Contributions to Finance and Accounting

Pau Sendra-Pons
Dolores Garzon
María-Ángeles Revilla-Camacho *Editors*

New Frontiers in Entrepreneurial Fundraising

Going Beyond the Equity or Debt Dilemma

Springer

Contributions to Finance and Accounting

The book series 'Contributions to Finance and Accounting' features the latest research from research areas like financial management, investment, capital markets, financial institutions, FinTech and financial innovation, accounting methods and standards, reporting, and corporate governance, among others. Books published in this series are primarily monographs and edited volumes that present new research results, both theoretical and empirical, on a clearly defined topic. All books are published in print and digital formats and disseminated globally.

Pau Sendra-Pons • Dolores Garzon
María-Ángeles Revilla-Camacho
Editors

New Frontiers in Entrepreneurial Fundraising

Going Beyond the Equity or Debt Dilemma

Springer

Editors
Pau Sendra-Pons
Department of Corporate Finance and ERICES
Universitat de València
Valencia, Spain

Dolores Garzon
Department of Business Management
Universitat de València
Valencia, Spain

María-Ángeles Revilla-Camacho
Department of Business Administration and Marketing
Universidad de Sevilla
Sevilla, Spain

ISSN 2730-6038 ISSN 2730-6046 (electronic)
Contributions to Finance and Accounting
ISBN 978-3-031-33993-6 ISBN 978-3-031-33994-3 (eBook)
https://doi.org/10.1007/978-3-031-33994-3

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Acknowledgments

The editors of this book gratefully acknowledge support from the INNACC/2021/19 project, funded by the Generalitat Valenciana, the government of the Spanish autonomous community of Valencia.

Actuación cofinanciada por la Unión Europea a través del Programa Operativo del Fondo Europeo de Desarrollo Regional (FEDER) de la Comunitat Valenciana 2014-2020

Contents

A Journey Through Entrepreneurial Fundraising

Pau Sendra-Pons, Carolina Calatayud, Dolores Garzon, and María-Ángeles Revilla-Camacho

Abstract One of the main obstacles that entrepreneurs face when starting a business is securing funding. This difficulty is often exacerbated by the innovative and emerging nature of their businesses and credit restrictions in times of economic crisis and uncertainty, when investors have lower risk tolerance. In today's business world, the need to promote innovation, digital transformation, and the transition to a more economically, socially, and environmentally sustainable business paradigm is clearer than ever. Encouraging entrepreneurial activity across countries is therefore of interest as a catalyst for sustainable economic development. In an effort to support entrepreneurial talent and help individuals with their ventures more successfully, the chapters of the book *New Frontiers in Entrepreneurial Fundraising. Going Beyond the Equity or Debt Dilemma* present relevant and practical information to make the arduous task of fundraising more manageable. The book articulates the learning journey through entrepreneurial fundraising to give a better understanding of the process of attracting funding and to support strategic decision making, often through examples and real-life cases. This chapter contextualizes the phenomenon of entrepreneurship and its relevance in today's business paradigm. It also focuses on the financial constraints that entrepreneurs face. From there, the chapter outlines the book's learning roadmap.

P. Sendra-Pons (✉)
Department of Corporate Finance and ERICES, Universitat de València, Valencia, Spain
e-mail: pau.sendra-pons@uv.es

C. Calatayud
Department of Applied Economics II (Economic Structure) and ERICES, Universitat de València, Valencia, Spain
e-mail: carolina.calatayud@uv.es

D. Garzon
Department of Business Management, Universitat de València, Valencia, Spain
e-mail: lola.garzon@uv.es

M.-Á. Revilla-Camacho
Department of Business Administration and Marketing, Universidad de Sevilla, Seville, Spain
e-mail: arevilla@us.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_1

Keywords Entrepreneurial fundraising · Entrepreneurship · Financial literacy

1 Entrepreneurship in Today's World

At the time of writing, the world is still recovering from the devastating economic, social, and health effects of the COVID-19 pandemic. At the same time, political tensions are shaking international relations, and technology is flooding the market with new advances that, while fascinating, pose a host of dilemmas. For example, the popularity of new technologies such as ChatGPT raises concerns about the value of human creativity in the face of technology's ever closer – though apparently still distant – imitation of human potential. It is an uncertain world filled with challenges. Digitalization, sustainability, and changes in consumer preferences have heightened the constant need for businesses to reinvent themselves in order to *survive and not fall behind*. In this context, entrepreneurship seems to be gaining momentum as a catalyst for the sustainable economic development of countries. However, even though entrepreneurship has the potential to help shape a more innovative and sustainable market, entrepreneurs face multiple barriers, exacerbated by the prevailing uncertainty. One such barrier is the ability to attract the funds needed to make their entrepreneurial ideas a reality.

Entrepreneurship is a multifaceted concept. There is no consensus on the definition of either entrepreneurship or entrepreneurs, despite the efforts of many authors. However, aspects such as the ability of entrepreneurs to identify business opportunities and the innovative nature of their business proposals are widely regarded as distinctive features (Sendra-Pons et al. 2022). The reality of entrepreneurship is also diverse. Different forms of entrepreneurship coexist. There are many kinds of entrepreneurs, depending on a wide range of characteristics. For example, people can be *part-time entrepreneurs*, where they work for a company while pursuing an entrepreneurial venture (Petrova 2012); *intrapreneurs*, who combine innovation with a spirit of continuous improvement in the companies where they work (Mohedano-Suanes and Benítez 2018); or *serial entrepreneurs*, who repeatedly create startups after exiting others and are thrilled by the process of starting over (Hyytinen and Ilmakunnas 2007). As mentioned before, entrepreneurship is considered a major contributor to the sustainable economic development of countries through employment, knowledge transfer, and innovation (Meyer and de Jongh 2018). However, all that glitters is not gold, and research has delved into the kinds of entrepreneurship, contexts, and circumstances under which entrepreneurship truly catalyzes such development. For example, Naudé (2010) made contributions in this regard. Nevertheless, there is shared emphasis on this phenomenon, with efforts to promote entrepreneurial activity through education (Wang et al. 2022) and government action (Lerner 2021).

The latest edition of the Global Entrepreneurship Monitor 2022/2023, entitled *Adapting to a "New Normal,"* explains how the environment can play an important role in promoting or constraining entrepreneurial activity across countries (GEM

2023). This report has been produced periodically with survey data collected by national teams for more than 20 years. Entrepreneurship Framework Conditions (EFCs) are presented as environmental aspects that influence entrepreneurial activity. To assess the quality of each of these aspects in a given country, GEM relies on the opinions of experts, who complete an online National Expert Survey (NES). Interestingly, in addition to entrepreneurial education at both school and college, the physical infrastructure of a given country, and its entrepreneurship-friendly social and cultural norms, the EFCs also cover entrepreneurial finance. Two core questions are posed: (1) Are there enough funds for new startups in a given country? (2) Is it easy to access them? According to the data in this report for national EFCs, in Level A countries (GDP/capita of over $40,000), the availability of entrepreneurial funds is highest in the United Arab Emirates and lowest in Cyprus; in Level B countries (GDP/capita of $20,000 to $40,000), it is highest in Taiwan and lowest in Panama; and in Level C countries (GDP/capita of less than $20,000), it is highest in Indonesia and lowest in Venezuela. In terms of access to these funds, in Level A countries, the highest access is in the United Arab Emirates and the lowest in Italy; in Level B countries, in Taiwan and Argentina, respectively; and in Level C countries, in India and Venezuela, respectively. Unsurprisingly, for the National Entrepreneurship Context Index (NECI), which provides a single indicator of the quality of a country's entrepreneurial environment, the United Arab Emirates, with its high availability and access to entrepreneurial finance, tops the ranking (Hill and Coduras 2023).

In a context where promoting entrepreneurship is a strategic priority, actions aimed at the support and development of entrepreneurial activity are important. This book, entitled *New Frontiers in Entrepreneurial Fundraising. Going Beyond the Equity or Debt Dilemma*, addresses one of the greatest barriers to entrepreneurship: entrepreneurial fundraising. Entrepreneurs usually have to face this barrier to varying degrees due to a range of factors, including characteristics of the startup, such as its assets or profits (Cosh et al. 2009), the entrepreneur's profile in the form of, say, previous business ownership experience (Robson et al. 2013), and the macroeconomic flows of credit that depend on the economic cycle (Cowling et al. 2012).

2 Entrepreneurial Fundraising: Beyond the Equity or Debt Dilemma

According to Kerr and Nanda (2011), the difficulty in accessing funding is one of the main barriers that entrepreneurs must overcome. Hence, entrepreneurial fundraising is a key topic for policymakers seeking to promote entrepreneurship. As noted in the *Updated G20/OECD High-Level Principles on SME Financing* report, access to finance is a key element in the startup, consolidation, and scaling-up phases of entrepreneurial ventures. The difficulty surrounding access to finance for small- and medium-sized enterprises (SMEs) is about more than a country's macroeconomic profile.[1] Entrepreneurs in both developing countries, with lower levels of credit to the private sector and less robust financial structures, and developed countries experience obstacles in attracting financing. For this reason, the report contains a series of principles, resulting from collaboration between the G20 and the Organisation for Economic Cooperation and Development (OECD). Among other aspects, these principles reflect the need to target the financing requirements and gaps of SMEs, encourage their financial inclusion, strengthen their financial skills and strategic mentality, and expand their capacity to access traditional and emerging financing instruments (OECD 2022).

When trying to reduce barriers to credit, financial literacy can be crucial. Knowing and understanding the different financial products at their disposal can help entrepreneurs make informed choices that maximize their companies' value. This knowledge and understanding contributes to better overall management of startups (Singla 2022). Hence, this book targets an audience that does not necessarily have expertise in finance but that is seeking to broaden its economic and financial knowledge. Such a book could be written from many perspectives. One would be a focus on the debt or equity dilemma. Entrepreneurs must resolve this dilemma if they want to add to the money they receive from family, friends, and fools. According to Gompers and Lerner (2010), three aspects make it more difficult for entrepreneurial firms to receive debt financing: (1) a high number of intangible assets, (2) potential negative earnings in the early stages, and (3) uncertain forecasts about future performance. For companies with this risk profile, equity can be an excellent option. However, in addition to discussing which of debt or equity is more appropriate, this book also presents a list of tools and relevant concepts for entrepreneurial fundraising.

The contents covered by the book are as follows:

- Incubators and accelerators
- Crowd-based financing tools
- Factoring, leasing, and confirming
- Government grants, subsidies, and tax reliefs
- Business angels and venture capital
- Access to capital markets
- Financing with crypto assets
- Transparency and legitimacy
- Corporate governance

Far from approaching these topics purely from the narrow viewpoint of finance, this book presents chapters that also consider aspects of business management and

[1] The concept of the small and medium-sized enterprise (SME) is not the same as that of the startup, even though they are often used interchangeably. For example, in Spain, the business landscape is largely made up of SMEs. However, not all are startups, due to their degree of innovation, growth prospects, and other features (see Khan and Anuar 2018). It is common for startups to be SMEs in their early stages. Hence, the difficulties that SMEs and startups face in securing funds are often shared.

strategy. This approach makes the learning process around these financial instruments an opportunity to continue in the thrilling quest to generate value in the company.

3 A Journey Through Entrepreneurial Fundraising

The book *New Frontiers in Entrepreneurial Fundraising. Going Beyond the Equity or Debt Dilemma* is both a *map* and a *compass*. It acts a *map* in the sense that it lays out different fundraising options available to entrepreneurs, while it provides a *compass* by explaining which of these options is most appropriate at any given time, thus guiding the entrepreneur across the map. It not only helps entrepreneurs understand the often complex process of raising funds for their ventures but also gives them valuable advice and insights for the present stage of their startups. It thus allows them to design an entrepreneurial fundraising strategy. The contents of the chapters of the book are now summarized. This summary emphasizes their practical usefulness in terms of gaining knowledge and developing financial skills for entrepreneurial fundraising.

Chapter 2, "The Role of Incubators and Accelerators in Entrepreneurial Fundraising," is co-authored by Israel Griol-Barres and Oscar Morant-Martínez from *Universitat Politècnica de València*. It deals with how incubators and accelerators offer basic support for entrepreneurs, also from a fundraising perspective. Starting from a conceptual framework, it explores the differences between incubators and accelerators. It highlights the services they offer, their usefulness, and their contribution in terms of entrepreneurial fundraising. Moreover, it illustrates these concepts by presenting several real-life cases of different types of incubators and accelerators, giving a better understanding of their dynamics and the way that entrepreneurs can become part of them. It offers two specific examples of private incubators and accelerators: Plug and Play, one of the world's largest startup accelerators, and Ycombinator, which helps startups take off. Two more examples of corporate incubators and accelerators are given: BIND 4.0 and Lanzadera. The latter is a leading Spanish incubator and accelerator. Finally, university incubators and accelerators are addressed through the case of StartUPV. This business incubator was introduced by IDEAS UPV (the Institute for Business Creation and Development of the *Universitat Politècnica de València*).

Chapter 3, "Crowd-based Financing Tools for Entrepreneurs: A Guide for Effective Crowdfunding," is co-authored by Carla Martínez-Climent and Sandra Enri-Peiró from ESIC Business & Marketing School. It offers a guide for successful navigation of the different stages of the crowdfunding process. It provides a reference for entrepreneurs in their search for funding. It starts by defining crowdfunding, explaining how it works, and highlighting its importance. Then, it details the different forms of crowdfunding, including those that seek financial gain or product samples (i.e., crowdlending, equity crowdfunding, and reward-based crowdfunding) and those that do not seek financial gain (i.e., donation crowdfunding). Next, it offers a proposal to maximize the chances of success when developing a fundraising project launched through a crowdfunding platform. The authors thus shed light on the details of the stages required to complete a successful project. To illustrate how the crowdfunding process works, they offer practical examples of success stories, providing details of several cases of these different forms of crowdfunding. Finally, to ensure its relevance as a practical guide, it lists four crowdfunding platforms that entrepreneurs might use, also differentiating between the different forms of crowdfunding.

Chapter 4, "Factoring, Leasing and Confirming for Entrepreneurs," is co-authored by Sandra Flores Ureba, Paola Plaza Casado, Miguel Ángel Sánchez de Lara, and Alba Gómez-Ortega from *Universidad Rey Juan Carlos*. The chapter discusses a number of financial tools for a company's cash management, namely factoring, leasing, and confirming. Given that the sources of financing differ depending on the business life cycle, this chapter focuses on tools that are especially appropriate in the last stage of a business, known as the consolidation stage. This chapter provides a complete analysis of these financial instruments, covering the following areas: (1) a definition to clarify the nature of factoring, leasing, and confirming; (2) the parties involved in each case; (3) the different subtypes within each of the three financial sources; (4) the advantages and disadvantages; and (5) examples to illustrate when they are useful and how they work. This chapter provides an overview of the practicalities of factoring, leasing, and confirming. It can give entrepreneurs awareness of the different types of cash management financial tools that are available and how to benefit from them.

Chapter 5, "Government Grants, Subsidies, and Tax Reliefs for Entrepreneurs: An Overview of the Spanish Case," is co-authored by María Calzado Barbero and Eladio Pascual Pedreño from *Universidad de Extremadura* and Laura Pascual Nebreda from *Universidad Rey Juan Carlos*. It focuses on fiscal initiatives promoted by governments to foster entrepreneurship. Specifically, it provides a guide of the tax reliefs, grants, and subsidies offered by the Spanish government and other regional institutions to encourage entrepreneurial activity. First, given the increasing importance of alternative financing models for entrepreneurs, such as private investors and business angels, the government has adopted a tax measure to support them. The government offers private investors tax incentives in personal income tax linked to investments aimed at promoting new business activities that can help start-ups. This chapter contains a detailed explanation of how these tax incentives work and the conditions that must be met to benefit from them. It offers further details of other tax incentives in corporate income tax and VAT. Second, this chapter offers a list of grants and incentives available to entrepreneurs. It summarizes existing programs in each Spanish region, giving the name of the program, a link to its landing page, and a short description of those who can benefit from it.

Chapter 6, "Business Angels and Venture Capital," is co-authored by Gema Albort-Morant and Carlos Sanchís-Pedregosa from *Universidad de Sevilla*, David Perea El Khalifi from *Universidade de Aveiro* and *Universidad de Huelva*, and Ana I. Irimia-Diéguez from *Universidad de Sevilla*. It explores the relevance of two sources of funding for entrepreneurs: business angels and venture capital (VC).

These two private equity options have become pillars of entrepreneurial finance. Whereas business angels are wealthy individuals who invest their own money, VC organizations are independently managed pools of capital. This chapter provides a detailed framework to understand these two types of financing. The chapter offers a complete guide for entrepreneurs to discover which type of financing is best suited to them and which can help their companies develop and grow. The chapter describes business angels and VC, explaining what they are and how they have evolved and summarizing their current situation and future trends. It also offers a thorough comparison of the two sources of financing. It highlights their differences in the way investment is made, the time at which they are most useful, the services they offer, the risk involved, and the problems associated with each one.

Chapter 7, "Access to Capital Markets for Entrepreneurs," is co-authored by Leticia Castaño from *Bolsas y Mercados Españoles (BME)-SIX Group* and José E. Farinós and Ana M. Ibáñez from *Universitat de València*. It offers a detailed description of the stock market as an entrepreneurship financing method. It can be used by entrepreneurs when their company seeks to grow, diversify entrepreneurial risk, and offer an exit for early-stage investors who do not wish to stay in the company. The aim of this chapter is to discuss how SMEs, including startups, go public. In Spain, one alternative is BME Growth. This stock market allows growing SMEs to access the capital markets. As a prior step for companies that are still not ready to join BME Growth but plan to do so, there is a unique training and networking company to accompany them along the way: Pre-Market Environment (EpM). This chapter discusses BME Growth and EpM. The authors offer a detailed definition; describe the advantages, potential concerns, and requirements to join; and explain how to join, how to remain, and what the associated costs are. The chapter also provides an overview of both alternatives, including their current situation and several success stories. The chapter concludes with details of a success story of a company that first joined EpM and then moved to BME Growth.

Chapter 8, "Financing with Crypto-Assets," is co-authored by Raúl Gómez-Martínez and Camilo Prado-Román from *Universidad Rey Juan Carlos* and Antonio Alcázar-Blanco from *Universidad de Extremadura*. The chapter aims to unravel the functioning of crypto assets. Cryptocurrencies are a new type of asset that entrepreneurs can use for either investment or payment. Given the rapid growth of cryptocurrencies, the chapter provides practical information to understand what they are, how they work, and how they can be used. It first explores the concept of cryptocurrencies and explains how buying and selling cryptocurrencies works. Then, it provides some key concepts to understand the use of cryptocurrencies. For instance, it explains the concepts of blockchain and asset tokenization and describes how cryptocurrencies are generated and issued. This chapter can be used by entrepreneurs to understand the world of crypto assets.

Chapter 9, "Managing Transparency and Legitimacy in Startups," is co-authored by Sandra Escamilla-Solano from *Universidad Rey Juan Carlos*, Antonio Fernández-Portillo from *Universidad de Extremadur*a, and Javier de la Fuente from *Tecnológico de Monterrey*. It highlights the importance of transparency as a form of stakeholder engagement. Disclosing clear, transparent information about the company enhances investor interest, which is essential to access funding. The chapter starts by discussing what it means to be transparent and how it can become a vehicle to generate value. The chapter explores the role of corporate social responsibility in enhancing a company's financial attractiveness. Finally, it provides two sets of indicators. The first set can be useful for companies that seek to use transparency as a vehicle to generate value and competitiveness. The second set enables assessment of whether a company is socially responsible. This chapter focuses on the role of transparency and its importance in engaging with investors, providing practical guidelines for this purpose.

Chapter 10, "Corporate Governance in Startups," is co-authored by Inmaculada Bel Oms, Alfredo Juan Grau Grau, and Amalia Rodrigo González from *Universitat de València*. It examines how Spanish startups disclose corporate governance information and thus raise awareness of the importance of corporate governance for entrepreneurs. Corporate governance is the system used for supervising and managing firms. It consists of the methods and actions by which the board of directors, senior management, and chief executive officer (CEO) lead and control the firm. Hence, it is critical for the implementation of ethical and social practices. This chapter highlights the importance of corporate governance and compliance. It analyzes the cases of four startups in the University of Valencia Science Park. This case study is of special relevance because it contributes to the corporate governance literature by testing whether these Spanish startups comply with the recommendations on corporate governance. Given the limited data and information on this topic for startups, a questionnaire was used to gather data on the size of the board, the number of board directors, board gender diversity, and the implementation of two Sustainable Development Goals (SDGs).

Finally, Chap. 11, "A Practical Fundraising Toolkit to Raise Funds," is co-authored by Katherine Coronel-Pangol, Carmen Orden-Cruz, and Jessica Paule-Vianez from *Universidad Rey Juan Carlos*. It aims to provide advice and recommendations to facilitate the process of finding financing for entrepreneurs. It not only provides a series of recommendations for successfully seeking financing but also highlights some common mistakes by entrepreneurs in their search for funding. It starts by summarizing what entrepreneurs should and should not do. Then, it offers an in-depth description of what is needed to obtain financing. It emphasizes the importance of identifying the company's stage of the business cycle, which may affect the choice of the most suitable form of financing. The chapter provides a guide for entrepreneurs at each stage. It also gives further recommendations, highlighting the importance of convincing investors. Finally, it describes a success story and a case of failure so that entrepreneurs can refer to a practical case to learn what to do and what to avoid.

Acknowledgments Pau Sendra-Pons and Carolina Calatayud acknowledge the Spanish Ministry of Universities for funding under FPU2019/00867 and FPU20/02097, respectively, to support this research. Carolina Calatayud also acknowledges financial support from Grant PID2021-124266OB-I00 funded by MCIN/AEI/10.13039/501100011033 and by "ERDF A way of making Europe" and from Grant TED2021-130232B-I00 funded by MCIN/AEI/10.13039/501100011033 and by the "European Union NextGenerationEU/PRTR."

