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INNOVATION IN BUSINESS FINANCING

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Abstract
The article considers approaches to solving the problems of financing new fast-growing firms through innovative investment instruments.

Keywords: crowdfunding, crowdsourcing, venture investors, business angels business accelerators, business incubators.

Entrepreneurial firms are the backbone of the economy and generators of economic development and employment. Young and innovative entrepreneurial firms are receptive to the creation, development and growth of new technologies, industries and markets and create the most jobs. However, these firms often need significant amounts of financial capital to sustain their growth. Over the past decades, the academic literature in this area has focused on the importance of venture capital investors and business angels. However, despite the relevance of venture capital and business angel financing, a number of relatively “new” sources of financing have emerged and are developing in recent years. Science and technology start-up entrepreneurs can raise funding from a variety of sources, such as business accelerators and business incubators [1], university technology parks [2], platforms, IP-supported financial instruments [3]. In addition, new entrepreneurial firms rely heavily on "traditional" external sources of funding, including bank lending.

Literature review on the topic

[1] English business accelerator, startup accelerator or seed accelerator , " accelerator " - social institute support startups .

[2] English crowdfunding - public-public financing (from a combination of English words rowd funding : crowd - "crowd", funding - "financing") - the collective cooperation of people (donors, contributors, donators) who voluntarily pool their money or other resources together, usually via the Internet, to support the efforts of other people

[3] English IP-backed finance financial instruments based on intellectual property (intangible assets)

Finding new sources of funding for entrepreneurial firms is one of several hot topics that have emerged in the last decade. The financial crisis and the aggravated problems of banks and other traditional investors have intensified attempts by both the scientific community and practitioners to solve the problems of financing new fast-growing firms through new investment vehicles. Thus, in particular, the concept of crowdsourcing was proposed by the writer Jeff Howe Howe (2006) and is defined as follows: involving a wide range of people in solving certain problems of innovative production activities to use their creative abilities, knowledge and experience in the form of subcontract work on a voluntary basis with using infocommunication technologies . As a new topic, both crowdsourcing and crowdfunding have received a lot of attention from scientists and practitioners. Both financing tools overlap with other modern concepts, such as open innovation, collaborative innovation and user innovation. A study by Estellés-Arolas and González-Ladrón-de-Guevara (2012) [4] found, at least 40 definitions of crowdsourcing in the literature. Research on crowdsourcing and crowdfunding is dispersed in various areas, including disciplines in business and management. Crowdsourcing has become a research topic for scientists in many disciplines. This concept is used for various purposes, such as collecting, displaying and sharing data (Hudson-Smith et al. 2009) [2]; exchange of ideas and opinions of employees (Stieger et al. 2012) [3]; idea generation and decision making (Hossain 2012) [4]; as well as creative solutions (Cabiddu et al. 2013) [5].

Until recently, the usual funding cycle began with three "Fs", representing friends, family, and "simps [4]," followed by business angels, venture capitalists, and capital markets (such as IPOs). Entrepreneurs wishing to raise funding for innovation tended to look to their close connections. Then they developed a production prototype, found the first customers, and received the first revenue. Once these initial milestones were reached, the entrepreneurs began to expand their circle through the financing of business angels. These wealthy and knowledgeable individuals tend to provide capital to expand new products. At this stage, the enterprise had to grow substantially to be attractive to institutional investors such as venture capital investors. For many entrepreneurs, getting venture capital funding has already been a significant achievement, a stamp of quality and success. Venture capital was considered a valuable sign of legitimacy. Venture capital funding has contributed to the rapid growth of the company not only domestically but also internationally. After the launch of venture financing, the entrepreneur and investors either proceed with an IPO or sell the company to a large corporation. This cycle is generally considered appropriate and most successful companies follow the same funding schedule.

[4] three “Fs” representing friends, family, and “fools”

At present, however, this funding cycle needs to be rethought. New Ideas Platforms for Funding - Crowdfunding and Crowdsourcing [5]. Today, it is not uncommon for businesses to raise funds directly from small investors (crowdinvesting) or from potential consumers (reward-based crowdfunding). In particular, crowdfunding has significantly modified the funding cycle. In fact, businesses can now sell millions of products without the need for initial funds to produce those products. Venture capital funds use the proceeds from sales to ramp up production. Thus, crowdfunding as a source of funding has the potential to destroy such an important component of the firm as self-financing [6]. There are many such examples. Venture capital funding also requires significantly fewer resources to grow your business compared to the past. Some businesses try to "do more with less". The cost of doing business, transport, and communications has declined significantly in recent decades.

It is often assumed that entrepreneurial firms require access to external sources of funding to form and subsequently grow because internal sources are not available. However, it is also often assumed that adverse selection and moral hazard, combined with a lack of stable cash flows and high-quality collateral, make it extremely difficult, if not impossible, to raise external debt or traditional bank credit for young entrepreneurial firms. Not surprisingly, finance research has been heavily focused on venture capital and angel funding. Undoubtedly, they are important sources of financing for entrepreneurial activities.

Emerging capital markets

Research to develop "traditional" sources of business finance, such as venture capital and debt financing in emerging markets, has revolved around how and why "institutional voids" prevent businesses from accessing much-needed finance compared to their counterparts in developed markets. Institutional gaps in emerging markets include relatively low legal protections for investors, unsustainable law enforcement and underdeveloped capital markets, relatively opaque or weak accounting rules and standards, and poor quality business reporting. These institutional problems have negatively affected the development of venture capital and debt markets in emerging economies. Thus, while venture capital funding represents a small proportion of business finance in developed countries, it plays an even smaller role in emerging markets. Another key characteristic of emerging markets is that most businesses and individuals receive funding outside of formal equities and debt institutions. A number of researchers analyze the chronicle of the development and diffusion of innovative forms of finance in emerging markets that revolve around

[5]crowdsourcing (eng. crowdsourcing , crowd - "crowd" and sourcing - "use of resources") - involvement in the solution of certain problems of innovative production activities of a wide range of people to use their creative abilities, knowledge and experience by the type of subcontracting work on voluntary using infocommunication technologies . Crowdinvesting , or equity crowdfunding , is an alternative financial instrument for raising capital for start-ups and small businesses from a wide range of micro -investors .

microfinance. This literature tends to focus on research at the so-called bottom of the pyramid and thus highlight poverty reduction as one of the key outcomes of microfinance. Although this literature is rich and extensive in emerging markets, its development has been isolated from other streams of literature on entrepreneurial firm financing. It would be interesting to integrate microfinance research with other funding sources. For example, how do microfinance-funded firms grow and switch to other sources of finance? In addition, along with microfinance, there are other schemes for very unconventional sources of funding in the emerging market communities. These sources revolve around community savings and credit partnerships, whose leadership and management are by default based on cultural and social traditions. Finally, it is widely recognized that emerging markets need to develop an institutional framework that supports the entrepreneurial ecosystem. Although there are differences between markets in terms of how each country has invested in developing a supportive entrepreneurial ecosystem, innovation funding institutions such as business accelerators and business incubators are slowly finding their way into most emerging markets. Crowdfunding has a very significant potential.

Exploring the potential of crowdfunding in emerging markets is essential to understanding the social, financial and cultural dimensions of new business finance models and platforms.

List of used Literature

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