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VENTURE OF VENTURE CAPITAL IN CORPORATE FINANCING AND ITS VISIBILITY WITH ENTREPRENEURS

Abstract

Entrepreneurs of companies keep asking themselves what sources to use in order to finance their own entrepreneurial ideas that enable growth, existence and income because they do not have sources of financing. One of these sources is risk capital, normally used by capital owners to finance innovative companies with a suitable business idea or challenge, a persuasive business plan and a vision of doing business with income that would be achieved in a certain period of time with the help of the business idea. Risk capital is a part of equity and venture capital funds, which enter a company, become its co-owners for a certain period of time. The research, provided among Slovenian entrepreneurs and investors of risk capital, shows that knowledge about the purpose and role of risk capital at financing high potential and development companies is rather poor.

Keywords: entrepreneurship, entrepreneurial knowledge, risk capital, income, venture capital funds

1 DEVELOPMENT OF ENTREPRENEURSHIP AND ITS FINANCING

The basic decision on entrepreneurship is well prepared plans, which entrepreneur can realize only if he has knowledge, money and market. For an entrepreneur, the foundation and financing of the company is an initial experience full of enthusiasm, which also results in disappointments, a lot of hard work, denial, and fear of their own failure. Entrepreneurs differ in their knowledge and experience, as some want in a very simple and quick way, but it is difficult to write the recipe of knowledge that the entrepreneur needs in working and making business decisions.

1.1. PURPOSE OF VENTURE CAPITAL

We examined the requirements and expectations of venture capital investors in terms of governance, profitability, risks and the transfer of knowledge and experience. On the one hand, we highlighted the visibility and knowledge of venture capital and the readiness of the owners to include it in their companies and, on the other hand, the expectations and conditions of the venture capital investors.

In studying and analyzing literature, research and examples from practice, we found that foreign venture capital funds are more aggressive and they are intensively looking for development-oriented companies, and try to find and realize good entrepreneurial ideas together with owners.

From examples of domestic practice, we found that some Slovenian development-oriented companies themselves sought foreign venture capital funds, with which they are involved in financial, business and management good.

Also, from our own study, we found that Slovenian venture capital funds are ready to invest in companies with interesting and concrete services and products, clearly defined business plans, strategy, vision and goals. Businesses must also have visible capacity for rapid growth and focus on foreign markets.

1.2. THE OBJECTIVES OF THE RESEARCH ON THE FINANCING OF ENTREPRENEURSHIP WITH VENTURE CAPITAL

The goal that we set out is to identify and study all the factors that influence decision making on the entry of venture capital into the company, both on the part of owners and investors. We also examine all the circumstances that influence the decisions of owners and investors about financing or venture capital investment.

Based on findings from theoretical backgrounds, the findings and findings of other and our own research, foreign and our own suggestions and beliefs, we have designed a model of innovative venture capital financing.

On the basis of the fundamental thesis, we set the following hypotheses:

Hypothesis 1: Entrepreneurs lack knowledge of venture capital.

Hypothesis 2: Entrepreneurs do not want to lose ownership and control over their venture due to venture capital.

2 ENTERPRISES AND SOURCES OF FINANCING

Entrepreneurship is a way of life and a dynamic process that creates continual changes and creates new ideas and energies that lead to creative solutions.

2.1 CHARACTERISTICS AND IMPORTANCE OF ENTREPRENEURSHIP

The entrepreneurial process is the result of driving forces, such as: entrepreneurs, business opportunities and the necessary financial resources for the realization of entrepreneurial opportunities, momentum or development and growth. Entrepreneurship is a process of creating a value in which an entrepreneur collects in one place all the resources necessary for the realization of a business opportunity

2.2 EDUCATION OF ENTREPRENEURS

The knowledge and experience of the entrepreneur depends on his link skills and the number of employees (Sullivan and Marvel 2011).

The entrepreneur, as the sole owner, is difficult to assume and is responsible for the entire business. Sullivan and Marvel (2011) consider that an entrepreneur assumes a high risk if he enters a business path without appropriate knowledge in the field of entrepreneurship and financing. Gijsselaers and Milet (2010, 39, 44) and Klein (2011) add that they also need knowledge in the fields of accounting, marketing, communication and human relations.