References

Cosh A, Cumming D, Hughes A (2009) Outside entrepreneurial capital. Econ J 119(540):1494–1533

Cowling M, Liu W, Ledger A (2012) Small business financing in the UK before and during the current financial crisis. Int Small Bus J 30(7):778–800

GEM (Global Entrepreneurship Monitor) (2023) Global entrepreneurship monitor 2022/2023 global report: adapting to a "new normal". GEM, London

Gompers P, Lerner J (2010) Equity financing. In: Acs Z, Audretsch D (eds) Handbook of entrepreneurship research, International handbook series on entrepreneurship, vol 5. Springer, New York, pp 183–214

Hill S, Coduras A (2023) The context for entrepreneurship. In: GEM (Global Entrepreneurship Monitor) (ed) Global entrepreneurship monitor 2022/2023 global report: adapting to a "new normal". GEM, London

Hyytinen A, Ilmakunnas P (2007) What distinguishes a serial entrepreneur? Ind Corp Change 16(5):793–821

Kerr WR, Nanda R (2011) Financing constraints and entrepreneurship. In: Audretsch DB, Falck O, Heblich S, Lederer A (eds) Handbook of research on innovation and entrepreneurship. Elgar, Cheltenham, pp 88–103

Khan SJM, Anuar AR (2018) Access to finance: exploring barriers to entrepreneurship development in SMEs. In: Zakaria N, Kaushal LA (eds) Global entrepreneurship and new venture creation in the sharing economy. IGI Global, Hershey, pp 92–111

Lerner J (2021) 7 Government incentives for entrepreneurship. In: Goolsbee A, Jones BF (eds) Innovation and public policy. University of Chicago Press, Chicago, pp 213–236. https://doi.org/10.7208/chicago/9780226805597-011

Meyer N, de Jongh J (2018) The importance of entrepreneurship as a contributing factor to economic growth and development: the case of selected European countries. J Econ Behav Stud 10(4):287–299

Mohedano-Suanes A, Benítez DG (2018) Intrapreneurs: characteristics and behavior. In: Tur Porcar A, Ribeiro Soriano D (eds) Inside the mind of the entrepreneur: cognition, personality traits, intention, and gender behavior. Springer, Cham, pp 109–119

Naudé W (2010) Entrepreneurship and economic development. Springer, London

OECD (2022) 2022 Updated G20/OECD high-level principles on SME financing. https://www.oecd.org/cfe/smes/2022-Update-OECD-G20-HLP-on-SME-Financing.pdf

Petrova K (2012) Part-time entrepreneurship and financial constraints: evidence from the Panel Study of Entrepreneurial Dynamics. Small Bus Econ 39:473–493

Robson P, Akuetteh C, Stone I, Westhead P, Wright M (2013) Credit-rationing and entrepreneurial experience: evidence from a resource deficit context. Entrepreneurship Reg Dev 25(5–6):349–370

Sendra-Pons P, Comeig I, Mas-Tur A (2022) Institutional factors affecting entrepreneurship: a QCA analysis. Eur Res Manag Bus Econ 28(3):100187

Singla A (2022) Financial literacy of entrepreneurs: a systematic review. Manag Finance 48(9/10):1352–1371

Wang C, Mundorf N, Salzarulo-McGuigan A (2022) Entrepreneurship education enhances entrepreneurial creativity: the mediating role of entrepreneurial inspiration. Int J Manag Educ 20(2):100570

Pau Sendra-Pons Researcher and lecturer in the Department of Corporate Finance at the *Universitat de València*. He graduated in International Business and holds a Master's Degree in Corporate Finance from the same university, receiving an award for outstanding performance in both degrees. He also has an international PhD in Accounting and Corporate Finance. He has been a visiting scholar at the London School of Economics (LSE). His research focuses on entrepreneurial fundraising, especially crowdfunding, as well as entrepreneurship drivers. He has published articles in international journals and has been presented with the Cañada Blanch Foundation research award and the FESIDE award for the best research paper in finance.

Carolina Calatayud Researcher and lecturer in the Department of Economic Structure at the *Universitat de València*. She is also affiliated with the Interdisciplinary Research Network on Social and Economic Behavior (ERICES). She is currently studying for her PhD in Industrial Economics at the same university. Her research focuses on international economics, firms' strategic decisions in innovation and internationalization strategies, and entrepreneurship. She has participated in several conferences and has published her research in international journals. She has also been a visiting scholar at *Université de Bordeaux*.

Dolores Garzon Associate Professor in the Department of Business Management at the *Universitat de València* and guest lecturer at both national and international universities. She holds a PhD in Business Organization. Her lines of research include entrepreneurship and sustainability. She has published several books, book chapters, and papers in prestigious journals and has studied these topics as part of European and regional research projects. Dolores conducts research on entrepreneurship from a professional point of view. She is currently Vice-Dean of Entrepreneurship and Business Relations in the Faculty of Economics at the *Universitat de València* and is the academic head of UVemprén, the entrepreneurship support area at the same university.

María-Ángeles Revilla-Camacho Associate Professor in Marketing at the *Universidad de Sevilla*. She has published more than 30 articles in scientific journals (16 in high-impact journals), as well as 8 books and 14 book chapters with prestigious publishers such as Springer and Pearson. She is a reviewer for several indexed journals and is part of the scientific committee of national and international conferences. She is currently a Scientific Officer in Tourism Management for the European Academy of Management and Business Economics. Her lines of research are related to key resources in tourism management, entrepreneurship, managerial social capital, and value co-creation. She is a member of the *Cátedra de Gestión de Espacios Urbanos Turísticos* and the Organizational Legitimacy Observatory.

The Role of Incubators and Accelerators in Entrepreneurial Fundraising

Israel Griol-Barres and Oscar Morant-Martinez

Abstract Within entrepreneurial ecosystems, incubators and accelerators play a crucial role in nurturing and boosting startups in many different sectors. Although both facilitate action for innovative companies at a very early stage, they offer very different services and have very different selection criteria. What they have in common, however, is that they are a deeply interesting financing option for startups, since they can be the promoters of the company, offer participatory loans, or provide funding in exchange for equity. In some cases, they even offer grants that the startup does not have to pay back. This chapter discusses the different financing options and services offered by incubators and accelerators. It also describes examples of incubators and accelerators that are international references among those of its kind, including private initiatives, initiatives led by large companies, and public initiatives, where programs managed by universities stand out.

Keywords Accelerator · Incubator · Entrepreneurial fundraising

1 Incubators and Accelerators

A startup is a temporary organization searching for and validating a business model (Blank and Dorf 2012). In the initial stages, the startup is very sensitive to the environment (Battistella et al. 2018). Different components of startup performance can be influenced by human capital (the team), material capital, knowledge, and access to multiple networks, relationships, resources, and ecosystems.

Business incubation is the most effective way to support entrepreneurs in the creation of new ventures (Szabó 2006). Since the creation of the first incubator in 1956, their role in entrepreneurial ecosystems has been prominent. They are also

I. Griol-Barres (✉) · O. Morant-Martinez
IDEAS UPV, Universitat Politècnica de València, Valencia, Spain
e-mail: igriol@ideas.upv.es; omorant@ideas.upv.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_2

drivers of economic development as they contribute to job creation by supporting the generation of new economic activities (Stel et al. 2005; Morant-Martínez et al. 2019).

Incubators provide startups with office space and shared facilities (Internet connection, desk, printer, etc.) in a dedicated building or space where rents are usually lower than commercial rents. Entrepreneurs can also access mentoring and guidance from specialized professionals in various fields (accounting, marketing, business, etc.) while benefiting from networking opportunities and contacts with other entrepreneurs in the incubator. This provides a stimulating environment for growth (Lange and Johnston 2020). Business incubators nurture the business in its startup phase, allowing it to develop at its own pace.

Incubators provide early-stage businesses with services such as (i) development of the business plan; (ii) definition of the mission, vision, and values of the business and its short-, medium-, and long-term goals; (iii) marketing and communication plan for the business; (iv) assistance with market research; (v) networking with experts in the sector; (vi) legal advice on aspects such as intellectual property protection and partnership agreements; (vii) study of the economic and financial viability of the project; (viii) training in specific areas; (ix) contact with other startups; (x) assistance in finding seed funding, including grants for entrepreneurs; (xi) assistance in digitizing the business; (xii) sales advice; (xiii) access to job exchanges for hiring personnel; (xiv) team building; and (xv) access to free coworking spaces.

In general, incubators acquire a percentage of the incubated company, sometimes even without economic compensation. If the incubator provides the idea and the entrepreneurial team of the company, the incubator can acquire a high percentage of the equity of the incubated startup. In fact, in some cases, incubators control all of the equity in the company and provide salaries and stock options to the entrepreneurs who implement it. In cases where the incubator accepts a team that wants to materialize its own idea in the very early stages, the incubator may offer its services and economic compensation in exchange for much lower equity. Therefore, the incubator will acquire a higher percentage of equity depending on its involvement in building the entrepreneurial team and developing its product or service. In addition, incubators provide access to a network of contacts that includes experts in the sector, investors, other entrepreneurs, and other actors that would be difficult to access if the startups acted independently.

Incubators usually provide their startups with a workspace for a longer period of time than accelerators. It is usually between 6 months and a couple of years, although there is no maximum period.

In contrast to incubators, the first business accelerator, Ycombinator, was founded in 2005. Although incubators and accelerators have similar features in that they offer professional mentoring and advice to startups, there is a limit to the time that startups can be in an accelerator. In this case, the incubation period is very short and intensive. Accelerators are organizations that help the companies that participate in their programs to scale. Accelerator programs usually last between 3 and 6 months, and in most cases, it is necessary to pass a selection process to gain access.

Acceleration programs include specialized training and a professional advisor to guide the process.

Thus, business accelerators have been created as a set of five main features: (i) standardized seed funding packages, (ii) cohort-based entry and exit, (iii) a structured capacity development program, (iv) mentoring, and (v) physical co-location (Leitão et al. 2022).

The goal of business accelerators is the rapid growth and successful product launch of the supported startups. Therefore, an accelerator is more appropriate for startups that want to shorten their time to market rather than to grow gradually. Unlike incubators, accelerators are more likely to be run by entrepreneurs and investors. Local governments, nonprofit organizations, and universities often run incubators.

Business accelerators provide intensive programs for startups. Typically, a maximum of 15 projects that meet certain criteria, such as the scalability of the business or the strength of the team, participate in each call. At the end of the program, startups usually present their projects to private investors at a Demo Day event. During the acceleration period, accelerators may provide a physical space in which startups work with their mentors and other entrepreneurs, as well as training and access to a variety of networking events with potential investors and stakeholders in their sector, among other services (Bliemel et al. 2019).

Accelerators can be private or public. Private accelerators seek a return on their investment in startups, knowing that a minimum number of startups must grow at a sufficient rate for the accelerator to be a thriving business. On the other hand, public accelerators provide public resources to entrepreneurs to achieve an impact goal that is aligned to the public organization’s purpose.

In addition, accelerators may or may not be sector-specific. Those that accept any type of project usually have some common requirements, such as being e-commerce or digital businesses with high impact, or developing technology products.

Sometimes a company or a group of companies are the promoters of the incubator or accelerator. An incubator created by corporations usually owns the projects it generates, which end up being their spin-offs with new innovative business lines. A corporate-created accelerator has the advantage that, in addition to providing funding to the participating startups, the corporate promoters end up being the startups’ customers.

Accelerators provide at least advice, contacts, and visibility to startups, but in most cases they also provide funding. However, the funding they offer can take different forms. First, accelerators may provide funding in exchange for equity in the company. Second, accelerators may offer funding through a participatory loan, such as a grant that the startup must repay or convert to equity.

The cost of the acceleration program is therefore a percentage of the company, ranging from 3 to 15%, or even a cost to participate in the program that they can pay at the beginning or sometime later. Public accelerators can be free for startups and even offer them grants that they do not have to pay back.

What accelerators and incubators have in common is that they both aim to develop startups with innovative ideas while minimizing the failure rate of

Table 1 Different typologies for incubators and accelerators

	Physical space	Mentoring	Investment
Public incubators	Yes, in general	Yes, in general	No, or small awards
Private incubators	Yes, in general	Yes	Equity in exchange for their services including team building. Sometimes, equity in exchange of investment
Incubators managed by corporations	Yes, usually in the promoter's office	Yes	Promoter creates the startup and hires entrepreneurs
Accelerators managed by corporations	Yes, in general	Yes, in general	Promoters can invest in the startup or become its customer
Private accelerators	Yes, in general	Yes	In general, in exchange for equity
Public accelerators	Sometimes	Yes	Grants or loans
University programs	Sometimes	Yes	Grants, loans, and sometimes investment

Source: Own elaboration

companies in their early stages. In most cases, incubators are involved in the creation of startups, or at least in their earliest stages. At the same time, accelerators help develop existing startups that are often already on the market.

For this reason, an incubator typically helps build the entrepreneurial team and may even provide the idea for the product or service that the startup will commercialize. On the other hand, the accelerator is responsible for catalyzing the company's process so that it can grow as much as possible in the shortest possible time. Due to this, the accelerator is usually responsible for providing its companies with contacts to investors. It may even become an investor in the startup during the accelerator process.

Table 1 shows the main conclusions about the different typologies of accelerators and incubators.

2 Success Stories

Does the fact of being in an accelerator have an impact on getting investment? As mentioned above, it seems to be a fact that there is a direct relationship. Indeed, in many cases, the accelerator itself becomes the startup's first investor. Similarly, being selected by an accelerator to participate in its acceleration program can also become an added value and a sign of confidence for investors interested in placing their money into the company.

2.1 *Private Incubators and Accelerators*

2.1.1 Plug and Play

Plug and Play Tech Center (or "Plug and Play") is a global innovation platform founded by Saeed Amidi in Sunnyvale, California, aiming to connect early-stage investors, startups, and partners with 500 large corporations worldwide (Plug and Play 2022). Its startup community has raised $9 billion in venture funding, 35 offices worldwide, more than 40,000 carefully curated international startups in its network, and more than 1600 investments since 2006. As a result, Plug and Play is one of the largest startup accelerators in the world and the most active venture capital firm in Silicon Valley.

Plug and Play and its partners provide connectivity and acceleration to Silicon Valley. This platform bridges Silicon Valley and the more than 30 other locations where the accelerator operates. Plug and Play focuses on the following sectors: agrotech, animal health, brand and retail, energy, enterprise tech, fintech, food and beverage, health, insurtech, Internet of Things, maritime, media and advertising, mobility, new materials and packaging, real estate and construction, smart cities, supply chain, sustainability, and travel and hospitality.

Plug and Play's accelerator programs run twice a year to reap the benefits of nurturing and supporting innovative entrepreneurs. The acceleration program lasts 12 weeks and is designed to enhance entrepreneurs' skills and connect them with the right people, experts, and investors. These acceleration programs are customized for each of the verticals or sectors in which Plug and Play operates.

Plug and Play has invested in Google, PayPal, Dropbox, LendingClub, N26, Soundhound, Honey, Kustomer, and Guardant Health. The building where Plug and Play began its operations in 1988 quickly gained a reputation for the success of its startups, earning it the nickname "the lucky building." Plug and Play invested $100,000 in Paypal's first funding round. Paypal Holdings, Inc. is an American multinational financial technology company that operates an online payment system worldwide. The company was ranked 143rd on the 2022 Fortune 500 list of the largest US corporations by revenue.

Plug and Play also accelerated and invested in Dropbox in its early years. Dropbox is a cloud file hosting service that allows users to store and sync files online and share them with other users and platforms. Dropbox became famous for its minimum viable product (Ries 2011). They made an explanatory video and shared it to measure people's reactions. That 3-minute video showed Dropbox's intended functionality and increased people's waiting list from 5000 to 75,000 overnight without any real product. Just the experience of watching a video about the product was enough to sell their idea.

Soundhound is another example of a startup based on technology accelerated by Plug and Play. Soundhound has developed an independent voice artificial intelligence (AI) platform that allows brands across industries to add conversational interfaces and wake words to any hardware, software, or mobile app.

2.1.2 YCombinator

YCombinator helps startups get off the ground. No matter what stage a startup is when it joins the program, the goal is to help it to be in better shape 3 months later, with a better product with more users, or with more opportunities to raise money (Y Combinator 2022).

The program is intensive and motivation is the key. For 3 months, everything revolves around projects and startups. Everyone (participants, alumni, mentors, investors, etc.) has the goal of helping startups succeed, so it is hard not to be motivated. This intensive 11-week program, which creates the necessary conditions and motivation for entrepreneurs, brings out the best in them.

The startups receive $500,000 in seed funding, advice, and connections. This investment is made in two phases:

- A first investment of $125,000 on a post-money safe in exchange for 7% of the company (this "$125,000 safe" is an instrument whereby the investor gives the startup money right now in exchange for the startup's promise to give him/her shares in the future when the startup raises money in a priced round).
- A second investment of $375,000 in an uncapped safe with a Most Favored Nation clause (the "MFN safe"). Uncapped means that the accelerator is putting the money in as an investor right now, and if the startup does a priced round, the accelerator will get the same price as the investors in the priced round. MFN is about not agreeing to a cap at this time, but if the startup raises money from other investors who do have a cap and those terms are better than the accelerator's, the accelerator will get their terms.

Nonprofit startups selected by YCombinator to participate in the acceleration program receive a $100,000 donation. Communication and interaction between the accelerator and the startups, as well as among the startups themselves, is done through a proprietary platform called Bookface. It is a mix of Facebook, Quora, and LinkedIn, where everyone has their own profile. In addition, participants offer their knowledge to the rest of the community, creating a knowledge base that all Ycombinator members can access and ask questions to each other.

During the first week, startups participate in several workshops and talks on different topics. Ycombinator's motto is "Make Something People Want." The program teaches founders how to commercialize their product, team and market, refine their business model, achieve product-market fit, and scale the startup into a high-growth business. Once a week during the 3-month program, a relevant person (e.g., a successful entrepreneur or a venture capitalist) gives a talk to the participants. Typically, a founder of a relevant Ycombinator startup comes back to share the inside story of the company and how it got started. These talks are off the record to create an atmosphere of trust and to allow them to tell the stark reality of their story without unnecessary marketing content.

When startups have a product ready to launch, they are encouraged to present it publicly and receive mentoring in presentations and pitches. Startups typically generate their first customers from the Ycombinator community to get as much and as fast feedback as possible.

At the Demo Day, participating startups present their companies to an audience of investors and the press. This is an excellent opportunity to demonstrate the relevance of the investors that Ycombinator attracts to this event. After the Demo Day, the accelerator helps and advises the startups in their relationship with investors.

The top five companies accelerated by Ycombinator are as follows:

- *Airbnb*, a trusted community marketplace where people can list, discover, and book unique accommodations worldwide in more than 33,000 cities and 192 countries. Airbnb is the easiest way for people to monetize their extra space and showcase it to an audience of millions of people. Founded by Brian Chesky, Nathan Blecharczyk, and Joe Gebbia in 2008, it is now valued at $61 billion and has a team of 5000 employees.
- *Stripe*, a set of tools for building and running an online business. The company helps businesses accept payments from anyone, anywhere, and build new kinds of businesses like Lyft or Kickstarter. Founded by brothers John and Patrick Collison in 2009, Stripe is now valued at $95 billion.
- *Instacart*, the North American leader in online grocery delivery and one of the fastest-growing companies in e-commerce. Instacart's same-day delivery and pickup services bring fresh groceries and everyday essentials in as little as an hour to busy people and families across the USA and Canada. The company partners with more than 350 retailers and delivers from more than 25,000 stores in more than 5500 cities across North America. Since its founding in 2012 by Apoorva Mehta, Brandon Leonardo, and Max Mullen, the company has grown to a $24 billion valuation and has a team of 1500 employees.
- *Coinbase*, a digital currency wallet and platform where merchants and consumers can transact in emerging digital currencies such as Bitcoin, Ethereum, and Litecoin. Founded in 2012 by Brian Armstrong, the company has a team of 500 employees and is now valued at $47 billion.
- *DoorDash*, a delivery company that connects customers with their favorite local and national restaurants in more than 600 cities across the USA and Canada. DoorDash's mission is to connect people by building smart, last-mile delivery technology for local cities. Founded in 2013 by Tony Xu and brothers Andy and Stanley Tang, it is now valued at $25 billion.

2.2 Corporate Incubators and Accelerators

As mentioned above, one or a group of large companies can be the promoters of an incubator or an accelerator. An incubator run by a large corporation typically owns the projects that are generated. In contrast, an accelerator run by a large corporation usually launches challenges to startups that will become its providers of technology, products, or services.

BIND 4.0, for example, is an open innovation connecting and consulting space that has become an international reference, where startups and leading companies from the Basque Country work together. Their aim is to promote the growth, transformation, and development of the smart industry, the clean and sustainable energy, and the health and food sectors. In this way, in Bind 4.0, disruptive startups and industry-leading companies connect to create innovative solutions, accelerate digital transformation, and increase business competitiveness through collaboration. The main benefits for startups are to be connected to the innovation ecosystem in Industry 4.0, get their first customers, access mentoring from experts, and access funding instruments, grants, and workspaces.

Another example is Lanzadera. Created by Juan Roig, owner of Mercadona, a leading Spanish supermarket chain, it is located in Valencia, Spain. This model has crossed borders and is a success story among incubators and accelerators worldwide. Lanzadera was born in 2013 as a personal commitment of Juan Roig and is located in the Marina de Empresas, a complex that brings together the EDEM business school, the Lanzadera accelerator itself and the investment firm Angels, which invests in projects and startups born in its environment.

Lanzadera is a combination of an accelerator and an incubator. It offers a complete set of services to the startups it selects each year: mentoring, project management, partnerships, and contacts with large companies that work hand in hand with entrepreneurs, among others.

Some of the most successful startups born in Lanzadera are as follows:

- *Vivood*, a hotel surrounded by nature located in the province of Alicante (Spain), which won the award for the best hotel in Europe in this category.
- *Codigames*, a video game development company that has experienced exponential growth since its inception in 2013, with annual revenues approaching 100 million euros.
- *Waynabox*, a startup that offers surprise trips to hundreds of destinations in Europe, including hotel and flights for €150.
- *Quibim*, quantitative imaging biomarkers, a startup dedicated to harnessing the information in digital medical images from X-rays, MRI, CT scans, and other modalities to offer a virtual biopsy service via computation. It measures imaging biomarkers of various organs and tissues of the human body that are sensitive to the onset of disease and assesses the proper functioning of drug treatments.

2.3 University Incubators and Accelerators

Within an entrepreneurial ecosystem, universities play a critical role as a source of talent. University students are trained not only in their specific fields but also in entrepreneurial skills to lead teams formed with other university students. In addition, students and graduates gain the skills needed to develop new technologies and deliver the best solutions to a market.

University incubators are uniquely positioned to foster transnational entrepreneurship and the evolution of business and technical communication practices worldwide (Pellegrini and Johnson-Sheehan 2021). Universities facilitate the creation of new businesses by professors, researchers, students, and alumni (Stal et al. 2016).

