable from entrepreneurial fact. For financiers', the specific requirements of entrepreneurial situations have been better recognized and an increasing amount of work is being dedicated to this area. However, the analysis of studies on entrepreneurial finance reveals a double tropism orientation, on the one hand, a focusing of publications on topics related to financing by venture capital, on the other hand a concentration of works

on the early stages of the entrepreneurial adventure entrance of investors, IPO).

However, this type of questioning only concerns a very small portion of new venture. The new lines of research which we suggested would enable a better understanding of the in dissociable links between finance and entrepreneurship. This issue aims to explore these lines of research in entrepreneurial finance. It include the four following contributions:

- The Impact of Business Model Characteristics on IT Firms Performance
- International Comparison of Entrepreneurial Sub-Cultures within Cultures: Effect of Territory on Entrepreneurial Strategies for Fundraising
- Active Financial Intermediation and Market Efficiency: The Case of Growing Firms Financed by Venture Capitalist
- The Impact of Corporate Governance on the Performance of US Small-Cap Firms

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