2.3 SOURCES OF FINANCING

During the economic conjuncture, entrepreneurs are thinking about the growth of the company from the point of view of borrowing and the effects of borrowing on solvency and cash flow. The choice of sources of financing varies according to the offered possibilities and opportunities, as well as the interests of the providers and customers in terms of cash.

The growth of the economy is based on new technologies, knowledge and the promotion of a high level of innovation.

In the case of long-term borrowing, an estimate of the market value of assets, which can be placed in the pledge of leased sources of financing, should be made.

3 VENTURE AND CAPITAL FINANCING

Venture capital is temporarily invested in an enterprise and represents sources of financing for enterprises at the initial or development stage and for new risky business. Investments of risk capital investors require their experience, knowledge and preparedness of risks.

3.1 THE IMPORTANCE OF VENTURE CAPITAL

Venture capital belongs to the private property management sector, as it is a specific form, which can not be directly compared to other financial services. Small and medium-sized enterprises expect significant growth from venture capital financing at an early stage (Smolarski and Kut 2011, 39) and share venture capital financing into two categories:

- a) primary financing - in this form of financing, enterprises receive venture capital as a form of financing in the form of flat-rate financing by one investor and
- b) Financing of mergers - in this form of financing, there are several external investors involved in the financing of an individual enterprise.

4 METHODOLOGY

A quantitative survey carried out a test questionnaire in the areas of venture capital among business owners.

We sent survey questionnaires to 2,600 companies. We returned 491 questionnaires, of which 5 were invalid.

We believe that we have reached a sufficiently large number of respondents that our sample has met the need for data and representativeness and is reliable, so that we can generalize the results to a wider population.

We sent questionnaires in person and through classical mail. We provided anonymity to all respondents.

Survey questions were distributed in 2014 and sufficient questionnaires were returned within six months to have a sample for our own analysis that we made in 2014-2015. In preparation, we processed scientific and professional literature, on the basis of which we determined the objectives of the research and the basic assumptions. As regards the scientific and technical literature studied, and according to the existing research data (foreign and domestic) and our own research, variables have been set up. Regarding the scope and problem of the research, we included those data relating to the knowledge and integration of entrepreneurs and venture capital investors and the possibility of entering venture capital among sources of corporate financing.

The researcher can choose a qualitative or quantitative method of research, both of which can be involved in the research. Our methodology of the research is based on two

approaches, we used a qualitative method (in-depth interview) and a quantitative method (written survey) of research, since the methods are sufficiently well complemented.

4.1 RESEARCH PROBLEM AND RESEARCH OBJECTIVES

The research problem we have detected is that venture capital investments in Slovenian entrepreneurship do not come to life either by investors or business owners.

Our aim was to examine and analyze the causes of unsuccessful business and financial cooperation and propose a model that would help finance innovative companies with equity resources such as venture capital. The introduction of venture capital into the company is seen as an increase in financial resources and an additional source, which is reflected in the increase of knowledge, consultations, experience and business opportunities.

The aims of qualitative and quantitative research were:

- to determine their interests in the form of business and financial cooperation by venture capital investors, expectations for the percentage of ownership, the amount of return, the maturity of the investment,
- to identify their risk capital knowledge and the willingness to engage for a limited period of time between the sources of financing, venture capital and
- to propose a model of innovative financing of venture capital companies.

4.3 PURPOSE OF QUALITATIVE RESEARCH

The research is focused on understanding social phenomena to find out what and why certain things are happening. As researchers, we focused on meaning and tried to understand what is happening with a holistic view of our research topic

The research focused on the importance of what is happening with a comprehensive view of the subject. Data collection methods enabled the acquisition of in-depth information through interviews conducted with leading representatives of venture capital funds in Slovenia.

The purpose of the conducted qualitative research, as a case study, was to get acquainted with the venture capital investors:

- what is their interest in investing,
- what are the conditions and their expectations for returns, the choice of activities and markets (domestic and foreign),
- percentage of ownership, time of cooperation in enterprises and

- what is their offering of business-financial and commercial services to owners, already existing companies.

The purpose of the quantitative research was to obtain information from a certain population circle, what is the knowledge and visibility of venture capital on the part of entrepreneurs, and what is their willingness to include it in the ownership of their companies.

The objective of quantitative research was based on the fundamental thesis to test all hypotheses.