At the *Universitat Politècnica de València*, a polytechnic university in Valencia (Spain) with more than 30,000 students, a number of students are encouraged to start their business projects every year. Since 1992, IDEAS UPV (the University's Institute for Business Creation and Development) has been advising entrepreneurs. To date, IDEAS UPV has contributed to the creation of about a thousand new companies with a survival rate of over 60%.

In 2012, IDEAS UPV introduced new activities and a business incubator within the university campus, StartUPV, to improve its entrepreneurial results and achieve a higher impact. What started with six companies in the university's student house has become a public accelerator that has hosted more than 200 companies in a decade (StartUPV 2022). In these years, they have attracted 500 million euros of private investment and a survival rate that reaches 54%, a percentage far above the average of a startup.

During the first year, startups have a free and shared workspace (coworking) where mutual support is intensified, in addition to having access to the different services offered by the university, from connectivity to library resources. During the following 4 years – the maximum stay is 5 years – they can have individual offices for their companies at reduced prices, consistently below market rates.

StartUPV program is divided into three different stages:

1. STAND UP, where startups define a business model and go through a validation process
2. START UP, where startups achieve a targeted market share and build their company management team
3. SCALE UP, where startups reach maturity and expand to other international markets

To access the program, one of the members of the main team of the company (with its own resources) must be a student or graduate of the UPV, and only 25% to 30% of the startups that apply to the program are accepted.

The first step is to organize a 2-day bootcamp, a short training course for the new startups to get to know each other and to receive basic training on aspects such as business model, market segmentation, value proposition, team building, impact assessment, or competitive advantages. After a week, an event called Welcome Day is organized so that the new startups can also interact with those already in the ecosystem.

The incubated startups are accompanied by a specialized mentor from IDEAS UPV. In addition, mentoring is encouraged from the most advanced startups to the most incipient ones; and external training is offered, usually on demand and on

Table 2 Main successful startups from StartUPV

Zeleros Hyperloop	Zeleros Hyperloop is developing a hyperloop, the transportation of the future, for people and goods
Pyro extinguisher	Pyro provides state-of-the-art fire prevention and extinction technology and services
Be More 3D	Be More 3D builds houses using 3D printing technology
Closca design	Closca's designs include its collapsible helmet for cyclists, an award-winning sustainable bottle, and a project to digitize water consumption
Streamloots	Streamloots facilitate the monetization of streamer broadcasts
Digital Sun	Digital Sun is one of the most outstanding Spanish video game studios
Yeeply	Yeeply is a specialist in selecting teams for a company's digital projects
Rudo Apps	Rudo Apps develops high-impact mobile applications
Wonderbits	Wonderbits optimizes the production processes of companies and organizations
CoverWallet	CoverWallet specializes in the flexible contracting of insurance for companies
Solatom	Solatom generates thermal energy through the design and installation of industrial solar boilers
Dygma	Dygma designs and markets state-of-the-art ergonomic keyboards
Cosmos Engineering	Cosmos Engineering increases construction efficiency through the use of IoT technologies
Bounsel	Bounsel provides digital tools and AI for law firms
HomySpace	HomySpace provides temporary rental solutions for businesses and displaced workers
Exponentia	Exponentia is a technology consultancy for digital transformation
RoasHunter	RoasHunter catalyzes and drives amazing results from digital marketing campaigns

Source: Own elaboration

specific topics such as fundraising or intellectual or industrial property. They also benefit from perks or discounts on certain services, such as Amazon Web Services, MathWorks, or IT packages.

Unlike other incubators, which also accelerate projects born at the UPV, this academic institution does not receive any equity or participation from the companies it supports (except for its university spin-offs). The advantage for the university is that, in addition to the possibility of being employed in a company, its students have the opportunity to create their own. Another fundamental goal is for students to see entrepreneurship as an alternative to employment. In conclusion, the goal of these university ecosystems is that graduates have a very high probability of insertion, whether they are employees or entrepreneurs.

Although StartUPV does not take equity in the projects it incubates, the *Universitat Politècnica de València* has its investment instruments in partnership with public and private organizations.

Table 2 shows some of the most important successful startups born in the StartUPV university ecosystem.

3 Main Takeaways

Incubators and accelerators contribute to the economic and social development of a region by creating jobs and attracting talent. Both ply an important role in entrepreneurial ecosystems, along with public administration, universities, and financial resources.

Entrepreneurs can benefit from various facilities, not only tangible such as office space but also intangible (and probably the most valuable) such as mentoring, networking, and easy access to investors. There is a direct correlation between being in an accelerator and getting investment for a startup more easily. Being selected by an accelerator becomes an added value and a confidence factor for investors. In fact, the accelerator itself may become the startup's first investor.

Public and private incubators and accelerators have many things in common, such as the services they offer. Their main differences lie in the access to the investment they offer to startups. While it is more common for incubators to be run by universities or public administrations, accelerators are usually sponsored by private initiatives and large corporations.

References

Battistella C, De Toni AF, Pessot E (2018) Framing open innovation in start-ups' incubators: a complexity theory perspective. J Open Innov Technol Mark Complex 4(3):33

Blank S, Dorf B (2012) The startup owner's manual: the step–by–step guide for building a great company. Wiley, Hoboken

Bliemel M, Flores R, De Klerk S, Miles MP (2019) Accelerators as start-up infrastructure for entrepreneurial clusters. Entrepreneurship Reg Dev 31(1–2):133–149

Lange GS, Johnston WJ (2020) The value of business accelerators and incubators–an entrepreneur's perspective. J Bus Ind Mark 35:1563

Leitão J, Pereira D, Gonçalves Â (2022) Business incubators, accelerators, and performance of technology-based ventures: a systematic literature review. J Open Innov Technol Mark Complex 8(1):46

Morant-Martínez O, Santandreu-Mascarell C, Canós-Darós L, Millet Roig J (2019) Ecosystem model proposal in the tourism sector to enhance sustainable competitiveness. Sustainability 11(23):6652

Pellegrini M, Johnson-Sheehan R (2021) The evolution of university business incubators: transnational hubs for entrepreneurship. J Bus Tech Commun 35(2):185–218

Plug and Play (2022) Retrieved July 10, 2022, from https://www.plugandplaytechcenter.com

Ries E (2011) The lean startup: how today's entrepreneurs use continuous innovation to create radically successful businesses. Currency, New York

Stal E, Andreassi T, Fujino A (2016) The role of university incubators in stimulating academic entrepreneurship. RAI Revista de Administração e Inovação 13(2):89–98

StartUPV (2022) Retrieved July 1, 2022, from https://startupv.webs.upv.es

Stel AV, Carree M, Thurik R (2005) The effect of entrepreneurial activity on national economic growth. Small Bus Econ 24(3):311–321

Szabó A (2006) Business incubation as an element of business service institution and SME development infrastructure for creation of new enterprises in CITs. ERENET, Budapest.–2006–14c

Y Combinator (2022) Retrieved July 14, 2022, from https://www.ycombinator.com

Israel Griol-Barres Since 2017, he has been in charge of StartUPV, the business incubator of the *Universitat Politècnica de València*, and IDEAS UPV. He has delivered many workshops, bootcamps, and seminars on sustainable entrepreneurship worldwide and is an international trainer of the Climate Launchpad competition, where he has delivered bootcamps in more than 20 countries. He is also certified in Climate Impact Forecast and Sales Funnel Canvas. As managing director of the *Fundación Globalidad y Microeconomía*, he developed research activities in entrepreneurship and innovation. Israel Griol is Telecommunications Engineer and holds a Master's Degree in Electronic Systems. He also holds a PhD in Electronic Engineering.

Oscar Morant-Martinez He is in charge of the Consulting and Entrepreneurial Area of the Gandia Campus of the *Universitat Politècnica de València*. He teaches different subjects in the field of entrepreneurship and business as a lecturer in the Department of Business Organization. He has 15 years of experience working with entrepreneurs and fostering creativity and innovation in university. He is a trainer in different workshops, seminars, and master programs in creativity, innovation, and business model generation; an evaluator for EIT Health Bridgehead, Catapult, and Headstart programs; a Telecommunications Engineer, Master in Innovation Management, and Master in Business Administration; and currently developing his PhD studies on entrepreneurial ecosystems.

Crowd-Based Financing Tools for Entrepreneurs: A Guide for Effective Crowdfunding

Carla Martínez-Climent and Sandra Enri-Peiró

Abstract Crowdfunding has changed in recent years. It now offers more opportunities to entrepreneurs through more channels. But what factors are critical for success? This chapter begins with a discussion of crowdfunding as a viable source of funding and markets for a business idea. The different crowdfunding options available to fundseekers are described. A proposal of how to achieve a successful project is then presented. The proposal explains how to prepare a project, create a campaign on a platform, promote the project within networks, and close the circle. The community is a fundamental element from the very first stage of idea development. The community must be nurtured throughout the entire process, even when closing the circle after receiving funding. Because crowdfunding predominantly involves peer-to-peer transactions, appreciation is a key aspect. Success stories of projects funded through crowdfunding (reward-based, donation-based, and equity-based crowdfunding, as well as crowdlending) and platforms for different types of crowdfunding are also analyzed. The key aspects for entrepreneurs to run a successful campaign within the crowdfunding system include diversity, creativity, innovation, and transparency.

Keywords Crowdfunding · Success stories · Platforms · Entrepreneurs

C. Martínez-Climent (✉) · S. Enri-Peiró
Department of Research and Teaching Innovation, ESIC Business & Marketing School, Valencia, Spain

ESIC University, Pozuelo de Alarcón, Spain
e-mail: carla.martinezcliment@esic.edu; sandra.enri@esic.edu

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_3

1 Introduction

Access to finance has been identified as a key institutional factor for the emergence of entrepreneurship (Sendra-Pons et al. 2022). There is a constant stream of novel ideas, some of which are the result of the application of technology to existing solutions. One such application, crowdfunding, brings together ideas from social and environmental thinking that had not been considered by traditional businesses until recently. Established companies seeking to expand, improve, or adapt to stakeholder demands also use this form of financing (Martínez-Climent et al. 2021).

Crowdfunding can provide the funding needed for projects, often sustainable or artistic, that would not have received funding in the traditional financial markets. Crowdfunding is also used to finance cultural recovery projects. For example, Hispania Nostra acts in Spain and Europe to enhance the value of cultural and natural heritage. Other organizations have also used crowdfunding. For instance, the Austrian National Library ran a crowdfunding campaign to finance the restoration of an important book from the time of Maria Theresa. The campaign raised €26,315 from 166 donors.

Along the lines of recovering historical artifacts and improving the quality of life of at-risk groups, crowdfunding has been used as an instrument to reduce poverty and inequality. Among Bangladeshi women struggling to access credit, crowdfunding provided the financial means for them to achieve empowerment (Campbell 2010; Dutta and Banerjee 2018). Professor Yunus's development of the concept of microcredit and microfinance through Grameen Bank won him the Nobel Peace Prize in 2006 (Bayulgen 2008; Yunus 2004). Scholars have also studied how governments can enhance social entrepreneurship by financing projects through crowdfunding. Specifically, sustainable entrepreneurship can help achieve the Sustainable Development Goals (SDGs) (Bansal et al. 2019).

Clearly, not all crowdfunding projects are aligned with sustainability. However, investors can invest in projects that meet sustainable criteria. To identify whether an entrepreneur is sustainable, Sarango-Lalangui et al. (2018) provided the following criteria. The entrepreneur should:

- Be motivated by identities based on commercial and ecological logics.
- Prioritize commercial and/or ecological objectives.
- Target stakeholders inclusively or jointly to raise financial resources through crowdfunding.

New research focuses on analyzing crowdfunding as a relevant means to finance and promote the 17 SDGs. In this context, where the COVID-19 pandemic has led to new frontiers in entrepreneurial fundraising, financial support is crucial (Kim et al. 2021). To offer a guide for entrepreneurs in their search for funding, this book chapter first explains the concept of crowdfunding. It then explains the types or models of crowdfunding. Next, it provides recommendations to maximize the chances of project success. Finally, it describes some success stories of projects funded through crowdfunding and presents examples of crowdfunding platforms.

2 Crowdfunding

Crowdfunding is a financing tool that allows fundseekers to raise money from a multitude of investors. Through an online platform, the money supply is pooled to finance projects that may or may not be commercial ventures (Mollick 2014). Crowdfunding is part of the evolution driven by the application of technology to finance, also known as FinTech. This method of financing has become more important since the 2008 crisis, especially because the credit crunch affected small- and medium-sized enterprises (SMEs) so heavily. Crowdfunding also fosters the democratization of capital by distributing the surplus in projects that contribute ethically to their stakeholders (Cumming et al. 2021; Hernando 2016; Martinez-Climent et al. 2020).

Crowdfunding is not risk-free. Hence, in recent years, there have been efforts by governments to regulate it. For instance, the United States has the Jumpstart Our Business Startups (JOBS) Act, while Europe has the European Crowdfunding Service Providers (ECSP) proposal. The aim is to create a positive impact on the engagement of different actors that use or benefit from crowdfunding. By offering security and solving problems, new opportunities are emerging to fund projects (EuroCrowd and Bizkaia Crowdfunding 2022). The more innovative and sustainable they are, the more in line they will be with the new paradigm of the SDGs and the 2030 Agenda (The Sustainable Development Goals Report 2022).

As a quick and easy way to invest with higher returns than other investment alternatives and distributable investment risk, crowdfunding has grown substantially in recent years (Crowdfunding Universe 2022). In 2021, the global crowdfunding market was valued at 12.27 billion US dollars, and it is estimated to reach 25.8 billion US dollars by 2027 (Statista 2022). Because the crowdfunding market is growing, different institutions are promoting its use. Universities are publicizing the procedures, benefits, and risks of crowdfunding, while also applying it to raise funds for projects that emerge within the university context. One example is Swansea University, which since 2019 has had a crowdfunding platform called Wave that funds innovative and creative projects (Wave, n.d.). To date, they have raised more than £35,000, funding student start-ups, university societies, sports teams, research grants, and other projects. By including crowdfunding platforms in business schools, entrepreneurial skills and business opportunities are enhanced. For example, Essex University has a platform called Click, while Plymouth University, the University of Surrey, and Nottingham Trent University use Crowdfunder.co.uk. Boston University also has its own crowdfunding platform. Public institutions are also generating their own platforms to meet the needs of society and companies. For example, Crowdfunding Bizkaia organized the 7th CrowdCamp in 2022, which focused on “the opportunities offered by the introduction of the new European Crowdfunding Service Provider Regulation, with a particular focus on ethical and sustainable finance and regional cooperation,” as stated on their website.

Crowdfunding was initially created for non-profit purposes. However, the following section examines different types of crowdfunding with different applications, from for-profit projects to social projects.

3 Crowdfunding Types or Models

There are different forms of crowdfunding depending on the objectives of investors and therefore their reasons for financing projects through crowdfunding. If the objective is financial gain or obtaining product samples, investors will seek crowdlending, equity crowdfunding, or reward-based crowdfunding. If they are not looking for financial gain, they will choose donation crowdfunding.

- *Crowdlending or peer-to-peer lending*: Investors receive interest in exchange for their investment. Its benefits include minimizing or eliminating intermediaries such as banks. Borrowers enjoy a low interest rate, while lenders obtain a higher interest rate than in traditional financial markets (Martínez-Climent et al. 2018). Examples of crowdlending platforms are Mintos, Crowdestor, Swaper, Housers, LendingClub, Zopa, and Prosper.
- *Equity crowdfunding*: Investors receive shares in a company by financing the project. These shares will provide future dividends. Equity crowdfunding can open up new funding opportunities for entrepreneurs and small businesses, and it allows investors to diversify their portfolio (Stemler 2013). It is also possible to launch several rounds of funding, which injects capital to continue company growth while keeping the community engaged by offering benefits to create loyalty (Tarrida 2022). Some examples of platforms are AngelList, Crowdcube, StartEngine, Republic, Wefunder, Indiegogo, and SeedInvest.
- *Reward-based crowdfunding*: An object or experience is offered in exchange for funding. Projects are usually innovative, have an explicit associated product prototype, and function as another channel to connect with potential consumers. Examples of platforms that offer this type of crowdfunding are Kickstarter, IndieGoGo, and GoFundMe. They mainly offer technological, cultural, or social products. Rewards include both pre-ordered tangible products and intangible products such as classes, exclusive invitations to events, and the opportunity to connect with company founders (Kurani 2022). Therefore, a key feature is the creation of a community to encourage networking and synergies for the project, entrepreneurs, investors, and society.
- *Donation crowdfunding*: There is no monetary reward. Instead, a social contribution makes it possible to finance altruistic projects. Donors do not receive anything material, only the satisfaction of having contributed to a project that is of interest to them. Donors are eligible for tax relief when they donate to general interest organizations, which must be specifically stated on the platform or in the project (Universo Crowdfunding 2022). The platforms for funding for social

causes include WhyDonate, Betterplace.org, Stockcrowd, Teaming, and GoFundMe.

Regarding the fundraising target, under the "all-or-nothing" (AON) model, the target must be achieved for the funding to reach the fundseeker. In the "keep-it-all" (KIA) model, the amount raised reaches the fundseeker, regardless of whether the target is met (Cumming et al. 2020). Each platform chooses whether to implement AON or KIA.

4 How to Achieve a Successful Project

Crowdfunding success has been explored from a wide variety of theoretical perspectives, including herding behavior, to assess the impact of cues (images, videos, text, number of backers, etc.) on individual and group investing behavior (Comeig et al. 2020). The following section offers a proposal to maximize the chances of success when developing a project appearing on a crowdfunding platform. Figure 1 shows the process from project preparation, through project creation, network promotion, and acknowledgment. These recommendations are based on The Crowdfunding Handbook of Click, Essex's crowdfunding platform, and the Swansea University Crowdfunding Handbook 2020.

Step 1. Preparing for the Project

- Look deep into your purpose.
  Business strategy is essential to understand the essence of your business. Issues such as mission, vision, and strategic values must be clear to understand the direction and coherence of the business.
- Is it related with the triple bottom line, CSR, or SDGs?
  Considering the different stakeholder interests and projecting them correctly shows investors that the different scenarios, interests, and priorities of stakeholders are clear. At this point, you should consider the impact of the company on the three sustainability areas (social, environmental, and economic) of the triple bottom line model (Elkington 1997). Therefore, you should consider whether the company has embraced corporate social responsibility (CSR). Is the business idea aligned with the SDGs? Give evidence of which SDGs it deals with and which targets it meets.
- People power
  According to Friedman (2017), the world is more interconnected than ever. The constant use of Facebook, Twitter, Amazon, Alibaba, Kickstarter, Indiegogo, GoFundMe, WhatsApp, LinkedIn, WeChat, PayPal, MOOCs, Spotify, Apple, Netflix, and NYTimes.com, among others, keeps people connected and allows them to communicate seamlessly. Leveraging these connections is crucial. Connecting and communicating an idea before asking investors to fund it is also essential. And of course, having a team of passionate people who believe in the

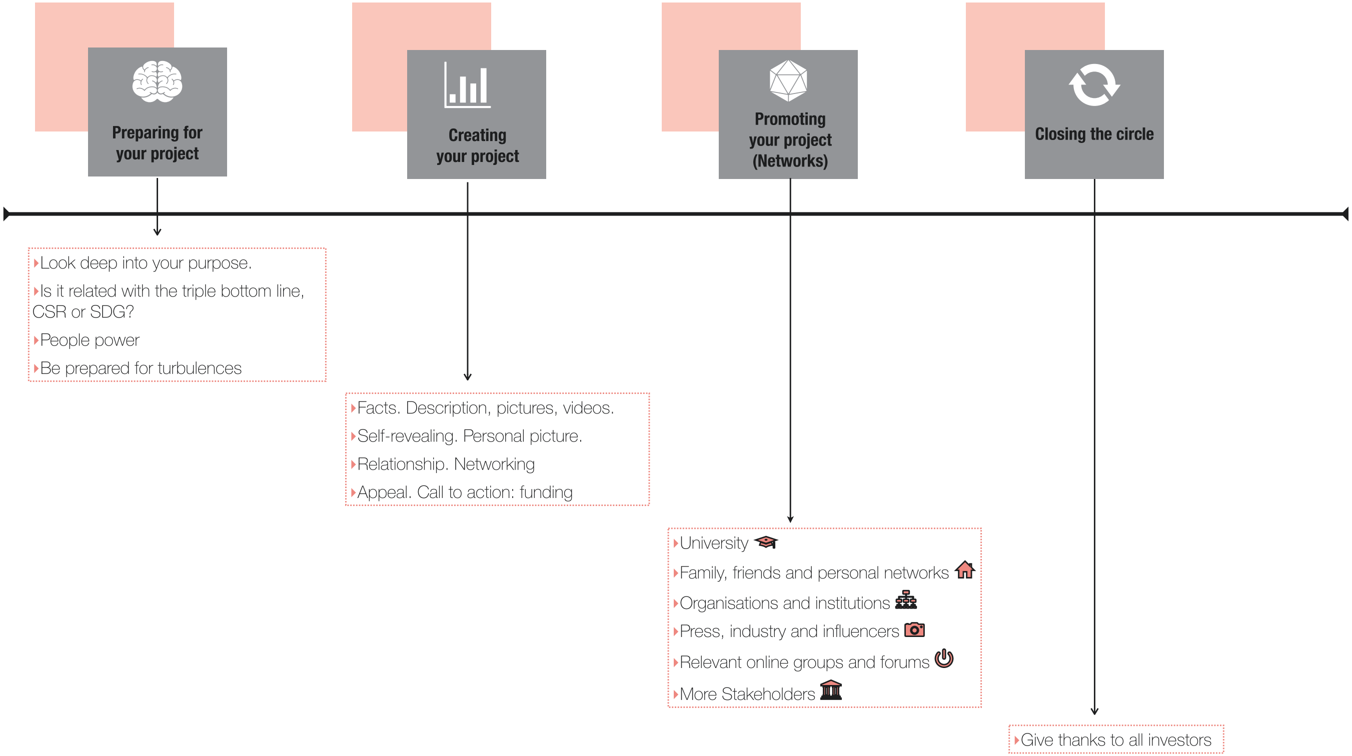

Fig. 1 Recommendations for an entrepreneur preparing for a crowdfunding project. *Source*: Authors based on Kraus et al. (2016), The Crowdfunding Handbook of Click, Essex's crowdfunding platform, and the Swansea University Crowdfunding Handbook 2020

idea and strive to bring it to fruition is directly related to the success of the project. The team-related success variables include endorsed industry experience, education, experience, skill synergy, and perceived motivation (Venslavienė et al. 2021). Practitioners such as Roy Morejon of Command Partners give helpful tips and tricks for successful projects (Chandler et al. 2022). One advice given by Morejon is starting the crowd before starting to build the crowdfunding page. More information on networking is given in step 4.

- Be prepared for turbulences
  The path will not be smooth. Ups and downs form part of the entrepreneurial world. It is advisable to promote the project before including it on the platform, to encourage investors to invest. There will be weeks or months in which the project may stagnate. Think about a contingency plan for different scenarios.

Step 2. Creating the Project

Based on communication theory (Schulz von Thun et al. 2000) and the reward-based crowdfunding strategies proposed by Kraus et al. (2016), project creation is divided into the following areas:

- Facts: Description, Pictures, Videos
  Transparency is important when dealing with data on the project. It is part of the essence of crowdfunding, along with community. As Peter Dering of Peak Design says, "Something we have done really well with our campaigns is that we are extremely transparent. We go to great lengths and to create and justify our designs" (Ferguson 2021). At this point, there must be evidence of four things: the sustainability of the market in economic terms, the business viability of the idea in the target market, the relevance and value for the end consumer, and the competitive advantage over current alternatives (Venslavienė et al. 2021). Hence, the description should be accurate, clear, and concise. It should also provide visual information such as photographs or videos. Nowadays, videos are essential to show prototypes, ideas, and product value. It has been shown that in many successful cases of crowdfunding, emotion plays a fundamental role in relation to reason. Hence, entrepreneurs have to find a way of conveying a story that provides value. Fundseekers are also recommended to include information on the number of investors and the amount invested and to show comments on queries or interactions with the community. The more comments there are, the more interest in the project there will be.
- Self-revealing: Personal Picture
  Fundseekers are recommended to include personal images and information about the entrepreneur or team to humanize the project and make it attractive. Showing passion and soft skills, as well as emotional intelligence, is recommended to make investors feel confident. It is thus possible to achieve interaction between the founders and the community through comments on the project. Additionally, the use of anchor investors, who recommend the project (reputational commitment) and invest a relevant amount of money in it (financial commitment) can also help to generate confidence in the project's likelihood of success (Sendra-Pons et al. 2023).

- Relationship: Networking
  Including links to social media such as Facebook, Twitter, and LinkedIn helps give visibility and connect with the crowdfunding platform's community. It has been shown that the more contacts you have on social media, the more likely you are to reach your funding goal (Belleflamme et al. 2014). More information on networking can be found in step 3.
- Appeal: Call to Action: Funding
  What concerns might investors have that prevent them from investing in the project? Try to resolve or minimize them. Anticipate and solve potential friction points. Make an adjusted risk assessment of the operation and justify the risk correctly. Classify the risk according to whether it is project-related, project initiation (delays)-related, or intermediary-related risk. Providing such information to investors will give them a better understanding of the project. Doing so is an indicator of success in crowdfunding projects (Drabløs 2015; Lukkarinen et al. 2016; Venslavienė et al. 2021). A sense of need or urgency to develop the project can also be shown at this point. This urgency can be an important point in the decision-making of investors. Crucially, constant updates on the project, the blog, and interactions with the community are essential to create engagement.

Step 3. Promoting the Project to Networks

Promotion should be one of the focuses of attention. It can be the difference between attracting and failing to attract financing. Different communication channels, both face-to-face and online, must be combined. Figure 2 shows a proposal based on the Swansea University Crowdfunding Handbook 2020. The potential funding audience is divided into clusters: university, organizations and institutions, press, industry, and influencers, relevant online groups and forums, and family, friends, and personal networks. More stakeholders and several subagents have also been added. These clusters are explained further.

University is a good place to look for funding because university students are constantly learning and are supposedly open-minded, curious, and passionate. University has been studied as a key component in the entrepreneurial ecosystem. It is where knowledge is transferred, and infrastructure is provided to facilitate entrepreneurial activity (Clayton et al. 2018). Current students, those who have already completed their studies (alumni), people who have participated in innovative activities such as hackathons, and the professional development support office all offer support for ideas.

Family, friends, and personal networks offer a starting point for bootstrapping to attract funding and develop ideas (Belleflamme et al. 2014; Kraus et al. 2016). Friends and relatives as well as former colleagues can be contacts.

Relevant online groups and forums can provide a source of information and contacts for exchanging ideas, concerns, and future benefits. Facebook groups, Instagram Ads, specialist forums, and crowdfunding forums and start-up pages can provide a source of entrepreneurs with whom to create synergies. Social connections have been shown to attract funders to crowdfunding campaigns (Guo et al. 2021).

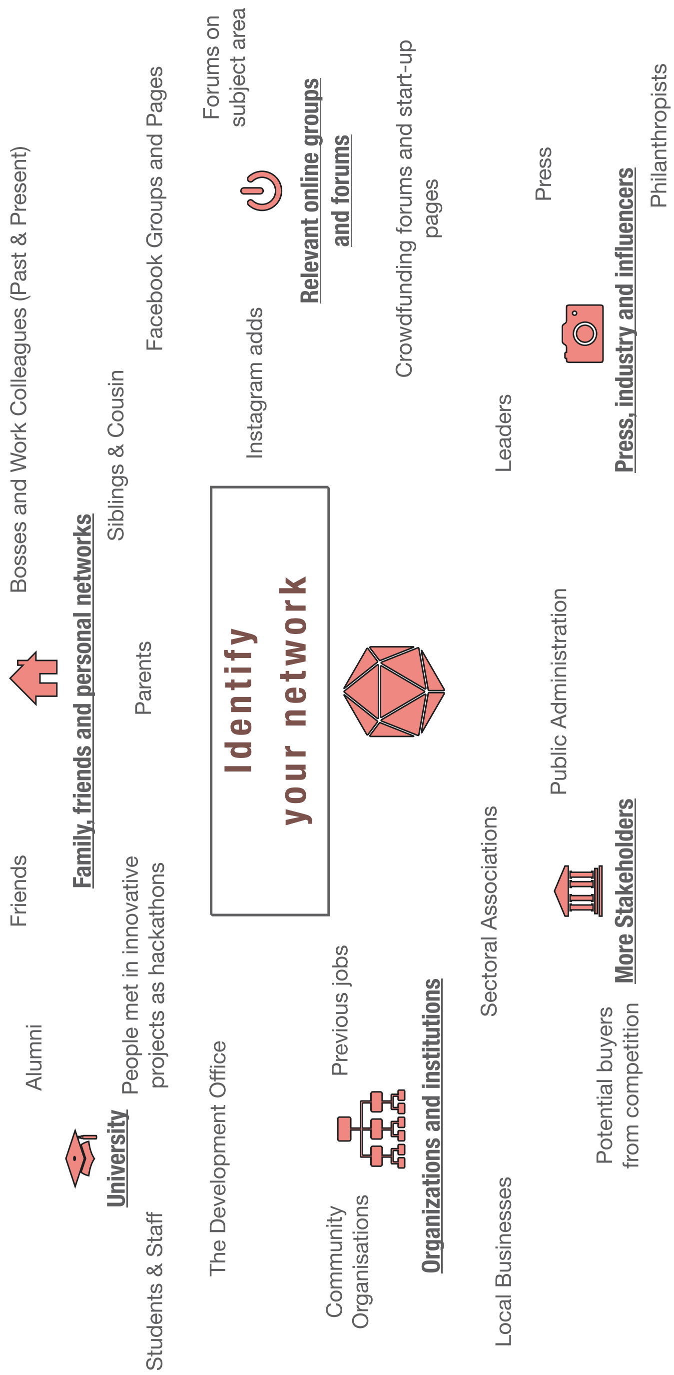

Fig. 2 How to identify your network (*Source:* Adapted from Swansea University Crowdfunding Handbook 2020)

Press and industry influencers can generate interest in your project and provide visibility. This visibility can then be transformed into new investors. Remember that not everything is acceptable and that visibility for the sake of it does not create engagement. Look for influencers who are aligned with your value proposition.

Organizations and institutions that may also have an interest in your idea range from the public sector to local businesses and community organizations that you should involve in your business because it affects them. The idea that certain public agencies provide funding for platform creation and project financing has already been mentioned.

More stakeholders such as suppliers can also be potential investors. Much like in reward-based crowdfunding, where consumers can be investors, suppliers can also believe in an idea and make it part of their investment portfolio. Thus, a study of the competition's consumers is also recommended to offer them the chance to finance the project idea by providing more value than the competition.

Finally, industry associations have historical information on market development. If your idea really meets new needs, it can offer a good niche to look for investors. They can also provide you with the tacit knowledge to further develop the company in the right direction.

Step 4. Closing the Circle

Once you have completed the project that has taken so much effort, successfully or otherwise, you should thank all investors who have shown faith in your idea. In the words of Ethan Mollick, "The unique value of crowdfunding isn't money, it's community" (Kirill and Daria 2021). Hence, being thankful is part of the crowdfunding system, so do not forget or overlook it. Complying with the expectations you have generated during the process should also be kept in mind. Most platforms have integrated this last stage of the process to thank investors, but how can you differentiate yourself? How will you take advantage of the community of people you have brought together with your idea? Is it the end or just the beginning?

5 Success Stories of Projects Funded Through Crowdfunding

The success of crowdfunded projects depends on factors such as business viability, the funding target, the number of investors, and the feedback from investors to project entrepreneurs (Wachira 2021), among other factors. Constant communication between investors and backers enhances trust in the project and the campaign and therefore increases the likelihood of success in reward-based crowdfunding (Kraus et al. 2016; Wachira 2021).

One of the most successful cases of reward-based crowdfunding is Pebble Time. This project raised 20,338,986 US dollars from 78,471 backers in 2015. Pebble Time is a smartwatch that made an impact by offering the ability to connect to phones using both Apple and Android apps at an affordable price. This case is important in the field not only because of the amount of money raised but also because of the ability to bring 2 million product units to market through the crowdfunding platform Kickstarter (Kickstarter 2016). In this campaign, investors received the product in return for their investment, thus playing the role of investor and consumer at the same time. However, in 2016, Pebble launched the new version of the Pebble Time 2 smartwatch, also via Kickstarter, and was unable to meet its deadlines. The production of Pebble Time 2 was cancelled, and the backers of the project were refunded. The company then went bankrupt and was acquired by Fitbit in December 2016.

A well-known case of equity crowdfunding is that of BrewDog, a craft beer company. In 2008, it was on the verge of bankruptcy because of the decision to expand from the United Kingdom to the United States. The problem, as founder James Watt pointed out on LinkedIn, was that, unfortunately, they did not ship the beer it refrigerated, and the beer cooked in a hot steel box all the way to Los Angeles. When he arrived shortly afterwards to launch BrewDog in America, the beers tasted terrible. The importer refused to pay the £30,000 for the beer at a time they had precisely zero in the bank. His accountant pointed out the technical insolvency of the company. On the flight home, he thought of offering a group of loyal investors the opportunity to invest. He invented the Equity Punk concept, raising £570,000 and building a community and a new business model for the time (Walker 2022). Since that time, the company has raised a total of 238,409,483 US dollars through 14 rounds of funding, the latest in September 2020. The company has over 200,000 shareholders in Equity Punk. In addition, it has held B Corp certification since 2020, which classifies it as a company that meets standards for social and environmental performance and information transparency, thus aligning it with the principles of CSR (BrewDog 2022).

Other noteworthy projects are renewable energy projects financed through crowdlending. In France between 2012 and 2019, 167 campaigns have been financed on the platforms Enerfip, Lendosphere, and Lumo, raising more than €38 million. Companies in need of financing apply to the platforms to host their projects. The platforms analyze the applications following criteria of financial solvency and compliance with environmental standards (Slimane and Rousseau 2020). As shown in Table 1, the platforms used the keep-it-all (KIA) funding model instead of all-or-nothing (AON) funding. Slimane and Rousseau (2020) showed that the elements that contribute to success in these cases are the entrepreneur's age, social networks, and professional experience. In short, investors need both objective and subjective information before they will invest in projects.

In relation to donation crowdfunding, several cases have already been discussed. This section focuses on Hispania Nostra, a Spanish organization. It was created in 1976, and in 2014, it started using crowdfunding to attract funding for projects. Initially, crowdfunding culture was weak in Spain, but little by little, Hispania Nostra has created a community of people who are interested in historical heritage and its conservation. Since 2019, it has had several successful projects. It has launched 32 campaigns, 18 of which have attracted more funding than the initial target. Heritage from Burgos has been restored (a high altarpiece of Santa Eufemia de Terradillos de Sedano), a campaign that attracted €31,190 in a village with only

Table 1 Crowdlending projects on Enerfip, Lendosphere, and Lumo

	Enerfip	Lendosphere	Lumo
Date of creation	Jan-14	Dec-14	Mar-12
Types of projects	Renewable energy	Environment and energy	Renewable energy
Type of loan	Loan with interest	Loan with interest	Loan with interest
Minimum amount (EUR)	10	50	25
Who can invest?	Individuals (private) and legal entities (associations and companies)		
Funding model	Keep what you raise	Keep what you raise	Keep what you raise
Interest rate	From 3 to 8%	From 4 to 8%	From 3 to 7%
Default rate	0%	0%	0%
Total amount raised (EUR)	7 730360	25 053 211	5 580 625
Number of projects	39	84	44
Number of investors (avg.)	149	263	104
Interest rate (avg.)	5.75%	5.56%	4.17%
Loan duration in months (avg.)	38	35	117

Source: Slimane and Rousseau (2020)

seven inhabitants. Donations made through the platform have been used not only to restore churches and castles (e.g., in Salamanca) but also to perform archaeological research in Mallorca and to restore Diego Velázquez's house in Seville (Hernández 2022). It has raised a total of €595,693 through crowdfunding (Hispania Nostra 2022).

6 Examples of Crowdfunding Platforms

Crowdlending

Mintos was founded in 2015. It has since become the largest crowdlending platform. It has raised 8.4 billion euros since 2015. The minimum investment is €50, and the average interest offered is 12.54%. Investors have earned €208,528,406 as a return on their investment. The company website explains both how to invest and how to include projects. The net return on investment is the gross annual return minus the annual loss ratio. In 2020, the net return percentage (2.00%) was the lowest for the years analyzed. This low return is because the net annual loss ratio in 2020 was 8.55% on account of the global pandemic and the difficulties companies faced for business as usual. It seems to have recovered. In 2021, that rate was 10.21%. The all-time high for a given year was 12.09% in 2018.

Equity Crowdfunding

Crowdcube describes itself as a platform that seeks to fuel the next generation of businesses who want to leave a mark on the world. The platform's partners include

Grant Thornton and SeedLegal. They have raised €1.2bn and have financed more than 1000 businesses. One of their latest articles is "Why invest in cleantech?" The platform's focal sectors include Advertising, Marketing & Promotion, Analytics, AI, Data, BI, Automation and Robotics, Building, Property & Land Management, Education and Training, Energy and Renewables, Entertainment & Media, Food & Beverage, and Recruitment & Procurement.

Reward-Based Crowdfunding
Indiegogo offers the opportunity to fund entrepreneurs for new technology companies from birth. The platform differentiates itself from Kickstarter by specializing in technology. The platform evaluates campaigns and offers tools for both pre-campaign and post-campaign. It also offers the chance to fund projects from anywhere in the world, providing global opportunities. Notably, 47% of successful campaigns are carried out by women, and 10 million people visit Indiegogo every month from all around the world. The post "4 Product Pitch Videos To Inspire Your Crowdfunding Campaign" is recommended as a source of inspiration from the most successful ones. They also have an Experts Directory, which allows entrepreneurs to bring their product to market with a verified group of companies. These groupings are classified into Creative Services, Legal & Financial Services, Marketing, Packaging, & Fulfillment, Prototyping & Manufacturing, and Retail & Market Growth.

Donation Crowdfunding
WhyDonate connects causes with donors. Its mission is to "Empower Charities and Individuals by Providing Free Fundraising and Making Their Dreams Come True" (Whydonate 2023). The platform is responsible for raising €15M through donations from 400,000 donors. It has funded 5500 charities. It does not charge platform costs or subscription costs (0%). It only charges payment processing costs such as PayPal. It describes itself as a very efficient platform in terms of Security, Customer Support, and Network. For those interested in starting an altruistic project, the platform proposes the following steps: 1. Start a fundraiser, 2. Share the fundraiser, 3. Receive donations, and 4. Thank donors.

7 Conclusions

One of the key points highlighted in this chapter is the involvement of universities in the creation of crowdfunding platforms to integrate business ideas or needs into their community. Examples are given to illustrate how to create value in crowdfunding projects and encourage entrepreneurs to align their business ideas with the SDGs by embracing CSR with different stakeholders. The importance of community and the way in which it can be built and maintained is also a key idea, as is developing contingency plans to minimize potential turbulence along the way.

There is a wide spectrum of campaigns with different types of crowdfunding. Crowdlending, equity crowdfunding, reward-based crowdfunding, and donation crowdfunding allow fundseekers to attract investment and host their projects on the most suitable type of platform. Interestingly, a huge amount of value is placed on self-revealing or a personal picture. In some way, it makes sense, given that, due to a lack of knowledge, a major fear is that a project is fraudulent. Providing more information reduces information asymmetries and boosts investor confidence. Therefore, transparency and clarity are necessary for a campaign to become a successful part of the crowdfunding system. Another interesting point in relation to the different forms of crowdfunding relates to the presence of diverse creative profiles on platforms. These diverse profiles relate not only to early growth stages but also to established companies seeking to continue growing or to meet the needs of their employees or the community affected by their business. Finally, platforms play a fundamental role in evaluating projects, advising entrepreneurs, and acting as intermediaries with investors to distribute and reduce risks. In short, they ensure that the crowdfunding community continues its path of sustainable growth.

References

Bansal S, Garg I, Sharma G (2019) Social entrepreneurship as a path for social change and driver of sustainable development: a systematic review and research agenda. Sustainability 11(4):1091–1119

Bayulgen O (2008) Muhammad Yunus, Grameen Bank and the Nobel Peace Prize: What political science can contribute to and learn from the study of microcredit. Int Stud Rev 10(3):525–547

Belleflamme P, Lambert T, Schwienbacher A (2014) Crowdfunding: tapping the right crowd. J Bus Ventur 29(5):585–609

BrewDog (2022). Available at https://www.brewdog.com/uk

Campbell G (2010) Microfinancing the Developing World: how small loans empower local economies and catalyse neoliberalism's endgame. Third World Q 31(7):1081–1090

Chandler JA, Fan G, Payne GT (2022) Working the crowd: leveraging podcasts to enhance crowdfunding success. Bus Horiz 65(1):79–88

Clayton P, Feldman M, Lowe N (2018) Behind the scenes: intermediary organizations that facilitate science commercialization through entrepreneurship. Acad Manag Perspect 32(1):104–124

Comeig I, Mesa-Vázquez E, Sendra-Pons P, Urbano A (2020) Rational herding in reward-based crowdfunding: an Mturk experiment. Sustainability 12(23):9827

Cumming D, Meoli M, Vismara S (2021) Does equity crowdfunding democratize entrepreneurial finance? Small Bus Econ 56(2):533–552

Cumming DJ, Leboeuf G, Schwienbacher A (2020) Crowdfunding models: keep-it-all vs. all-or-nothing. Financ Manage 49(2):331–360

Drabløs C (2015) What influences crowdfunding campaign success. Master's thesis, Universitetet i Agder; University of Agder

Dutta A, Banerjee S (2018) Does microfinance impede sustainable entrepreneurial initiatives among women borrowers? Evidence from rural Bangladesh. J Rural Stud 60:70–81

Elkington J (1997) The triple bottom line. Environ Manage Read Cases 2:49–66

EuroCrowd and Bizkaia Crowdfunding. 7th CrowdCamp: value creation beyond financial returns, 16–17 June 2022, Bilbao. Available at https://eurocrowd.org/product/7th-crowdcamp-value-creation-beyond-financial-returns-16th-17th-june-2022-bilbao/

Ferguson C (2021) Film pro productivity & success - Podcast | Global Player. (n.d.). Global Player. https://www.globalplayer.com/podcasts/episodes/7Drab6a/

Friedman TL (2017) Thank you for being late: an optimist's guide to thriving in the age of accelerations (Version 2.0, With a New Afterword). Picador USA
Guo L, Wang W, Wu YJ, Goh M (2021) How much do social connections matter in fundraising outcomes? Financ Innov 7(1):1–23
Hernández M (2022) El boom del 'crowdfunding' salva el patrimonio cultural olvidado de la España vacía. The Objective. Available at https://theobjective.com/sociedad/2022-08-15/crowdfunding-patrimonio-espana-vacia/
Hernando JR (2016) Crowdfunding: the collaborative economy for channelling institutional and household savings. Res Int Bus Financ 38:326–337
Hispania Nostra (2022). Available at https://crowdfunding.hispanianostra.org/#oldProjects
Kickstarter (2016). Available at https://www.kickstarter.com/projects/getpebble/pebble-time-awesome-smartwatch-no-compromises?ref=discovery_most_funded
Kim MJ, Hall CM, Han H (2021) Behavioral influences on crowdfunding SDG initiatives: the importance of personality and subjective well-being. Sustainability 13(7):3796
Kirill Z, Daria B (2021) How to start a crowdfunding website like Kickstarter. https://rubygarage.org/blog/how-to-start-a-crowdfunding-website
Kraus S, Richter C, Brem A, Cheng CF, Chang ML (2016) Strategies for reward-based crowdfunding campaigns. J Innov Knowl 1(1):13–23
Kurani S (2022) Rewards-based crowdfunding: a super quick guide. Republic. Available at https://republic.com/blog/investor-education/rewards-based-crowdfunding-a-super-quick-guide
Lukkarinen A, Teich JE, Wallenius H, Wallenius J (2016) Success drivers of online equity crowdfunding campaigns. Decis Supp Syst 87:26–38
Martinez-Climent C, Guijarro-Garcia M, Carrilero-Castillo A (2020) The motivations of crowdlending investors in Spain. Int J Entrep Behav Res 27(2):452–469
Martínez-Climent C, Mastrangelo L, Ribeiro-Soriano D (2021) The knowledge spillover effect of crowdfunding. Knowl Manag Res Pract 19(1):106–116
Martínez-Climent C, Zorio-Grima A, Ribeiro-Soriano D (2018) Financial return crowdfunding: literature review and bibliometric analysis. Int Entrepreneurship Manag J 14(3):527–553
Mollick E (2014) The dynamics of crowdfunding: an exploratory study. J Bus Ventur 29(1):1–16
Sarango-Lalangui P, Santos JLS, Hormiga E (2018) The development of sustainable entrepreneurship research field. Sustainability 10(6):2005
Schulz von Thun F, Ruppel J, Stratmann R (2000) Miteinander reden: Kommunikationspsychologie für Führungskräfte. Rowohlt Taschenbuch Verlag, Reinbek bei Hamburg
Sendra-Pons P, Comeig I, Mas-Tur A (2022) Institutional factors affecting entrepreneurship: a QCA analysis. Eur Res Manag Bus Econ 28(3):100187
Sendra-Pons P, Mas-Tur A, Garzon D (2023) Anchor investors and equity crowdfunding for entrepreneurs. Eur J Manag Bus Econ. https://doi.org/10.1108/EJMBE-06-2022-0167
Slimane FB, Rousseau A (2020) Crowdlending campaigns for renewable energy: success factors. J Clean Prod 249:119330
Statista (2022) Crowdfunding market size globally 2020. Available at https://www.statista.com/statistics/1078273/global-crowdfunding-market-size/
Stemler AR (2013) The JOBS Act and crowdfunding: harnessing the power—and money—of the masses. Bus Horiz 56(3):271–275
Tarrida A (2022) Equity crowdfunding success stories: 3 case studies. Available at https://tarrida.co.uk/equity-crowdfunding-success-stories-3-case-studies/
The Sustainable Development Goals Report (2022) United Nations. Available at https://unstats.un.org/sdgs/report/2022/
Universo Crowdfunding (2022) Financiación Participativa (Crowdfunding) en España 2021
Venslavienė S, Stankevičienė J, Vaiciukevičiūtė A (2021) Assessment of successful drivers of crowdfunding projects based on visual analogue scale matrix for criteria weighting method. Mathematics 9(14):1590
Wachira V (2021) Crowdfunding in Kenya: factors for successful campaign. The case of kickstarter crowdfunding platform. Public Finance Q (State Audit Office of Hungary) 66(3):413–428

Walker P (2022) BrewDog boss reveals inspiration behind Equity for Punks. Insider.co.uk. Available at https://www.insider.co.uk/news/brewdog-boss-reveals-inspiration-behind-28334238

Wave (n.d.) Swansea University crowdfunding handbook 2020. Available at https://www.swansea.ac.uk/media/Wave-handbook-2020.pdf

Whydonate (2023). Available at https://whydonate.nl/en/about-whydonate-foundation/

Yunus M (2004) Grameen Bank, microcredit and millennium development goals. Econ Polit Wkly:4077–4080

Carla Martínez-Climent is a lecturer and researcher at ESIC Business & Marketing School and ESIC University. She received her PhD in Business Management in 2021 from the *Universitat de València*. Her PhD thesis, "Beyond Economic Profitability, Sustainable Financing Through Crowdfunding," explores the relationship between crowdfunding and sustainability. She specializes in business strategy and has attended more than 10 international conferences to disseminate the knowledge she has acquired from her research. She has published more than 10 scientific articles in journals indexed in the Web of Science, as well as authoring book chapters and participating in national and international conferences. She is currently conducting research on teaching innovation as the Lead Researcher of the project "Game-based learning: The E-Commerce Game."