The main objectives of the research were to learn from the point of view of entrepreneurs:

- what were their motives to set up their own company,
- how much time and what forms of education are included for their career development,
- what do they understand under the concept of venture capital and whether they were considering incorporating into their ownership and business of a private investor,
- what are their business objectives and what sources of finance they use to expand and develop the business,
- they know the role and importance of venture capital funds,
- what are their notions of venture capital and such a form of financing,
- what forms of assistance await potential cooperation with venture capital investors.

Table 1: Evaluation of the importance of business objectives of the company - display of frequencies, shares and average estimates

Business goals companies	1 – Very Important		2 – No Important		3 – No Neither Irrelevant		4 – Important		5 – Very Important		Together		Average rating
	f	%	f	%	f	%	f	%	f	%	f	%	
Financial independence	0	0,0	0	0,0	0	0,0	181	37,2	305	62,8	486	100,0	4,63
Satisfied employees advantages over employees	0	0,0	0	0,0	0	0,0	201	41,4	285	58,6	486	100,0	4,59
Return of business	0	0,0	0	0,0	0	0,0	207	42,6	279	57,4	486	100,0	4,57
Growth of the Company	0	0,0	0	0,0	0	0,0	215	44,2	271	55,8	486	100,0	4,56
Satisfied employees	0	0,0	0	0,0	1	0,2	234	48,1	251	51,6	486	100,0	4,51
Advantage over competitors Technology and business development	0	0,0	0	0,0	51	10,5	243	50,0	192	39,5	486	100,0	4,29
	0	0,0	0	0,0	73	15,0	205	42,2	208	42,8	486	100,0	4,28

The importance of the business goals (Table 1) of the company was assessed on the 5-point scale by respondents, 1 being »very irrelevant« and 5 »very important«. For none of the objectives evaluated, the variables did not take the minimum value of the scale, the minimum four values for the four are 4, the three represent the estimate 3. Therefore, it is not surprising that all average grades are between ratings 4 (more precisely 4,28) and 5 (more precisely 4,63). The standard deviation of the majority of indicators is around 0.5, which means that the indicator values are averaged for half the score from the arithmetic mean.

The asymmetry coefficient for all indicators is fairly low and within the limits of the normal distribution. For the coefficients of flattening and for indicators, a significant deviation from the normal distribution is observed, with respect to the values of the coefficients which are less than 0 or negative, this is the flattened distributions.

Table 2: *Assessment of the importance of business goals of the company - presentation of basic descriptive statistics*

The importance of business goals	N	Min	Maks	Average rating	Standard deviation	Asymmetry coefficient	Coefficient of flattening
financial independence	486	4	5	4,63	0,484	-0,529	-1,727
satisfied customers	486	4	5	4,59	0,493	-0,352	-1,884
return on business	486	4	5	4,57	0,495	-0,301	-1,918
growth of the company	486	4	5	4,56	0,497	-0,233	-1,954
satisfied employees	486	3	5	4,51	0,504	-0,106	-1,871
advantages over competitors	486	3	5	4,29	0,646	-0,360	-0,713
technology and business development	486	3	5	4,28	0,709	-0,456	-0,928

In our research (Table 2), we were interested in what sources of financing entrepreneurs use to develop and expand their business, and we asked them to evaluate various forms of financing through a 5-point rating scale. Average estimates are quite diverse, and we can divide the estimated sources of funding into more and less important ones. The most important are the lending by suppliers (rating 4,56) and long-term bank loans (rating 4,48). Among the more important, we can include the unallocated operating profits (rating 4,19) and calculated depreciation (grade 4,04). The least important for the development and expansion of the company is that, according to the estimates of entrepreneurs, loans are made by shareholders (score 2,20), while state aid (rating 2,47) and other private investors, including venture capital funds (grade 2,63) are considered medium-sized.

Table 3: *Evaluation of the importance of financing sources for the development and expansion of the company - presentation of basic descriptive statistics*

Ocena pomembnosti virov financiranja	N	Min	Maks	Average rating	Standard deviation	Asymmetry coefficient	Coefficient of flattening
crediting by suppliers	486	3	5	4,56	0,648	-1,181	0,211
long-term bank loans	486	3	5	4,48	0,587	-0,617	- 0,572
unallocated operating profits	486	3	5	4,19	0,562	0,020	- 0,166
accured depreciation	486	3	5	4,04	0,674	-0,046	- 0,791
other private investors (venture capital founs, business angels)	486	1	5	2,63	1,375	-0,067	-1,520
state aid (public tenders, subsidies)	477	1	5	2,47	1,377	0,155	-1,475
given loans by partners	486	1	5	2,20	1,219	0,622	-0,817