Sandra Enri-Peiró is a lecturer and researcher at ESIC Business & Marketing School & ESIC University. She is currently studying for her PhD in female and sustainable entrepreneurship at the *Universitat Politècnica de València*. She is part of the teaching innovation research group whose main project is "Game-based learning: The E-Commerce Game." She specializes in marketing and international trade through the Master's Degree in Foreign Trade from the Chamber of Commerce of Madrid, together with the *Universidad Rey Juan Carlos*. She also has expertise in digital marketing as part of the Master's Degree in Marketing and Digital Management from the *Universidad Miguel Hernández* and ESIC Business & Marketing School. She is an accredited Customs Representative of the Spanish Tax Agency.

Factoring, Leasing and Confirming for Entrepreneurs

Sandra Flores-Ureba, Paola Plaza-Casado, Miguel Ángel Sánchez-de Lara, and Alba Gómez-Ortega

Abstract The sources of financing selected to support and develop a business are a key element during the different stages of a company's life. In this sense, in a company's financial planning process, it is essential to determine its financing needs to achieve the company's general objectives and, specifically, its financial objectives. In this chapter, factoring and leasing are studied as financial tools for a company's cash management and as widely used sources of financing. Factoring is a combination of different services, ranging from risk hedging through collection and recovery management to invoice portfolio control. Leasing is characterized by the fact that a party (the lessor) assigns the use and enjoyment of an asset through the payment of periodic installments that include the cost of the assignment plus interest and expenses. Some of their main advantages and disadvantages are presented, as well as the different types of factoring and leasing that can be found. Finally, a specific section is included on confirming as a supplier payment management system that allows the collection of invoices before the agreed due date (maturity date).

Keywords Financing sources · Factoring · Leasing · Confirming · Entrepreneurship

1 The Importance of Financing Sources in Entrepreneurship

The sources of financing selected to support and develop a business are a key element during the different stages of a company's life. Not surprisingly, access to finance has been identified as a key factor in the promotion of entrepreneurship (Sendra-Pons et al. 2022).

S. Flores-Ureba · P. Plaza-Casado · M. Á. Sánchez-de Lara · A. Gómez-Ortega (✉)
Department of Business Economics, Universidad Rey Juan Carlos, Madrid, Spain
e-mail: sandra.flores@urjc.es; paola.plaza@urjc.es; miguel.sanchezdelara@urjc.es; alba.gomez@urjc.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_4

From a financial perspective, a company is a succession of investment and financing projects over time. Thus, one of the key decisions in a company's financial planning is to determine its financing needs to achieve the company's general objectives and, specifically, its financial objectives. Evaluating financing options is essential for determining the economic and financial structure of a company. A company, like any other economic subsystem, encounters a real demand and develops plans to meet a future demand that does not remain stable and grows, requiring a series of investments that will demand financial resources. To decide on each of these financial products, it is advisable to study their costs and typology (García del Junco and Casanueva 2000). Entrepreneurs often face difficulty in accessing financing, especially in the early stages (Coronel-Pangol et al. 2022). Financing is evolving to meet the needs of entrepreneurs, so there are sources other than those considered traditional.

To define the optimal use, Fracica (2009) establishes the need to analyze the different stages of the business life cycle. In this sense, the following can be distinguished:

a) Pre-start-up Stage

This is the first stage in which the entrepreneur structures his or her business opportunity, validates the technology and the market, prepares the business plan, assembles his or her work team, and carries out all the necessary activities to start operations. Adequate financing for this first period would be investment from one's own resources, family, and friends (commonly referred to as the 3Fs, family, friends, and fools, who, sometimes, in very early stages, are the only source of financing for many entrepreneurs) and venture capital investment. One of the major disadvantages of 3Fs as a source of financing is that they are not a specialized source as such and often lack financial expertise.

b) Start-up Stage

The next stage is called start-up. It is the period between the start of operations and the point at which the company breaks even. This is usually the most critical stage of the project. The main concern of the entrepreneur is to obtain enough customers and provide them with a product or service of excellent quality to ensure repurchase and prove that it is a viable business (Churchill and Lewis 1983). At this stage, own resources, those of family and friends, have been used, but as it is not yet a suitable subject for financing through bank credit, it is the best time for the entry of business angels. Business angels are private investors who provide the seed capital necessary for the start of the business activity and intangible resources such as experience, contacts, and customers in exchange for participation or future profitability (Escartin et al. 2020).

c) Early Stage

The third stage is called the early stage (growth). At this stage, the company is determined to be a viable business, has market recognition, and generally has good prospects for further development. This would be the time to turn to the so-called venture capital (VC) funds and to provide an exit for business angels. VC funds are more appropriate at this stage because they are professionals with greater resources and experience. Unlike business angels, these funds invest investors' money, not their own, in companies that already have a track record. The difference between financing with equity or debt capital has logical consequences in terms of the risk assumed.

d) Later Stage

The last stage is called the later stage (consolidation). Expansion continues with a smooth upward trend. At this stage, the banking system with its various products, such as factoring or leasing, becomes the best financing option for the business.

Following the structure of the stages of a company described above, the following table (Table 1) lists the different sources of financing.

In this chapter, factoring, leasing, and confirming will be analyzed in detail.

2 Factoring: Characteristics and Typology

Companies sometimes use short-term credit to maintain their cash balance. These loans are used for specific operations of a company's day-to-day business. They are a source of financing used by companies, the most important of which are trade credit, trade discounting, bank loans, and factoring, which will be discussed further.

Factoring is an operation through which a company assigns a credit (an invoice or collection right) to a financial entity (factor) in exchange for paying that amount of money. Factoring is a combination of different services, ranging from risk coverage to collection and recovery management and invoice portfolio control, and constitutes a tool for sales financing. The main advantage of factoring is the possibility

Table 1 Sources of financing by stage

Stages	Sources of financing
Pre-start-up	Own resources
	Venture capital funds
Start-up	Own resources
	Business angels
	Public grants
Early stage	Business Angels
	Venture capital funds
Later stage	Bank financing • Loans • Credits • Discounting commercial instruments • Factoring • Leasing • Confirming

Source: Own elaboration

of facilitating increased liquidity in companies. These operations transform credit operations into cash.

Schematically, the main functions of factoring are as follows:

- Management, since it performs the activities necessary for the management of collections
- Guarantee, as it assumes the risk of insolvency of the debtor when the credit is assigned
- Financing, as it allows the assigning company to advance the funds corresponding to the assignees

Factoring is considered an assignment of trade receivables, and for this reason, in Spanish law it is regulated in the Commercial Code, articles 347 and 348, in the Civil Code (articles 1526 onward) and in Additional Provision 3 of Law 1/1999, of January 5, 1999, regulating Venture Capital Companies and their management companies. This provision establishes that the requirements to be met for the assignment of receivables are as follows:

- "The assignor is an entrepreneur, and the assigned receivables arise from its business activity.
- The transferee is a credit institution or a securitization fund.
- The receivables to be assigned under the contract already exist at the date of the contract, arise from the business activity carried out by the assignor within a maximum period of one year from such date, or the identity of the future debtors is stated in the assignment contract.
- The assignee pays to the assignor, in cash or in installments, the amount of the assigned receivables with the deduction of the cost of the service rendered.
- If it is not agreed that the assignee shall be liable to the assignor for the solvency of the assigned debtor, it shall be evidenced that the assignee has paid the assignor, in whole or in part, the amount of the claim before its expiration."

The factoring entity shall provide the following services:

- Administration or management of trade receivables for a fee, whereby the transferor will not invest material and human resources to carry out such management
- Financing: These are considered objective elements of assignment:
  - Credit, current, or future
  - The price, including the agreed interest rate and the deferral period
- Guarantee: assumes or not the risk of insolvency of the assigned debtor, depending on whether it is factoring with or without recourse, as will be explained later

Parties Involved in Factoring Transactions and Their Obligations

I. Factor (transferee) whose role in turn can be assumed by the following:

- A company specializing in factoring
- A credit institution

The factoring company must necessarily take the form of a corporation and be registered in a special registry, with its obligations being the following:

- Collect assigned receivables, with the power to grant extensions.
- Pay all invoices and acquire all receivables against buyers up to the maximum amount established.
- Respect the due dates of the invoices to proceed with the collection.
- Finance the amount of the invoices when requested by the customer.
- Cover the risk of insolvency if so agreed upon and up to the maximum limit accepted by the factoring company for the buyer.
- Investigate buyer solvency.
- Keep the client's accounts and the list of receivables arising for and against reciprocal transactions between the factoring company and the client.

II. Client (transferor): merchant or entrepreneur. Generally, a company assumes the following obligations:

- Exclusive assignment of all receivables to the factor.
- Pay a commission for collection management. The payment of the agreed remuneration normally consists of a percentage of the value of the receivables transferred, thus compensating for the services rendered by the factoring company.
- The commission usually ranges from 1.5% to 3% of the amount of the invoices assigned to the factoring company. The criteria for determining the amount of the commission are as follows:
  - Category and solvency of the company requesting the factoring services
  - Invoice volume
  - Expiration dates
  - Interest in case of financing by the factoring company of trade receivables
- Inform about the circumstances of each buyer, providing documentary support of the same.
  Notify the buyer of the assignment of the receivable to the factoring company.

III. Party obligated to pay or debtor (assignee): this may be any person except public administrations. Provided that the transferor is an entrepreneur, it is possible to assign receivables from consumers.

Assumes the possibility of assignment of credit as a prerequisite to the signing of the contract.

Factoring Classification

Two different types of factoring can be distinguished:

With recourse, where the factor's services consist of the administration and management of the credits assigned by the client and financing through the advance payment of all or part of their amount. In this case, the assignment of receivables contemplates the "pro solvendo" clause, which states that if the debtor does not pay the factor, the transferor (client) will pay it.

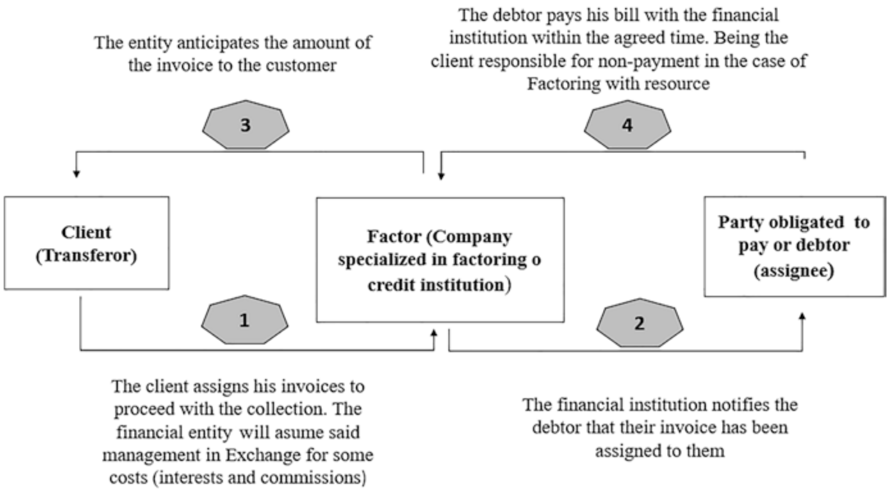

Fig. 1 Factoring procedure. *Source*: Own elaboration

Without recourse, it performs the same services as the previous type, and in addition, a guarantee is added by transferring the insolvency risk from the assigned debtor to the factor so that upon insolvency under the terms agreed upon in the contract, it does not fall on the transferor but on the transferee, without the latter being able to claim the amount of unpaid receivables from the client.

Although any company that generates collection rights can access factoring in a financial institution, it will depend on the credit quality of the company, among other factors, which will determine whether one or the other is used. The use of factoring entails a high cost for the assigning company (Fig. 1).

Factoring Advantages and Disadvantages

The advantages of factoring include the following:

- Liquidity is obtained almost immediately: The collection time of the corresponding invoices is minimized by compensating the possible commission to be paid.
- Collection management is outsourced, thus optimizing the company's resources that could be used for other activities.
- In nonrecourse factoring, no debt is generated between the client and the factor.
- The prior study of the factor before accepting the contract acts as financial and commercial advice to the client.

However, the following disadvantages must be assessed:

- The commissions to be charged by factoring companies can be very high, so a complete study should be carried out beforehand when contemplating for this method.
- If invoices are returned on maturity due to default, the financial expenses incurred imply assuming losses that would not have occurred without factoring.

- The commercial relationship between the company that invoices and its client may be damaged when an intermediary performs collection management.

Therefore, before signing a factoring contract, it is necessary to analyze whether it is the optimal form of financing.

Factoring Example
Let us imagine that a startup has commercial invoices with customers amounting to €10,000 for a sale of goods that are due within 60 days. The startup decides to send these invoices to its financial institution for a factoring operation. The factoring rate agreed with the financial institution is with recourse.

In this case, the financial entity will advance the company the amount of the invoices, charging interest, and a management fee.

If, when the due date arrives, the customers pay the invoices normally, the assigning company will not have any problem, since these invoices will be paid directly to the bank. However, if there is a default on the part of the client, it would be the transferor of the bill of exchange who would have to pay the invoices of its clients to the bank, charging it commissions for nonpayment.

If the factoring agreement signed by the assignor and the factor is "without recourse," the risk of nonpayment would be assumed by the financial entity.

3 Leasing: Characteristics and Typology

The legal definition of leasing in Spain is contained in the seventh Additional Provision of Law 26/1988 of June 29, 1988, which states that "leasing transactions will be those contracts whose exclusive purpose is the transfer of the use of real estate, acquired for such purpose according to the specifications of the future user, in exchange for a consideration consisting of the periodic payment of installments. The leasing contract shall necessarily include a purchase option in favor of the user."

Leasing, also known as financial leasing, is characterized by the fact that the lessor transfers the use and enjoyment of an asset, movable or immovable, to the client or lessee through the payment of periodic installments during the term of the agreement. This contract normally includes the cost of the assignment (maintenance services and insurance of the asset) plus interest and expenses (Astorga 2004; Banco de España 2022).

A general feature of this product is the incorporation of a purchase option in favor of the lessee, which may be exercised at the end of the last installment. The amount usually coincides with the residual asset value at the end of the financing period.

At the time of the last installment, the customer will opt for one of three possibilities: (1) return the property of which he or she has had use and enjoyment; (2) acquire ownership; or, if an agreement has been reached between the parties, (3) extend the leasing contract.

Each of the installments to be paid must be listed in the said contract, where the part corresponding to the recovery of the amount of the good and the financial cost will be differentiated. As an additional installment, it will be specified which corresponds to the purchase option.

The duration is usually equal to or less than the useful life of the asset subject to the operation. This depends on the type of asset. The minimum financing terms are 2 years for machinery and vehicles and 10 years for real estate.

In the leasing contract, the rights and obligations of the lessor and lessee are specified, and as stated by (Suárez 2014), the most important terms that are reflected in the contract are as follows:

- Term of the lease, which usually coincides with the economic life of the asset or tax depreciation
- Amount and expiration of the installments.
- Specification of who bears the costs of maintenance, repair, insurance, and taxes
- Alternatives offered after the termination of the contract (termination of the contract with return of the property, extension, or purchase of the property)

Leasing Classification

In Anglo-Saxon countries, there are two types of leasing (Mavila, 2003):

Financial leasing. This is a commercial contract through which the leasing company, whether a bank or a leasing entity, acquires from a third party the property in which a customer is interested and delivers it to him or her. The objective is the use of such property in exchange for periodic payments and with the option to purchase at the end of the contract for a previously agreed price. There is the possibility of not buying it, which means that it is returned. In this type of lease, the customer must pay all installments until the end of the contract without the possibility of unilateral termination.

Operating leasing. Operating leasing occurs prior to financial leasing. It has similar characteristics to the previous type, with the exception that a purchase option is not agreed upon, and the lessor is responsible for both its maintenance and its replacement. It offers the preferential possibility to the customer that, after prior agreement between the parties, the manufacturer undertakes to replace the good, on dates that have been agreed upon in advance, with another good that is technologically updated. In this type of leasing, the contract can be revoked in advance with prior notice, unlike financial leasing.

There are also other special types of leasing.

Real estate leasing. In this case, the contract is for a property normally acquired by the leasing company from a third party and, if necessary, built or refurbished in accordance with the lessee's project or needs.

Lease back. The asset originally belongs to the customer, who sells it to the leasing company but nevertheless retains possession of it as a lessee with an option to purchase. In this way, the customer obtains liquidity or financing for other purposes while taking advantage of the tax benefits of paying periodic installments to repay the financing received.

Import leasing. In this case, the financial entity takes charge, through a professional in the field, of the acquisition and importation of an asset located abroad, relieving the client of the operational burdens involved in a foreign trade operation.

Tax Treatment

The basic rule on which this type of operation is based at the tax level is Spanish Law 27/2014, of November 27, on Corporate Income Tax. The following points can be highlighted (Lefebvre, 2022):

- Full deductibility of:
  - Financial burden.
  - The amount paid for the recovery of the asset with a limit of 2 times the amount of the straight-line depreciation coefficient according to the depreciation tables or double the straight-line depreciation coefficient, multiplied by 1.5 times (3 times the depreciation coefficient) in the case of small companies. The excess, if any, will be deductible in subsequent tax periods. The portion of the recovery of the cost of the asset corresponding to land, plots, and non-depreciable assets will not be deductible.
- Financing of up to 100% of the amount of the property to be acquired.
- The fractioning of VAT in each installment, thereby providing more liquidity to the lessee.

Fees and Expenses Applicable

The Bank of Spain establishes the following fees and expenses:

- Operation study
- Brokerage through the intervention of a notary public, at the time of formalization
- Opening. For the total amount or limit in case of gradual disposition, at the time of its formalization or subsequent dispositions
- Total or partial early redemption
- Nonpayment or refund of installments
- Claim of debit positions. For unpaid installments
- Postage costs. If the company mediates the sending of receipts on paper
- Modification of conditions or guarantees
- Novation, subrogation, and renewal

Leasing Advantages and Disadvantages

Once the characteristics and operation of leasing have been analyzed, the main advantages and disadvantages of this form of financing can be established.

The use of leasing as a source of financing has several advantages over other options, the most important of which are as follows (Suárez 2014):

- Incorporating fixed assets into the company and not doing so by means of purchase but by means of leasing entails a reduction in the financial burden.
- The risk of obsolescence is transferred from the client company to the lessor company.

- The leasing fee is deductible in its entirety from the taxable base of the corporate income tax (with limits).
- Leasing financing initially increases the company's fixed charges, increasing its financial risk, but does not increase the debt of the liabilities, increasing its apparent financial solvency.

In addition to the advantages proposed by the author, the following can be highlighted:

- Opting for leasing is a way to amortize an asset for the benefit of the company.
- It offers the possibility of 100% financing of the investment.
- It maintains free borrowing capacity since the asset has not been purchased.
- It offers considerable flexibility and speed to obtain the technological renewal of the equipment.
- It saves time.
- It does not compromise the ownership of the company, since this type of financing avoids resorting to capital increase operations while maintaining the degree of control of the company.

The choice of leasing as a source of financing is not without disadvantages, including the high cost and the fact that, in the absence of a purchase option, the lessee company loses the residual value of the asset. The following are some of the disadvantages of this type of operation:

- Higher financial cost than a normal bank loan.
- Access to the property is only granted once the contract is terminated.
- Additional services are not usually included.
- Canceling the contract will entail a penalty fee.

Leasing Example
A start-up needs specialized machinery, so it signs a leasing contract with a leasing company for 3 years. This contract contains the following characteristics: the value of the machinery, the duration of the leasing contract, the interest rate of the operation or financial burden of the contract, the value of the purchase option at the end of the contract, and the installments to be paid during those 3 years.

The company would record the machinery as an asset on its balance sheet, a debt for the outstanding payments, and financial expenses for the financial burden of the contract. In addition, a valuation adjustment must be made for the years of duration of the contract.

4 Confirming: Characteristics and Typology

Confirming is a financial service management system for managing payments to suppliers in which the collection of invoices is advanced to the supplier before the agreed due date (Garayoa 2013). To do this, companies contract a financial entity

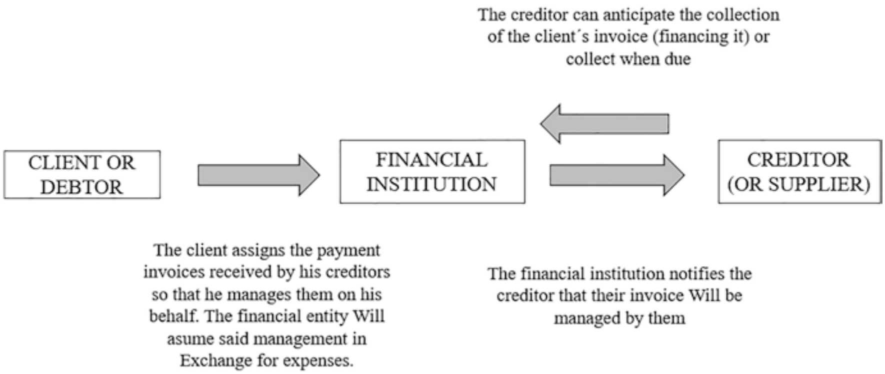

Fig. 2 Confirming procedures. *Source*: Own elaboration

that charges a commission and an advance interest rate in exchange for paying suppliers who want to obtain liquidity by advancing collection. The procedure is similar to the trade discounting operations (Fig. 2).

As is logical, the financial entity will have to investigate the solvency of the company that buys goods or provides services, establishing the risk of the operation.

Parties Involved in Confirming Operations
The financial institution, which provides the service. In these operations, the financial entity does not necessarily have to be a bank, since there are companies that can provide this type of service that are not banks.

The client or debtor, which is the company that hires the services of the financial institution to make payments on its behalf to the creditors or suppliers it determines.

The creditor (or supplier), who is the one who will receive the collection of his or her credit from the financial entity instead of directly from the person who owes him or her the money.

As in any financial transaction, there are certain expenses that are borne by two of the parties involved. The customer will have to bear the costs of payment management and the creditor the costs of prepayment.

In the first case, this commission is based on an agreed minimum. If the cost of the operation exceeds this minimum, the expense is calculated as a percentage of the total nominal amount of the invoices managed.

In the case of the confirming company (creditor or supplier), it must bear interest by applying the interest rate agreed upon depending on the period of the transaction.

Confirming Classification
The classification of confirming can be made from three perspectives: (1) depending on who assumes responsibility in the event of insolvency, (2) depending on when the invoices are collected, and (3) depending on whether a deferral beyond the due date is granted. This division and its characteristics are detailed in the following Table 2.

Table 2 Confirming classification

Perspective	Type of confirming	Characteristics
Assumption of responsibility	Confirming without recourse	The financial institution would face the possible insolvency of the debtor. Most common type
	Confirming with recourse	The financial entity does not respond to the possible insolvency of the debtor. Unusual
Time of collection of future	Confirming with credit advance or investments	The supplier collects the invoice before the due date in exchange for a discount.
	Confirming without credit advance or simple	The supplier collects the invoice when due
Payment deferral	Financing confirming	The financial institution allows the customer or debtor to pay in a period longer than the due date and the corresponding financing expenses are derived

Source: Own elaboration

Confirming Advantages and Disadvantages

After considering the characteristics, classification, and operation of confirming, the main advantages and disadvantages of this type of financing from the perspective of two of the actors involved, the debtor and the supplier, can be analyzed.

Some of the main advantages for the *customer* or *debtor* that can be highlighted are as follows:

- Increase reliability and prestige in the eyes of suppliers due to the security of the collection of their invoices.
- Saves administrative costs.
- Financing is available if the terms of the contract provide for it.
- Better management of cash flows.

The unfavorable points for the *debtor* are the following:

- The range of financial institutions with which one can work is reduced.
- It must assume after the conformity given to the invoices, as required by law, each and every one of the commitments arising from the operation managed.

The advantages for the *supplier* are the following:

- Reduces the risk of default.
- The payment can be anticipated.
- Immediate liquidity.
- Increases debt capacity, in the short term, to finance sales with credit.
- Removes accounts receivable from the balance sheet.
- Saves on administrative collection costs that do not add value.

On the other hand, as disadvantages for the *supplier*:

- Must bear the cost of early payment.

- Accept the limitation of working with a financial institution that one has not chosen.

Differences Between Confirming and Factoring

After considering the characteristics and typology of factoring and confirming, a brief analysis is included to compare these two types of financing to easily differentiate between them. The first and clearest difference is that confirming is contracted to manage payments to suppliers or creditors, while factoring is a receivables management system. The supplier offers a cash discount to the company; however, the company does not have immediate liquidity and requests a confirming line to advance payments. Factoring, on the other hand, consists of advancing collections from customers or debtors by the financial institution, less a percentage commission, which will recover the amount of customer invoices when they reach their due date.

Confirming Example

1. A company X, S.A. has issued an invoice for €15,000 to one of its customers, which it pays by confirming. The date of invoice issuance is June 2, and payment will be made on September 2.
   In this case:

- If confirming is with credit anticipation, the financial entity will offer company X the possibility of making its collection effective before September 2. If the company accepts, it will have to bear the financial costs of the operation.
- If confirming is without credit anticipation, the financial entity will collect the invoice on September 2, not being able to so it before.

2. Company "X, S.A." contracts with a bank for a confirming service to manage the payments of the invoices received from its main supplier "Y, S.A." One of the invoices is due on September 2.
   In this case, Y, S.A. can wait until the invoices are due and collect on September 2, or it can accept the advance credit provided by the bank, assuming the financial cost.
   If company "X, S.A." does not proceed to payment when the invoice is due, the following situations could arise:

- If it is confirming with recourse, "Y, S.A." will have to return the money advanced by the financial entity since it does not assume responsibility for possible insolvency.
- If it is confirming without recourse, "Y, S.A." will not have to return the money already collected because the financial entity assumes the risk of nonpayment and is responsible for claiming the money from the company "X, S.A."

5 Conclusions

The sources of financing are a key element for the development and maintenance of a company, but it is necessary to be able to satisfy the real needs of capital to correctly determine in which phase of the business life cycle it is. Each of the stages of business life will determine which are the most appropriate sources of f.

Leasing and factoring are suitable sources in the more established stage of business life. Factoring seeks to balance the budget using short-term credit and combines services (management, guarantee, and financing) whose objective is financing and sales. It is a source regulated by the Commercial Code on which the necessary requirements to comply with the assignment of credits are based. It is a source that provides almost immediate liquidity, outsourcing the collection in which there is prior advice to the client through a study of the factor. However, one must account for the commissions and the risk of nonpayment that may occur.

The other source analyzed is leasing, known as financial or operational leasing (there are various forms of financing in this way, such as real estate or import), in which the asset is enjoyed by paying installments with the possibility of buying at the end. In the contract, when formalizing it, quotas, duration, rights, and obligations must be stipulated and what to do once the contract is finished. It is a source that allows the company to have fixed assets through rent without making outlays, without assuming the risk of obsolescence and without increasing debt, but its high cost and the increase in the company's fixed charges must be considered.

Confirming manages payments to suppliers by advancing invoices before the agreed due date. Depending on the assumption of responsibility, collection times, and payment deferral, there are several types of confirming. This source makes it possible to save costs, improve financial management, and increase prestige vis-à-vis suppliers, although the financial entities with which they work are small. From the supplier's perspective, it reduces the risk of nonpayment, provides liquidity, and eliminates accounts receivable.

A comparison of factoring and confirming reveals that the main difference is that the first manages the collections and the second manages the payments.

References

Astorga JA (2004) Novedades en la contabilización de las operaciones de renting [New developments in accounting for leasing transactions]. Deusto- Planeta de Agostini Profesional y Formación, S.L, Madrid

Banco de España (2022) Bank of Spain customer portal. https://clientebancario.bde.es/pcb/es/menu-horizontal/productosservici/pymesautonomos/guia-textual/leasingrenting/Leasing__concep_336d071cbf28d51.html

Churchill NC, Lewis VL (1983) The Five Stages of Small Business Growth. Harv Bus Rev 61:30–50

Coronel-Pangol K, Orden-Cruz C, Paule-Vianez J (2022) Bibliometric analysis of alternative financing for entrepreneurship. Cuad Gest 22(2):167–182. https://doi.org/10.5295/cdg.211559kc

Escartin D, Marimon A, Rius A, Vilaseca X, Vives A (2020) Start up: concepto y ciclo de vida [Start up: concept and life cycle]. Revista de Contabilidad y Dirección 30:13–21

Fracica G (2009) La financiación empresarial y la industria de capital de riesgo: Estructura y conceptos [Corporate finance and the venture capital industry: structure and concepts.]. Revista EAN 66:631–636

Garayoa PM (2013) Operaciones auxiliares de gestión de tesorería [Auxiliary treasury management operations]. Macmillan Iberia, S.A., Madrid

García del Junco J, Casanueva C (2000) Fundamentos de gestión empresarial [Fundamentals of business Management]. Pirámide Editorial, Madrid. ISBN: 84-368-1505-X.

Lefebvre F (2022) Memento fiscal [Tax Memento]. ISBN: 978-84-18899-15-7

Mavila D (2003) Leasing financiero [Financial leasing]. Ind Data 6(1):86–88

Sendra-Pons P, Comeig I, Mas-Tur A (2022) Institutional factors affecting entrepreneurship: a QCA analysis. Eur Res Manag Bus Econ 28(3):100187

Suárez A (2014) Decisiones óptimas de inversión y financiación en la empresa [Optimal investment and financing decisions in the company], 21st edn. Pirámide Editorial, Madrid. ISBN: 978-84-368-2983-9

Sandra Flores Ureba (Madrid, 1981). PhD in Business Economics since 2012, Degree in Business Administration from *Universidad Rey Juan Carlos*, Master in Decision Engineering from *Universidad Rey Juan Carlos*. She has taught for 17 years in various subjects of business economics in both undergraduate and graduate courses. She has published several articles and has attended both national and international conferences. She is currently an interim professor at *Universidad Rey Juan Carlos* in the Department of Business Economics.

Paola Plaza Casado (Madrid, 1981). PhD in Business Economics since 2012, Degree in Law with specialization in Business Consultancy from *Universidad Pontificia de Comillas*, Master in Business Management from *Universidad Rey Juan Carlos* and Certificate of Teaching Aptitude from *Universidad de Extremadura*. For 15 years, she has taught various subjects of business economics in both undergraduate and postgraduate courses. She is currently a professor at *Universidad Rey Juan Carlos* in the Department of Business Economics.

Miguel Ángel Sánchez de Lara (Madrid, 1968). PhD in Business Economics in April 2013, from *Universidad Rey Juan Carlos*, Degree in Business Sciences from *Universidad Autónoma de Madrid*, Master in Tax Consultancy from *Centro de Estudios Financieros* and Master in Senior Technician in Occupational Risk Prevention from *Instituto de Formación y Estudios Sociales*. For 15 years, he has developed his professional activity in companies from various sectors. He is currently a professor at *Universidad Rey Juan Carlos* in the Department of Business Economics.

Alba Gómez-Ortega (Madrid, 1987). PhD in Business Economics since 2015 with honors from *Universidad Rey Juan Carlos*. She has an extensive career in the field of auditing and accounting, having spent her career in KPMG Auditores, SL. She has participated in the Economics, Technology, and Mobility Research Project between *Universidad Rey Juan Carlos* and EMT Madrid. She has published several articles and has attended numerous national and international conferences. She is currently a professor at *Universidad Rey Juan Carlos* in the Department of Business Economics.

Government Grants, Subsidies, and Tax Reliefs for Entrepreneurs: An Overview of the Spanish Case

María Calzado Barbero, Eladio Pascual Pedreño, and Laura Pascual Nebreda

Abstract It is indisputable that entrepreneurship is one of the main drivers of innovation, competitiveness, and growth in a country. This statement gains even more importance when we find ourselves in an economic crisis, which increases the need to promote the development of new companies with entrepreneurial projects, which are the ones with the greatest potential to generate employment. Given the numerous problems encountered by many entrepreneurs in starting up their business, this chapter aims to provide them with information that may be useful for the development of their business plan. To this end, the measures established by the Spanish government to facilitate their incorporation into the market are analyzed, in particular, the tax benefits which they can apply for and the financial aid available for the aforementioned entrepreneurs. One of the most important measures is the significant tax incentive in personal income tax in relation to investments aimed at creating new companies. In addition, other tax incentives of interest to entrepreneurs are being studied. All this is completed with a compilation of grants and incentives for entrepreneurship.

Keywords Entrepreneurship · Subsidy · Tax · Tax exemption

M. C. Barbero · E. P. Pedreño
Department of Financial Economics and Accounting, Universidad de Extremadura, Cáceres, Spain
e-mail: mcalzadob@unex.es; eladiopp@unex.es

L. P. Nebreda (✉)
Department of Business Economics, Universidad Rey Juan Carlos, Madrid, Spain
e-mail: laura.pascual@urjc.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_5

1 Introduction

At present, governments are trying to encourage the promotion of entrepreneurial culture as a mechanism to create employment and competitiveness, while seeking to increase the income of a country's citizens and thus improve the welfare of the population (Valencia Agudelo 2012).

Therefore, it is essential for public administrations to promote and facilitate entrepreneurship, especially in economic situations such as the one generated by the socioeconomic crisis caused by COVID-19. In this context, it is considered necessary to establish an environment that promotes an entrepreneurial culture, as well as the creation and development of business projects that generate employment and added value.

These entrepreneurs carry out their activities in a work, tax, regulatory, and financial environment, which can sometimes cause difficulties when adapting to changes. Moreover, this regulatory framework for entrepreneurship is essential to boost productivity gains and optimize resources.

In view of the previous statements and considering the importance of business projects for economic development in a region or country, there is a need to know the aspects that encourage the creation of new projects or strengthen the existing ones in a such a way that they allow for the development of a nation, which is why research to evaluate the various tax incentives and grants for the creation of new business ideas is required.

Following the above, the objective of this chapter is to analyze tax incentives and grants for entrepreneurs in the case of Spain.

- Review of the literature on tax measures and incentives for entrepreneurial activity.
- Compilation of grants and incentives for entrepreneurs for the year 2022 still in force.

To achieve these objectives, a literature review is used as a methodological instrument, which is based on texts found in different platforms such as Wos, Scopus, and analysis of different laws. In addition, an analysis is made of the different incentives and grants compiled by the Ministry of Labor and Social Economy, focusing on the case of Spain.

2 Conceptualization

2.1 Tax Relief by Deduction in the Tax Amount in Newly or Recently Created Companies

Article 68.1 of Law 35/2006, of November 28, on Personal Income Tax (hereinafter LIRPF), as amended by Law 6/2018, of July 3, on General Budgets for 2018, established a deduction in the total state tax liability of 30 percent of the amounts paid during the period for the subscription of stocks or shares in newly or recently created companies.

The high financing needs of new business projects, the difficulties in accessing credit that arose during the last economic crisis, the rapid development of new information and telecommunications technologies that require new sources of financing, and the significant risk of losses and failure to which new business projects are subject should all be considered.

Such business needs have led to the existence of individuals with economic resources, who are willing to provide private financing for these new business initiatives and, in some cases, advisory and consulting services free of charge, based on their experience and expertise. These individuals are known as *Business Angels* or informal investors (Ribes Ribes 2014). However, the proposed tax benefits are based on capital contribution, but not on the contribution of intangible elements such as knowledge or contacts.

Therefore, we are faced with a tax benefit, Casas Agudo (2008), because it deals with those relief measures created by the legislator for extra-fiscal purposes, so that private economic agents find tax incentives for making certain expenditures or investments, or adopting certain behaviors.

Thus, private investors have two tax incentives in their Personal Income Tax linked to the promotion of new business activities from which new technology-based entrepreneurship projects ("start-ups") can benefit:

1st. The first step in the investment process is the contribution of capital subject to business risk, and in order to encourage this economic behavior, the investor is entitled to benefit from a tax deduction for the investment in the equity of a new company (art. 68.1 LIRPF).

2nd. The second step occurs with the transfer of the shares in the equity of the entity benefiting from the investment incentives. The capital gain produced is favored with the exemption of the profits obtained, provided that the amount received from the sale is reinvested in new companies eligible for the investment deduction within a period of one year (art.38.2 LIRPF and 41.3 RIRPF).

2.2 Conditions to Be Fulfilled by the Entity Receiving the Investment

2.2.1 Nature of the Target Entity of the Investment

The regulation requires that the entity receiving the investment must have the legal form of a public limited company or limited liability company in accordance with the provisions of Royal Legislative Decree 1/2010, of July 2, which approves the revised text of the Capital Company Act.

On the other hand, the following entities are specifically excluded from the deduction:

(a) Companies that are listed on an organized secondary market.

(b) Partnerships such as civil partnerships with a commercial purpose, which since January 1, 2016, have the status of Corporate income taxpayers ((art.7.1.a) of Law 27/2014, of November 27, of Corporate Income Tax).
(c) Cooperative companies. This exclusion is open to criticism, since Article 14 of Law 27/1999, of July 16, on Cooperatives regulates the figure of collaborating members who do not participate in the cooperative activity although they participate through capital in the cooperative. Nothing should prevent such partners from benefiting from the deduction.

The entity receiving the investment must maintain one of the legal forms specifically allowed for during the entire duration of the investment. Therefore, alteration of the type of company within the list of eligible types is permitted.

According to Ribes Ribes (2014), it is questionable that the state legislator has not considered any additional advantage in the event that the companies receiving capital have been created or participated by universities or research centers.

2.2.2 Activity of the Recipient Entity of the Investment

The entity must carry out an economic activity, and in addition, it must have the appropriate personal and material means to do so. Therefore, the entity must organize the means of production and human resources for the purpose of engaging in the production or distribution of goods or services. However, the reference to having the personal and material means at its disposal is still an indeterminate legal concept and must be completed with a casuistic criterion.

On the other hand, it cannot carry out the activity of management of movable or real property assets referred to in Article 4.8.2.a of Law 19/1991, of June 6, 1991, on Wealth Tax.

Apart from the cases in which the activity to be carried out is real estate leasing, no minimum number of full-time employees or affiliation to a specific Social Security affiliation Scheme has been established.

2.2.3 Amount of Shareholders' Equity

The entity's shareholders' equity cannot exceed 400,000 euros at the beginning of the tax period in which the taxpayer acquires stocks or shares, either due to its incorporation or due to its subsequent capital increase. There are no limitations as to the amount of equity once the shares have been acquired, nor regarding the amount of turnover that the company can reach while the investment is maintained.

The regulation does not specify whether the amount of shareholders' equity is the amount resulting from the last approved annual accounts (those of the penultimate year), or the amount of the year immediately prior to the year in which the investment is made. We understand that greater legal certainty is obtained by taking the criterion closest in time, as it reflects better the economic situation of the company receiving the investment.

In the event that the entity is part of a group of companies under Article 42 of the Commercial Code, the amount of equity will refer to all the entities belonging to that group. With this rule, the division of activities within commercial groups is avoided.

2.2.4 The Newly Created Entity Must Not Engage in the Same Activity that Was Previously Engaged in Under Another Ownership

The temptation for an entity to set up a new company that takes over the activity from an existing one in order to apply the tax benefit has not gone unnoticed by the legislator.

The prohibition on engaging in the same activity that was previously engaged in under a different ownership requires an analysis of the activity carried out by the new entity and a comparison with the activities previously performed by the investment partners of the new entity. Both activities must be exactly the same for the legal exclusion to take effect, without considering them different because the ownership has changed. However, instead of using the word "same," it should have referred to the substantial equality of the essential features of the project developed.

Secondly, the identity between the previous and subsequent activities will be analyzed. In the case of the second activity, they will always have the status of partners, and the deduction will not be allowed if these persons coincide in both activities. The family group corresponding to each one of the partners would even have to be analyzed, including spouses and relatives within the second degree of kinship directly or collaterally related, by consanguinity or affinity, as provided for in art. 68.1.3.o.b.

In any case, in the absence of absolute criteria to determine whether the new company performs the same activity as the previous one, the doctrine and case law have advocated the use of criteria relating to joint and several liability arising in the case of succession in the exploitation of the economic activity (Sánchez Manzano 2018). Criteria such as the substantial identity of the activities performed, the cessation by one subject and the start by the other without solution of continuity or overlapping in time, the coincidence in the means of exploitation such as workers, fixed assets or premises, or the coincidence in the elements that give rise to goodwill such as the company's customers or suppliers (Sánchez Pedroche et al. 2012).

In addition to the aforementioned, the identity of the partners, of the company administrators, and also of the epigraph provided for in the rates of the Tax on Economic Activities in which the new activity is registered with respect to the previous one must be included.

2.3 *Legal Conditions to Be Fulfilled by the Investment Made by the Individual*

2.3.1 Nature of Investment

The legal rule provides for a mandatory investment and a voluntary investment.

(a) Mandatory Investment

It consists of the amounts paid in cash for the subscription of stocks or shares in the newly created company. Therefore, a contribution of money must be made from the individual's assets, which is included in the assets of the recipient company, in exchange for an increase in the company's equity and a portion of such equity being allocated to the contributor.

The Directorate General of Taxes (Binding Consultation 0506–17, dated February 27, 2017) has resolved that the contribution of money must be made at the time of the issuance of the new stocks or shares, so that a capital increase by compensating net, due, and payable credits that the partners had against the company is not a valid formula to be entitled to the deduction. This interpretation does not conform with the legal text, since by transforming the amounts initially provided as a loan into capital stock, their legal nature becomes amounts paid in exchange for new stocks or shares, which implies an effective withdrawal of money from the partner's assets and its retention in the company's assets. From the point of view of corporate debts, the money contributed goes from being a liability to being part of the shareholders' equity (non-current liabilities), thus increasing the company's solvency and facilitating the implementation of new investments.

For the entity, the contribution of cash must be reflected in an increase in shareholders' equity, although it does not necessarily have to be capital stock, and may, for example, include the amount of the share premium paid.

The contribution of non-monetary assets is not allowed, presumably to prevent the possibilities of fraud that could be generated by the contribution of assets that are difficult to value.