We asked the respondents a hypothetical question to represent themselves before they decide on the division of ownership of their company or the inclusion of a private investor for a certain period (Table 3). We listed a few of them and asked them to evaluate their importance with the help of a 5-point scale, in terms of what they themselves considered and what would affect it. The opinions of the respondents are surprising, since for all of the above factors, they were generally considered to be very irrelevant or irrelevant, but only a minimal share of the participants assessed them as partially or even more important. All the achieved average estimates correspond to grade 2, meaning »irrelevant«.

Checking hypotheses

Hypothesis 1: *Entrepreneurs lack knowledge of venture capital*

Those who have been classified as »not familiar« have not even heard of the concept of venture capital at all. Among those who belonged to the group »partially familiar«, respondents answered above average that they had already heard about venture capital, but they did not know its role and importance. Among the respondents who know well the risk capital, they see the biggest difference in comparison with others, as they are above-average familiar with the characteristics of risk capital.

Of these, they most know that it is a venture capital for the division of ownership and financial assistance in the development of operations, and that the venture capital investor in the company is present for only a few years. All the differences between the groups are statistically significant, since the significance value is everywhere below the acceptable risk limit (0,05).

With the help of the hi-square test we also checked whether there are statistically significant differences between the groups thus obtained in terms of knowledge of the concept of venture capital and knowledge of venture capital funds. The Hi-square test was used because we deal with two nominal variables, the results were shown (Table 4), in which we showed the frequencies and percentages by groups of respondents and the value of test statistics of the hi- quadrate with the corresponding significance.

All the differences between the groups are statistically significant, since the significance value is everywhere below the acceptable risk limit (0,05).

Table 4: Evaluation of differences in responses with regard to the level of knowledge of venture capital - results of the hi-square test

The level of knowledge of venture capital		Knowledge of categories and concept of venture capital								Hi-squared statistics	Signage
		She does not know		Partially knows		Good old man		Thogether			
		f	%	f	%	f	%	f	%		
have not even heard of him yet	No	0	0,0	238	100,0	132	100,0	370	76,1	486,000	0,000
	Yes	116	100,0	0	0,0	0	0,0	116	23,9		
have heard of venture capital, but I do not know its role and importance	No	116	100,0	30	12,6	37	28,0	183	37,7	260,887	0,000
	Yes	0	0,0	208	87,4	95	72,0	303	62,3		
venture capital is a part of equity for a specified period	No	116	100,0	160	67,2	9	6,8	285	58,6	235,215	0,000
	Yes	0	0,0	78	32,8	123	93,2	201	41,4		
venture capital is primarily a division of ownership	No	116	100,0	137	57,6	18	13,6	271	55,8	187,298	0,000
	Yes	0	0,0	101	42,4	114	86,4	215	44,2		
venture capital involves ownership sharing and financial assistance in the development of operations	No	116	100,0	196	82,4	1	0,8	313	64,4	330,798	0,000
	Yes	0	0,0	42	17,6	131	99,2	173	35,6		
the venture capital company is present in the company for only a few years	No	116	100,0	163	68,5	1	0,8	280	57,6	271,597	0,000
	Yes	0	0,0	75	31,5	131	99,2	206	42,4		

Hypothesis 2: *Entrepreneurs do not want to lose ownership and control over their venture due to venture capital*