(b) Voluntary investment

This investment, of a voluntary nature, consists of the personal services of providing knowledge and contacts by the *business angel*.

Since this requirement is voluntary, it is sufficient to comply with the legal conditions of the mandatory investment (monetary) to obtain the right to the deduction.

2.3.2 Point in Time During Which the Investment Is to Be Made

The legal norm requires the stocks or shares in the entity to be acquired by the taxpayer, either at the time of incorporation of the entity, or by means of a capital increase carried out within 3 years of its incorporation.

The incorporation of the company is sufficient for the right of deduction to arise, without the need for registering, which must take place within 2 months from the date of incorporation, which is a requirement for the acquisition of the company's legal personality (arts. 32.1 and 33 of the Capital Companies Act).

Once the company has been incorporated, there is a period of three calendar years counted from date to date during which the initial or new shareholders can make new cash contributions.

Considering that there is a quantitative limit on the annual investment and that there is a period of 3 years to do so, individuals can plan their investments to obtain the highest possible profits from this tax benefit.

2.3.3 Investment Duration

From the moment the investor acquires equity interests, the minimum legal term is 3 years and the maximum legal term is 12 years.

The existence of a minimum term of 3 years is logical, as it ensures the non-speculative nature of the investment. However, regarding the maximum period, and following Varona Alabern (2018), it is not clear why a maximum limit of 12 years is imposed on the ownership of stocks or shares, as extending this situation over time does not harm the good development of the economic activity.

On the other hand, it must be taken into account that if the investment is maintained for more than 12 years, a tax benefit that was applied 12 years earlier must be reverted, which means that in the self-assessment of the year in which the maximum period of 12 years of duration of the investment is found to have been exceeded, the total amount of the deductions unduly taken plus the late payment interest accrued since the deductions were unduly applied will be added to the net state tax liability. This is a violation of the principle of relative economic capacity, which requires taxing the real and effective wealth of each taxpayer as close as possible in time to the moment in which it was actually generated.

2.3.4 Volume of Participation in the Capital Stock of the Entity

The legal rule establishes the condition that the direct or indirect participation of the taxpayer, together with that held in the same entity by the taxpayer's spouse or any person related to the taxpayer by kinship, directly or collateraly, by consanguinity or affinity, up to and including the second degree, cannot exceed 40% of the capital stock of the entity or of the voting rights on any day of the calendar years during which the shareholding is held.

The purpose of this condition is to prevent natural persons who hold a large shareholding in the entity, alone or jointly with their closest relatives, from benefiting from the deductibility of the contributions. However, it should be borne in mind that an investor or family investor group can control the management and development of the corporate activity: it is possible that the 40% percentage means that the investor has the status of majority shareholder and has decision-making power in the shareholders' meeting; and in addition, he/she could be a director or belong to the Board of Directors.

2.4 Deduction Base

We can talk about a general rule and two exceptions:

(a) General rule. The maximum deduction base will be 60,000 euros per year and will be formed by the acquisition value of the subscribed stock or shares.
(b) Exceptions. The following amounts will not be included in the maximum deduction base:

   b1. Amounts paid for the subscription of stock or shares in companies when the taxpayer makes a deduction established by the Autonomous Community in which he/she has his/her permanent residence regarding those amounts. This is to prevent the taxpayer from benefiting from a double deduction for making the same investment, granting the legislator the possibility for the investor to opt for one or the other according to his own interest, and he can even divide such amount and allocate one part to the application of the State deduction and the other part to the Autonomous Community deduction. This option will be reflected in the tax return corresponding to the tax period in which the investment was made and cannot be modified once the regulatory tax return period has elapsed (art. 119.3 LGT (General Tax Law)).
   b2. The amount of the securities acquired with the balance of the company savings account to the extent that such a balance had been subject to deduction, in accordance with the 28th Transitional Provision of Law 35/2006, of Personal Income Tax.
   When the taxpayer transfers stocks or shares and opts for applying the exemption provided for reinvestment in newly or recently created companies, only the part of the reinvestment that exceeds the total amount obtained in the transfer of stocks or shares will form part of the deduction base corresponding to the new subscribed stocks or shares. The deduction can never be made for the new stocks or shares if the invested amounts do not exceed the aforementioned amount.

2.5 Certification of Investment Content

The taxpayer will have the obligation to obtain a certification issued by the entity whose stocks or shares have been acquired, indicating compliance with the requirements indicated in art. 68.1.2.o of Law 35/2006, of Personal Income Tax, in the tax period in which the acquisition of these assets took place.

Therefore, the entity receiving the investment has the duty to issue a certificate indicating compliance with the following requirements:

- The entity takes the form of a Public Limited Company, Limited Liability Company, Labor Public Limited Company, or Labor Limited Liability Company.
- The entity is not listed on any official secondary market.
- The entity has the personal and material means necessary for the development of an economic activity, and its activity is not the management of movable or real property assets referred to in Article 4.8.2.a of Law 19/1991, of June 6, on Wealth Tax.
- The amount of the entity's equity does not exceed 400,000 euros at the beginning of the tax period in which the taxpayer acquired the stocks or shares.

Failure to comply with this obligation does not entail an infringement, which has led the legislator to establish in art. 105.2.e) of the LIRPF that by regulation it will be possible to establish obligations to provide information for the entities referred to in article 68.1 LIRPF, whose partners or shareholders have requested the certification provided for therein.

Such information can be found in art. 69.1 of Royal Decree 439/2007, of the RIRPF, which establishes the obligation for entities to submit a declaration to the AEAT (Spanish Agency of Tax Administration) including the following information: details identifying the entity; incorporation date; amount of equity; name, surnames, and tax identification number of the investing individuals; date of acquisition of equity interests; and the shareholding percentage. It will be carried out in the month of January of each year in relation to the subscription of stocks or shares in the immediately preceding year.

2.6 Other Tax Incentives for Entrepreneurs

In view of the main incentive existing in Personal Income Tax, the following is a list of those existing in Corporate Income Tax and VAT.

2.6.1 Corporate Income Tax

Tax Incentives for R&D&I Investment

It is regulated in Article 35.1 of the LIS (Corporate Income Tax Law). The deduction base will be constituted by the amount of the research and development expenses and, if applicable, by the investments in tangible and intangible fixed assets, excluding buildings and land.

Companies will be able to deduct 25% of the expenses incurred in the tax period for this concept. However, in the event that the expenses incurred in research and development activities in the tax period are higher than the average of those incurred in the previous 2 years, the percentage established in the previous paragraph will be applied up to that average, and 42% will be applied to the excess of that average. In addition to the deduction applicable in accordance with the provisions of the preceding paragraphs, an additional deduction of 17% of the amount of the personnel expenses of the entity corresponding to qualified researchers assigned exclusively to research and development activities will be applied.

The deduction percentage will be 8% for investments in tangible and intangible fixed assets, excluding buildings and land, provided they are exclusively assigned to research and development activities. The elements in which the investment is materialized must remain in the taxpayer's assets, except for justified losses, until they fulfill their specific purpose in research and development activities, unless their life expectancy according to the method of depreciation, admitted in letter a) of paragraph 1 of Article 12, which is applied, is lower.

Extension of Tax Incentives for Certain Intangible Assets or Patent Box

It is regulated in art. 23 of the LIS.

It is established that the incentive for the assignment of certain intangible assets (income from the assignment of the right to use or exploit patents, drawings or models, plans, formulas, rights to information relating to industrial, commercial, or scientific experiences) will be applied to the net income derived from the assignment and not on the income.

The reduction in the tax base will be in the percentage resulting from applying 60% on the following coefficient:

- In the numerator, the expenses incurred by the assigning entity directly related to the creation of the asset, including those derived from subcontracting with third parties not related to it. These expenses will be increased by 30 percent, but in no case may the numerator exceed the amount of the denominator.
- In the denominator, the expenses incurred by the assigning entity directly related to the creation of the asset, including those derived from subcontracting both with third parties not related to it and with persons or entities related to it and from the acquisition of the asset.

To apply the reduction provided for in paragraph 1, the following requirements must be fulfilled:

- That the assignee uses the rights of use or exploitation in developing an economic activity and that the results of this use are not materialized in the delivery of goods or provision of services by the assignee, which generate tax-deductible expenses in the assigning entity, provided that, in the latter case, such entity is related to the assignee.
- That the assignee does not reside in a country or territory with no taxation or qualified as a tax haven, unless it is located in a Member State of the European Union and the taxpayer accredits that the operation responds to valid economic reasons and that it performs economic activities.

- When the same assignment contract includes ancillary goods or services, the consideration corresponding to these must be differentiated in the contract.
- That the entity has the necessary accounting records to be able to determine each of the direct income and expenses referred to in this article, corresponding to the assets subject to assignment.

Improvement of the Deduction for Job Creation for Disabled Workers

It is regulated in art. 38 of the LIS. The amount of the deduction will depend on the degree of disability: for persons with a degree of disability equal to or greater than 33% and less than 65%, the deduction will be 9000 euros for each person/year of increase in the average workforce; for persons with a degree of disability equal to or greater than 65%, the deduction will be 12,000 euros.

A safeguard is established to the effect that the workers hired entitled to the aforementioned deduction will not be computed for the purposes of the unrestricted amortization with job creation, regulated in Article 102 of this Law.

Reduced Tax Rate of 15% for Newly Created Companies

Article 29.1 of the LIS maintains the reduced tax rate of 15% introduced by Article 7 of Law 11/2013, of July 26, on measures to support entrepreneurs and stimulate growth and job creation (BOE July 27, 2013). This reduced rate is applied during the first two tax periods in which the newly created entity obtains a positive corporate income tax base.

Subjective Application Requirements

Firstly, the entity must be considered a newly created entity. All those that have been incorporated as from January 1, 2015, will benefit from this characteristic. On the other hand, it is assumed that companies that form part of a group under the terms established in article 42 of the Commercial Code, regardless of residence and the obligation to prepare consolidated annual accounts, will not be newly created companies.

Objective Application Requirements

The objective conditions for the application of this incentive are set out in sections a and b of Article 29.1 of the LIS.

Letter a) establishes that when the economic activity had previously been performed by other persons or related entities within the terms of Article 18 of this Law and transferred, by any legal title, to the newly created entity.

Letter b) establishes that when the economic activity was performed during the year prior to the incorporation of the entity, by a natural person who holds a direct or indirect participation in the capital or equity of the newly created entity of more than 50 percent.

Finally, it should be noted that the aforementioned tax rate will not be applicable to those entities that are considered to be a holding company, in accordance with the terms established in art. 5.2 of the LIS.

2.6.2 VAT

VAT is governed by the accrual principle, as regulated in Articles 75 et seq. of the VAT Law, by mandate of Title VI of Council Directive 2006/112/EC of November 28, 2006, on the common system of value added tax (OJEU December 11, 2006).

However, one of the measures most demanded by the group of self-employed was the approval of a special VAT cash regime criterion. This rule was approved by Law 14/2013, of September 27, on Entrepreneurs, applicable to the self-employed and SMEs, which came into force on January 1, 2014. It is voluntary and allows VAT not to be paid until the invoice is collected. The aim is to improve the liquidity of SMEs and the self-employed. However, the requirements have resulted in the measure being poorly implemented in practice among the self-employed and SMEs. In 2019, the government proposed to review this criterion so that it would be effective for the proposed purpose, but to date no such review has taken place.

The subjective requirements include having a transaction volume of less than two million euros in the previous calendar year in order to be eligible for it, determining this transaction volume in accordance with the provisions of art. 121 LIVA (VAT Law). In the case of having started transactions during the current year, they may opt for this regime without further ado; on the other hand, if the transactions were initiated during the previous calendar year, the ratio must be calculated in order to determine the corresponding volume.

Another subjective requirement is that those subjects whose cash receipts from the same recipient during the calendar year exceed 100,000 euros cannot choose the special regime (Royal Decree 1624/1992, of the RIVA).

Among the **objective requirements**, the following activities are excluded from the regime (art. 163 of the Law on Support for Entrepreneurs):

- Operations under the special regimes for agriculture, livestock, and fishing, equivalence surcharge, and investment gold, applicable to services provided by electronic means and group of entities
- Exports, operations assimilated to exports, supplies of goods in free zones, free warehouses and other warehouses, supplies related to customs and tax regimes and, finally, the supply of goods destined for another Member State
- Intra-community acquisitions of goods
- Those in which the taxable person of the tax is the entrepreneur or professional for whom the transaction is carried out in accordance with numbers 2.o, 3.o, and 4.o of section one of article 84 of the LIVA
- Imports and transactions assimilated to imports

- Self-consumption of goods and services

Finally, the **formal requirements** lead us to emphasize that the deduction may only be made in the tax return settlement relating to the tax settlement period in which the right to deduct the tax paid has arisen or in the subsequent periods, provided that the 4-year period has not elapsed, this being a period of expiration (art. 61 of the RIVA).

In case of waiver or exclusion from the regime, it will be extended for the following 3 years. Likewise, the waiver must be presented by means of communication to the competent body of the Spanish Agency of Tax Administration (AEAT), by means of the corresponding census declaration, and must be formulated in the month of December prior to the beginning of the calendar year in which it is to take effect (art. 61 octies of the RIVA).

The subjects covered by the system must include two concepts in the register book of issued invoices, which are the payment dates of the transaction indicating its amount, as well as an indication of the means of payment used to accredit it. In addition, both parties covered by the RECC (Special Regime of Cash Criteria) and the recipients of their transactions must include the payment dates, indicating the amount and the means of payment used in the record book of invoices received. The mention of "Special Regime of Cash Criteria" in all their invoices will also be mandatory. Finally, taxpayers opting for the RECC will also have to make all the entries relating to the general regime and the special regime referred to previously.

3 Compilation of Grants and Incentives to Entrepreneurs

After reviewing the literature on the incentives and aid that entrepreneurs can obtain, this chapter has considered it appropriate to compile a list of grants and incentives for entrepreneurs published by the Ministry of Industry, Commerce, and Tourism (2022) (Table 1).

4 Conclusions

We must highlight the great importance of entrepreneurial activity as a driving force to overcome the current economic crisis. This should be more than reason enough for the Spanish government to do all it can to facilitate entrepreneurial activity. However, not only in terms of aid and tax exemptions but also in other aspects such as providing clear and detailed information, or facilitating numerous administrative procedures.

One of the obstacles that entrepreneurs have usually encountered is access to adequate financing, as the traditional financial system tends to consider it risky to provide financial support.

Table 1 Compilation of tax benefits and incentives for entrepreneurs

Geographical area	Title	Organization	Beneficiaries
Andalucía-Almería	Call for subsidies to promote self-employment within the scope of the project "Almería_P2: Promotion of self-employment," in the framework of the youth employment operational program of the European Social Fund (EMP-POEJ Grants) https://www.dipalme.org/	Provincial Council of Almería	Entrepreneurs
Andalucía-Almería	Call for subsidies to promote entrepreneurship in the social economy within the scope of the project "Almeria _P3: Promotion of the social economy," in the framework of the youth employment operational program of the European Social Fund (EMPPOEJ Grants) https://www.dipalme.org/	Provincial Council of Almería	Persons setting up a social economy enterprise whose legal form is a cooperative or worker-owned company
Andalucía-Morón de la Frontera	Regulatory bases and call for aid of the Town Council of Morón de la Frontera aimed at the creation of self-employment companies to be established in the municipality of Morón within the framework of Line 7.1 of the Employment and Business Support Program of the Economic and Social Reactivation Plan 2020/2021 (Plan Contigo), financed by the Provincial Council of Seville (COVID-19) https://morondelafrontera.sedelectronica.es/boardhttps://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90286&fichero=	Town Council of Morón de la Frontera	Self-employed individual entrepreneurs
Andalucía-Lebrija	Call for grants and scholarships of the program "improving youth employability in Lebrija" for the year 2022. c) Grants to persons enrolled in the reiterated program, who are registered in the special scheme for self-employed application deadline: Until September 30, 2022, or until budget depletion https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90513&fichero=	Lebrija town council	Individuals who are registered in the RETA (special regime for self-employed workers)
Andalucía-Carcabuey	Regulatory bases of the aid scheme for SMEs, entrepreneurship. and trade of the town Council of Carcabuey, which have been convened for the year 2022. Line 1. Aid to entrepreneurs https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91159&fichero=	Carcabuey town council	Individuals or legal entities that start a business activity in a stable manner in the municipality of Carcabuey

Geographical area	Title	Organization	Beneficiaries
Andalucía-Olivares	Regulatory bases for the granting of aid by the town Council of Olivares, for entrepreneurs creating self-employment companies in the municipality, financed by the employment promotion and business support program of the provincial plan for economic and social revitalization 2020–2021 (plan Contigo) of the provincial Council of Seville (COVID-19) https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91403&fichero=	Olivares town council	Unemployed individuals who are going to engage in a newly created activity as self-employed workers (natural persons) and who are registered in the corresponding social security scheme
Andalucía-Baza	Call for grants for young entrepreneurship 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91792&fichero=	Baza town council	Individuals who set up as self-employed workers, joint estates, or partnerships
Aragón-Caspe	Regulatory bases for the granting of subsidies for the promotion of employment aimed at entrepreneurs, fiscal year 2022, of the town Council of Caspe https://www.caspe.es/	Caspe town council	Individuals or legal entities that have established themselves as self-employed workers from November 1, 2021 to October 31, 2022
Aragón-Huesca	For financial year 2022, grants are called for the implementation of actions related to foreign trade in the autonomous Community of Aragón, carried out by SMEs of Aragon https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91477&fichero=https://www.aragon.es/	Department of Industry, competitiveness and business development	Persons setting up a social economy enterprise, whose legal form is a cooperative or a worker-owned company
Aragón -Aragón	The subsidies regulated in order EPE/35/2021, of January 28, which establishes the regulatory bases for the granting of subsidies of the program for the promotion and consolidation of self-employment are called for the year 2022 https://www.aragon.es/tramite	Regional Ministry of Economy, planning and employment	Unemployed persons, including those who are part of a partnership or joint estate, who establish themselves as self-employed or freelance workers and who have started an economic activity

(continued)

Table 1 (continued)

Geographical area	Title	Organization	Beneficiaries
Canary Islands- Breña Baja	Call for grants for the start-up of business initiatives in the municipality of Breña Baja, year 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91075&fichero=, https://bbaja.sedelectronica.es/info	Town Council of Breña Baja	Newly established individuals, legal entities, partnerships, joint estates, and groups of persons who started their activity on or after November 1 of the year immediately preceding the year in which the aid is to be granted, enterprises (natural or legal persons) setting up for the first time in the municipality
Castilla la Mancha-Santa María de los llanos	Bases and call for applications for aid to promote self-employment https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90734&fichero=https://santamariadelosllanos.sedelectronica.es/info.0	Town Council of Santa María de los llanos	Unemployed persons who set themselves up as self-employed workers by registering in the RETA
Castilla y León-Burgos	Call for grants aimed at promoting the transfer of business in rural areas 2022 https://sodebur.es/	Society for the Development of the province of Burgos (SODEBUR)	Individual (self-employed) and legal entities that are going to continue with an existing economic activity in rural areas
Castilla y León- Valladolid	Call for subsidies for the establishment and functioning of business and trade associations and for the development of promotional and training activities, year 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91310&fichero=	Provincial Council of Valladolid	Associations registered on the date of submission of the application in the register of the regional government of Castilla y León under the section of entrepreneurs or traders
Castilla y León-León	Call for subsidies to support the creation of companies, year 2022 http://www.aytoleon.es/https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91615&fichero=	León City Council	Individual entrepreneurs or newly created companies

Geographical area	Title	Organization	Beneficiaries
Catalonia-Reus	New call, for the year 2021, for the granting of subsidies to businesses and new entrepreneurs, to promote the economic boost and dynamization of the town of Reus,https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=89469&fichero=https://seu.reus.cat/seu/	Reus town council	Owners of an economic activity or business located in the town of Reus
Catalonia-Deltebre	Call for the granting of incentives for economic and occupational revitalization and to improve the image of the town in the municipality of Deltebre for the financial year 2022 https://deltebre.cat/https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90077&fichero=	Deltebre town council	Young entrepreneurs, senior entrepreneurs who start up an economic activity
Catalonia-Camprodon	Call for subsidies for the program "Emprende todo el año en Camprodon" year 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90369&fichero=	Camprodon town council	Persons starting a new economic activity as individual entrepreneurs
Catalonia-Calonge	Call for subsidies for the new implementation of commercial establishments located in the commercial axis of Calonge's center https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90462&fichero=https://www.calongeisantantoni.cat/	Calonge town council	Individuals or legal entities that are owners of a business activity
Catalonia-les Franqueses del Valles	Call for subsidies for the promotion and revitalization of recruitment in companies https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91614&fichero=	Town Council of les Franqueses del Vallès	Individuals or legal entities, of a private nature, that carry out an economic activity in les Franqueses del Vallès, as well as entrepreneurs accompanied by the business creation service of the municipality, performing their activity in les Franqueses del Vallès
Catalonia-Reus	Call for the year 2022 for the granting of subsidies provided by the town Council of Reus to companies and new entrepreneurs, to promote the economic boost and revitalization of the town of Reus. https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91720&fichero=https://seu.reus.cat/seu/	Reus town Coucil	Owners of an economic activity or business located in the town of Reus

(continued)

Table 1 (continued)

Geographical area	Title	Organization	Beneficiaries
Madrid-Madrid	AvalMadrid. Entrepreneurs https://www.avalmadrid.es/emprendedores.phphttps://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=72217&fichero=	Aval Madrid	SMEs and self-employed
Madrid-Madrid	Call 2022 for aid for the creation of technology-based companies UAH https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=89442&fichero=https://www.uah.es/es/investigacion/area-de-investigacion	University of Alcalá	Any entrepreneur
Navarra-Breña Baja	Call for aid for the implementation of business initiatives in the municipality of Breña Baja, year 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91075&fichero=https://bbaja.sedelectronica.es/info	Town Council of Breña Baja	Newly established individuals, legal entities, partnerships, joint venture societies, and groups of persons that initiated their activity as of 1 November of the year immediately prior to the call for applications for aid, companies (natural or legal persons) setting up for the first time in the municipality
Navarra-Navarra	Authorization of the expenditure for 2022 corresponding to the call for subsidies for the implementation of actions to raise awareness and promote the social economy https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90557&fichero=https://www.navarra.es/es/inicio	Employment Service of Navarra	Organizations representing the different types of social economy enterprises, groupings of organizations, and other enterprises
Valencia-Carlet	Regulatory bases for the granting of aid to alleviate the costs generated by the establishment or opening of a new business, year 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91803&fichero=https://www.carlet.es/va	Carlet town council	Carlet