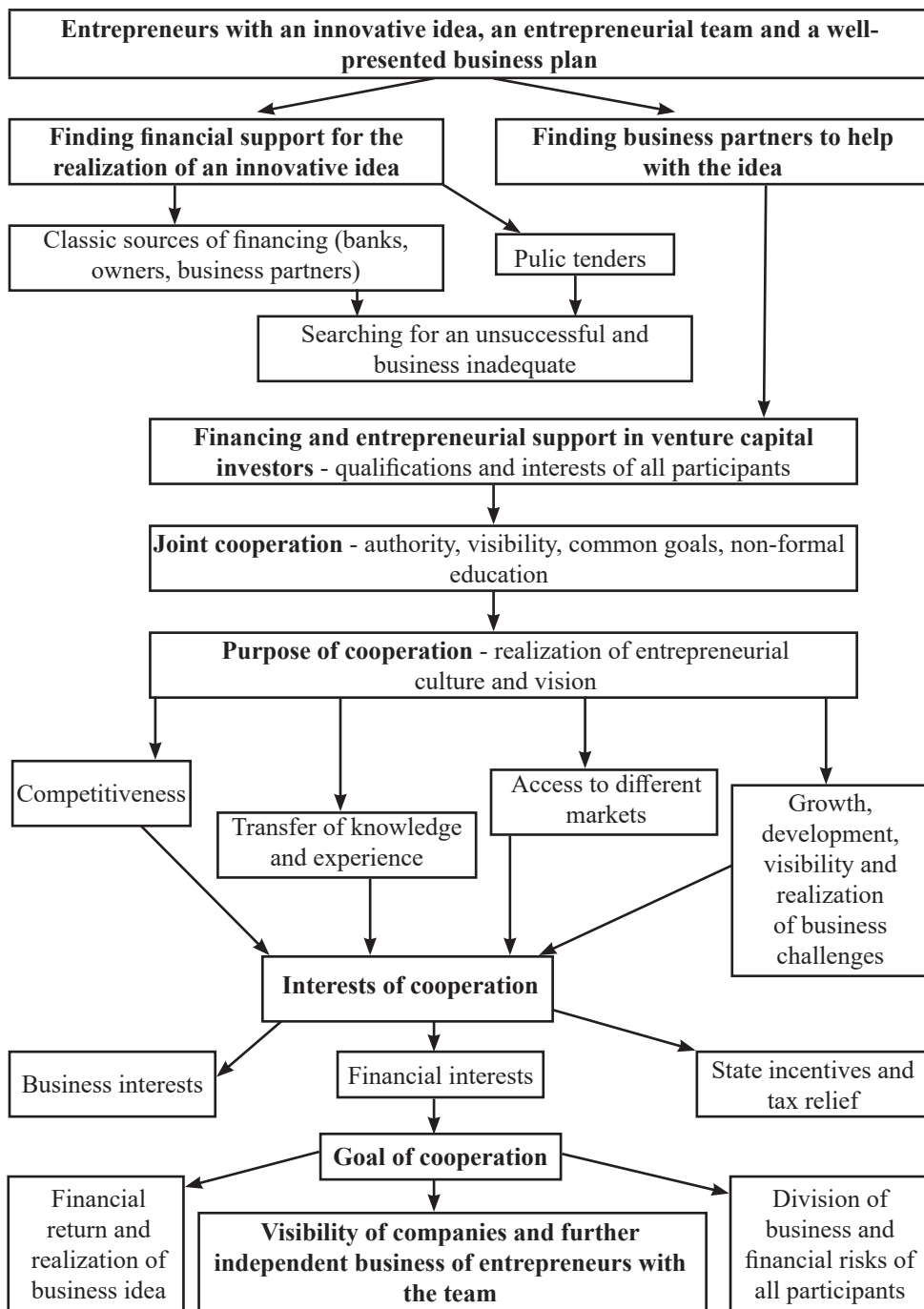
5 MODEL OF VENTURE CAPITAL FINANCING

The starting point for modeling is four hypotheses. In designing the model and its understanding, we took into account theoretical knowledge and experience (foreign and domestic) and on these bases presented the shortcomings and difficulties of venture capital investments.

The model presents the purpose of cooperation in the realization of the entrepreneurial culture and business vision. For the purpose of the model, we included:

- transfer of knowledge and experience of all participants,
 - promoting competitiveness,
 - access to markets and customers,
 - growth and development in entrepreneurial challenges and their realization.
- The goals of cooperation in the model are presented in the form of:
- realization of business ideas,
 - in the desired amount of desired yield,
 - the division of business and financial risks of all participants and
 - the visibility and further independent business of entrepreneurs with a team or business owners.

Picture 2: *A model of innovative venture capital financing - Own research*



6 CONCLUSION

For a model of financing a perspective and development-oriented entrepreneurship, it is necessary that it is financially and commercially supported by the entry of risk capital for the developmental period.

The form of venture capital financing must have a future, which means that the model has to include a proven business idea that the entire entrepreneurial team believes and believes in its success. It is necessary that the model emphasizes the visibility and importance of venture capital and the willingness of business owners to take venture capital into their ownership and business.

The model should distinguish venture capital funds that specialize in specific activities in which they have the relevant knowledge and experience gained.

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