Geographical area	Title	Organization	Beneficiaries
Valencia-Xátiva	Call for subsidies of the Empren Jove 2022 aid sheme, within the framework of the Millennial Plan 2021–2025 for the improvement of youth employment and the creation of new job opportunities in the town https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90536&fichero=https://xativa.sedelectronica.es/info.0	Xàtiva town council	Persons starting new economic activities between September 15, 2021, and September 14, 2022
Valencia-Torrevieja	Approval of the call for the contest Young Entrepreneurs 2022, XIII edition of the Town of Torrevieja https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90651&fichero=	Torrevieja town council	Individuals or legal entities legally constituted, individual entrepreneur, and limited liability entrepreneur
Extremadura-Campanario	Regulatory bases for aid to promote self-employment in Campanario https://campanario.sedelectronica.es/info.0https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90332&fichero=	Campanario town council	Persons who start a business activity as own-account self-employed workers
Extremadura-Villanueva de la Serena	Regulatory bases for the granting of aid for the recovery of vacant commercial premises in the municipality of Villanueva de la Serena during the financial year 2022 https://villanuevadelaserena.transparencialocal.gob.es/es_ES/categoria/econ https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91002&fichero=	Villanueva de la Serena town council	Entrepreneurs who have started a commercial or business activity
Extremadura-Cilleros	Call for subsidies to support entrepreneurship in 2022 https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=89881&fichero=	Cilleros town council	Entrepreneurs
Galicia-Xove	The call for grants under the municipal employment scheme for 2022 in Concello de Xove is approved https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=89468&fichero=	Xove town council	Persons registering with the RETA (Spanish Social Security Administration)
Galicia-Silleda	Regulatory bases and call year 2022 of the municipal aid program for job creation in Silledahttp://www.silleda.gal/https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90305&fichero=	Silleda town council	Individual entrepreneurs, self-employed and small- and medium-sized enterprises

(continued)

Table 1 (continued)

Geographical area	Title	Organization	Beneficiaries
Galicia-Oímbra	Call for 2022, of line 1 of the strategic plan of subsidies of the town Council of Oímbra: “Action against unemployment by means of the aid to self-employment”. https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91348&fichero=	Oímbra town council	Registered persons who are registered in 2018 in the special regime for self-employed workers
Balearic Islands	Approval of the call for 2022 for aid to entrepreneurs and companies with activity in the Balearic Islands to cover the opening and study fees, interest and the cost of the guarantee of ISBA, SGR (Mutual Guarantee Company), for financing operations of productive investments and liquidity, which may be co-financed by the ERDF Operational Program 2021–2027 of the Balearic Islands (Covid-19) https://www.caib.es/sites/atenciociutadania/ca/l/oficineshttps://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90762&fichero=	Regional Ministry of Finance and foreign affairs	Individuals or legal entities, of a private nature, and partnership or or joint assets, economic interest groupings (EIGs), temporary joint ventures (UTEs) that meet the requirements of micro-enterprises or SMEs, entrepreneurs in the process of setting up a business
Basque Country-Irura	Call 2022 for subsidies to entrepreneurs who want to start a new economic activity for the rental of empty commercial premises located in Irura. http://www.irura.eus/. https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=90277&fichero=	Irura town council	Any person, natural or legal, who wishes to start up an economic activity in a business activity in commercial premises located in Irura
Basque Country-Azkoitia	Call for the 2022 rental subsidy for entrepreneurs for the recovery of commercial premises located on urban land in Azkoitia https://wapis.ipyme.org/servicioayudas/ayudas/detalle?id=91345&fichero=	Azkoitia town council	Natural or legal persons interested in starting up a business activity in one of the empty commercial premises in the town center of Azkoitia
Asturias-Castrillón	Call for the XVII Edition of the Castrillón 2022 Entrepreneurial Initiative Awards. Best female business initiative award https://www.ayto-castrillon.es/	Castrillón town council	Enterprises and self-employed of Castrillón

Source: Own Elaboration Based on the Ministry of Industry, Commerce and Tourism (2022)

This has led to the search for an alternative financing model, in which informal investors or business angels have acquired great importance. For this reason, we have developed the tax measure adopted in the Spanish legal-tax system in depth in order to support the aforementioned figure. This is the existing tax incentive in personal income tax in relation to investments aimed at the creation of new companies, the implementation of which is to be welcomed, and we hope that it provides the expected results, the same as the rest of the tax incentives aimed at facilitating entrepreneurial activity.

Finally, with the aim of providing information that may be useful for the entrepreneur, a compilation of grants and incentives for entrepreneurship has been provided. This leads us to emphasize once again the need for entrepreneurs to have comprehensive and clear information on all the aid available for them. Everything that the government invests to promote entrepreneurship will contribute to improving the economy, to generating wealth, and all of this will benefit the country itself.

References

Casas Agudo D (2008) Aproximación a la categoría jurídico-económica del beneficio tributario, Estudios sobre los beneficios fiscales en el sistema tributario español. Editorial Marcial Pons, Madrid, p 39

Sánchez Manzano JD (2018) Notas en torno a determinados requisitos que conforman la estructura de beneficios fiscales provistos de una finalidad económica y social, desde una óptica teleológica. Revista Quincena Fiscal 11:12

Ribes Ribes A (2014) Reflexiones críticas sobre el tratamiento fiscal de los inversores de proximidad o Business Angels. Revista Quincena Fiscal 14:2

Sánchez Pedroche JA, Bas Soria J, Moya Calatayud F (2012) Estudio concordado y sistemático de la Ley General Tributaria y su normativa de desarrollo, Tomo I. Editorial Tirant lo Blanch, Valencia, p 492

Varona Alabern JE (2018) "Los "business angels" en el impuesto sobre la renta de las personas físicas" en La Fiscalidad del Emprendimiento. Editorial Aranzadi, Pamplona, pp 83–84

Ministry of Industry, Commerce and Tourism (2022)

Valencia Agudelo G (2012) Self-employment and entrepreneurship. A working hypothesis to explain one of the strategies adopted by governments to cope with market progress. Semestre económico 15(32):103–128

María Calzado Barbero Professor at the Faculty of Business, Finance, and Tourism, University of Extremadura. Researcher in the Emturin research group. Main lines of research: entrepreneurship, entrepreneurial education, and digitalization of SMEs.

Eladio Pascual Pedreño PhD Professor at the Faculty of Business, Finance and Tourism, University of Extremadura. Researcher in the Research Group for Sustainable Territorial Development-INTERRA. Main lines of research: accounting, taxation, blockchain, and cryptocurrencies.

Laura Pascual Nebreda PhD Professor in Marketing and Market Research, Rey Juan Carlos University. Researcher in the Management and Business Economics Research Group. Collaborator at the Camilo Prado Foundation for Training and Research in Business Economics. Main lines of research: consumer behavior, industrial and services marketing, and business legitimacy.

Business Angels and Venture Capital

Gema Albort-Morant, Carlos Sanchís-Pedregosa, David Perea El Khalifi, and Ana I. Irimia-Diéguez

Abstract Among the many formulas that exist for financing a business project, two of the most widely used by entrepreneurs today are business angels (BA) and venture capital (VC). This chapter sheds light on the interaction between these sources of funding. Both financing options played an essential role for the growth of start-ups even before the financial crisis. In particular, the main goal of this chapter is to provide the reader with an accurate understanding of both sources of financing before making an investment decision. The chapter shows the concept, operations, and growth expectations of BA and VC and a subsequent comparison between the two methods. Overall, this chapter provides a more fine-grained understanding of the role that BA and VC investors can play in the process of creating new ventures. As the main takeaways of this chapter, it is expected that entrepreneurs will learn to successfully find the financing formula that best suits the characteristics and urgencies of their project and that, in this way, their company will develop or continue to grow.

Keywords Business angels · Venture capital · Entrepreneurship

---

G. Albort-Morant (✉) · C. Sanchís-Pedregosa
Departamento de Economía Financiera y Dirección de Operaciones, Universidad de Sevilla, Sevilla, Spain
e-mail: galbort@us.es; csanchis@us.es

D. Perea El Khalifi
Departamento de Economia, Gestão, Engenharia Industrial e Turismo, Universidade de Aveiro, Aveiro, Portugal

Departamento Economía Financiera, Contabilidad y Dirección de Operaciones, Universidad de Huelva, Huelva, Spain
e-mail: david.perea@decd.uhu.es; david.perea@ua.pt

A. I. Irimia-Diéguez
Departamento de Economía Financiera y Dirección de Operaciones, Universidad de Sevilla, Sevilla, Spain
e-mail: anairimia@us.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_6

1 Introduction

Access to finance is one of the main concerns of entrepreneurs since many innovative and growth-oriented companies are unable to access financing and their own resources are not enough to develop the business ideas (Sendra-Pons et al. 2022). Fortunately, access to finance has evolved considerably since the financial crisis of 2008, private equity (PE) being one of the most important pillars of entrepreneurial finance, becoming an important source of funding in recent years (Block et al. 2019). In contrast to stock markets or debtholders, PE investors are active investors who provide their portfolio companies with bundles of value-added activities. The benefits can be direct, such as through coaching activities or network access, and indirect through certification effects to third parties (e.g., customers, skilled workers, alliance partners, and financial intermediaries).

Within PE financing, two of the possible options are those from business angels (BA) and venture capital (VC). BA are wealthy individuals that invest their own money while VC investors invest in entrepreneurial finance. Both options played an essential role for the growth of start-ups even before the financial crisis (Kelly 2007; Mason 2006). This chapter is oriented towards better understanding sources of PE financing and to comprehensively understand their differences from the perspective of entrepreneurs.

Defining the concept of BA should take into account the development of this source of financing since its inception. The European Commission (2016) defines a BA as a private individual who directly invests part of their assets in new and growing private businesses, in which there is no family link and who, after making the investment, generally takes an active participation in business, for example, as a member of the board of directors. This informal investor is often characterized by high net worth and usually a considerable business experience. They can invest individually or as part of a syndicate in which an angel usually takes the leading role. BA usually possess deep knowledge of the sector in which they invest to provide the maximum possible added value to favor the growth of the company. BA contribute not only with capital but also with know-how and personal contacts (smart capital). Yet the volume of investment is notably lower in relation to that from VC. BA are usually focused on companies in which a rapid growth is expected and a quick and high return rate is the ultimate objective of these investors. It is convenient to differentiate BA from those investors with a strong personal relationship with the entrepreneur (so-called FFF (family, friends or fools), since their expectations of obtaining profits are lower due to their unconditional support of the entrepreneur.

With regard to individual characteristics, BA are usually older than investment professionals and more often have entrepreneurial experience (Collewaert and Manigart 2016). Often, previous entrepreneurial activities are one of the sources of BA funds. Some BA are well-known business personalities, such as Jeff Bezos (Domo and Everfi), Paul Graham (Watsi and ClassDojo), and David Lee (DoorDash and Judicata). Yet, most BA used to be anonymous angel investors who usually act in certain specific entrepreneurship ecosystems.

Related to VC, the Regulation on European Venture (EUVeCa) (European Commission 2013) defines VC as a method of financing private capital and providing advice to small companies. The monetary contribution of VC investors comes from funds known as OPM (Other People's Money), that is, from people who entrust their resources to these companies. As previously stated, VC investment is not merely a monetary injection of capital, since VC funds provide companies with valuable experience and knowledge, business contacts, brand value, and strategic advice. If the successful growth of the start-up occurs, the VC entity usually divests with the aim of obtaining a capital gain as a result.

From the offer-side perspective, some of the largest VC companies are Tiger Global Management, New Enterprise Associates, and Sequoia Capital. From the demand-side view, the list of companies with considerable success is long and includes Alphabet Inc. (Google), Amazon, Facebook, and Twitter already consolidated or others of more recent creation such as Bolt. All of them are clear examples of business ideas that were possible after years of VC funding fueling user and revenue growth.

One of the most crucial issues in PE is the lifecycle of the entrepreneur. Although there is no universal model that determines the different stages of PE, there is some consensus about the different steps. The process of developing new ventures is included in the model proposed by Ruhnka and Young (1987) where five sequential stages or phases are identified: (0) Valley of Death, (1) Seed, (2) Start-up, (3) Second stage, (4) Third stage, and (5) Exit stage. This model shows that, when entrepreneurs start to develop their business idea or a company is at a very early stage, only some financial alternatives are possible: FFF, Seed capital, and BA. Specifically, BA help small companies not only through financial support but also by managing and leading the project.

Investing, in the very early stages, involves a comparatively high degree of uncertainty. One way to reduce this uncertainty and to mitigate investment risk is to engage in syndication with multiple other investors. Yet investing in the very early stages can lead to potentially large payoffs since, as reported by Block et al. (2019) in their empirical study, BA achieved a significantly higher share of investments with cash-on-cash multiples larger than factor 10.

Despite the importance of the investment selection, only a few studies have yet assessed how BA investors actually select their investments and conduct investment decisions (Block et al. 2019). Overall, the BA investment criteria are international scalability, the innovative business model, and the experience and background of the entrepreneurial team.

1.1 Phase 0: *Seed Stage*

The funding needed to validate the business idea occurs at the seed stage. At this stage, it is likely that the project still does not have any commercially available product. The entrepreneur must show that her/his project will be viable and successful in the market in order to achieve the objective of this stage, to convince potential investors why her/his business idea deserves the support of VC. Before making any decision, potential investors will investigate the economic viability of the project. Once the financing is approved, the funds are usually used for product development and market research. Regarding the financing of this stage, it is usually modest compared to the financing of later stages.

1.2 Phase 1: *Start-up Stage*

In the start-up stage, projects seek to begin marketing and advertising campaigns to start acquiring customers once the initial market analysis has been completed and business plans established. At this stage, start-ups are expected to already have a sample product available (Minimum Viable Product (MVP), and once tested, there is a need of funding for further product development.

VC funding at this stage could also include investing funds towards acquiring additional management staff, refining the product/service, or conducting additional research, such as having investors come up with a realistic forecast of the investment needed to propel the company into the next stage.

1.3 Phase 2: *Second Stage*

The second stage, also called the early stage, is characterized by the fact that the start-up has already developed and sells its product/service in the market, hoping to reach a wider audience in order to achieve positive profitability. Investors at this stage can really check the viability of the business project based on financial information. PE funds received at this stage are typically used for additional expansion projects. The volume invested by PE at this stage can be significantly higher than in previous stages.

1.4 Phase 3: *Third Stage*

In the third stage, also known as the expansion stage, the start-up must obtain significant volume of income. VC investors will expect entrepreneurs to reduce costs in this phase and analyze how the start-up stands against competitors. The funding is used to scale the business and expand market share by expanding into additional markets and diversifying and differentiating product lines.

1.5 Phase 4: *Output Stage*

The exit stage, also called the Mezzanine stage or pre-IPO (Initial Public Offering), is the last stage of the VC financing process. At this stage, the company is ready to go for an IPO. In this way, investors hope to sell their shares and end their commitment to the start-up, having achieved a significant capital gain. Funds received at this stage are used for various projects, such as merging or acquiring other companies, implementing strategies (e.g., lowering prices) to eliminate competitors, or financing the process towards an IPO.

As is shown in the next sections, Stage 0 is related to BA and the other stages to VC. In the following sections, the differences between BA and VC are pointed out and, finally, a series of conclusions are established.

2 Business Angels

2.1 Introduction to Business Angels: Concept and Process

There is no consensus to determine the process followed by Business Angels (BA) investments. Many authors have designed different approaches to the stages of the BA investment process; however, the most widespread and accepted is the one proposed by Paul et al. (2007). This framework consists of five stages: familiarization, screening, bargaining, managing, and harvesting.

The first stage, familiarization, tries to introduce the BA to the entrepreneurs and their business idea. In the next stage, screening, the pre-investment activities take place where the investors exhaustively analyze the business plan where both hard and soft data about the entrepreneurs' project are considered. The most analyzed sections are marketing and financing aspects. This stage starts with an initial selection during different meetings with the entrepreneur as informal investors attempt to confirm their first impressions and delve deeper into the business opportunity. Once the decision to invest is made, the bargaining stage arrives, where the value of the financial investment is decided and it is determined what the investor will receive according to the different levels of investment made. The form and time in which the investment funds will be made available are also determined at this stage. The result of this process is a formal contract between the entrepreneurs and the BA that establishes the details of the agreement reached. After the investment, the next stage begins, managing, where investors begin to play an active practical role in the businesses in which they invest. This means that the angels must restrict the number of businesses in which they invest, since not only the general level of funds but also the time available are limiting factors. Finally, the harvesting stage is reached when the investors decide to divest themselves of their participation in the company with a commercial sale or with an IPO or a buyback by the management. As for the exit terms, these different options may vary, although in general BA want to hold on to their investment at least as long as necessary to maximize the tax advantages.

2.2 Evolution and Expectations of Business Angels

Determining the evolution and future trend of BA is complicated due to the difficulty in obtaining data on their activity due to the discretion and anonymity that characterizes this type of investor. Even so, in several countries there are BA associations that, in addition to monitoring and advising on this type of investment, provide information on the most significant data. We should bear in mind that BA play an important role in the economy, as in many countries they are the second largest source of external funding for start-ups, after FFF. They are increasingly important as providers of PE and contributors to economic growth and technological advances. In this way, given its importance, there is also a network at a European level, the European Business Angels Network (EBAN), the annual report (EBAN, 2021) of which, ENAB Statistics Compendium 2021 European Early Stage Market Statistics, is an important source of information.

Total early-stage investment in the European market is valued at €13.21 billion. The BA represent the largest part (58%) of the total private investment in the initial stage, reaching an estimated annual investment of 7670 million euros. They are followed in the initial stage, with 4.6 billion euros of financing provided by the VC (35%), while the equity crowdfunding market barely reaches 7% of the total market (940 million euros).

In European countries, there has been a decrease of −4.5% of the investments made in the BA market. It has decreased from €804 million in 2019 to €767 million in 2020. Like the financing rounds in which the BA participated, they decreased by 0.5%, with around 3500 financing rounds of initial investments and of follow-on investments made in European-based start-ups. On the other hand, the BA networks have risen (1%), reaching more than 400 different networks. It turns out that there are approximately 32,200 active BA investors on the European continent who invest mainly through a local investment network or club.

The level of economic investment made by BA is diverse. On average, close to 30% (compared to 27% in 2019) of all the investments made were in rounds equal to or less than 100,000 euros. Approximately 45.25% were in rounds between €0.1–0.5 million (compared to 50% in 2019). The rounds in which the BA invested between 0.5 and one million euros were 13.8% (compared to 13% in 2019), and 11% were already in rounds greater than one million euros (compared to 10% in 2019).

Since more investments under €100,000 were made across Europe in 2020 compared to 2019, both the average amount invested by BA per company decreased from 2019 to 2020 by −2.8% (€214,150) and the average amount invested by BA within each financing round decreased slightly by −0.64% from 2019 to 2020 (€23,900). The European Business Angel networks (BANs) also invested slightly lower amounts on average during 2020, a total of €1,880,000, where Denmark, with only one operating BA, continues to lead, followed by Finland and Belgium. Although there is no evidence, it is possible that the effects of COVID-19 could be a reason for this change of trend of BA and VC investment during 2020.

Regarding the sectors that receive the largest amount of total euros in investment, they have varied. The Fintech sector (18%) is positioned as the sector that has received the most investment in 2020, surpassing the main sector of 2019, Enterprise Software (13%). In addition, the Fintech sector is also positioned as the leading sector in terms of total rounds of investments made. The health (10%), media (9%), and marketing (5%) sectors had strong growth in the total amount of investments made during 2020.

Additionally, an archetype of the informal investor by Morales-Alonso et al. (2020) shows that BA tend to be men in their 40 s, with university studies in business administration or economics, who are characterized by making only one investment, especially in the ICT sector, and who start this investment when they have already had their own business adventure and have professional experience for more than 15 years. Other data to highlight is that the participation of women seems to continue to be low and when the BA is a younger investor, they tend to select new ventures to join the financial market as financiers.

3 Venture Capital

3.1 Introduction to Venture Capital: Concept and Process

VC, as we consider it nowadays, is a relatively recent "phenomenon" which emerged in the USA following the end of the Second World War. After initial uncertainty, the VC industry rapidly evolved toward a consolidated organizational model (Grilli et al. 2018). VC investments are usually structured through funds with a finite life of around 8 to 10 years. In the first year, VC usually commit a certain amount of money to the fund that will be required at a later stage as investments are performed.

Despite globalization and diffusion of technologies that allow access to remote markets, VC can still very much be considered a local and geographically bounded market (Bruton et al. 2005).

The VC industry has shrunk and moved toward later-stage investment, as VCs have lost a substantial portion of their business – particularly early-stage financing – to newly emerging financing platforms such as angel groups, business accelerators, micro-VC funds, and online platforms (Shane and Nicolaou 2017). According to Bonini and Capizzi (2019), Harrison and Mason (2019), and Shane and Nicolaou (2017), the reasons for this market institutional change are (1) traditional VCs handle too much money in too few investments, as transaction costs are very high and the labor involved in deal finalization is intense; (2) the newly emerging platforms and software-based companies are much better suited to making investments in many early-stage companies with smaller investments; (3) BA investors are less concentrated geographically and BA investments are generally smaller; and (4) there have been both advances in digital practices, such as cheaper software, and a significant growth in online networking platforms.

3.2 Evolution and Expectations of Venture Capital Investments

In the current context of global uncertainty, after it would seem that pre-COVID-19 pandemic normality was recovering, we find ourselves in a situation of instability caused by the Russian invasion of Ukraine and the increase of inflation rates across Europe.

Despite these events hitting Europe and sapping investor sentiment, VC investment in Europe has been incredibly strong in the first quarter of 2022, achieving the second-highest registered count of VC invested in a single quarter, in contrast with the evolution in the USA and Asia where this source of financing has decreased. All these data and those that are presented below to glimpse the evolution and expectations of VC are collected in two reports: KPMG's Venture Pulse Q1 2022 Report (KPMG, 2022) and PitchBook's Q1 2022 European Venture Repor (PitchBook, 2022).

Currently, the VC investment trends that dominate in Europe and that will probably continue in the future are as follows:

1. *European VC deals on a similar pace to 2021*: during 2021, there was a considerable increase reaching 105,800 million euros in 11,066 deals, the year 2021 being when more injection was produced through this source of financing. Similar figures are expected to be reached in 2022, although more capital is being raised through less VC funding.
2. *The main sector receiving VC funds is software*: Software companies receive large investments, since software is present throughout the information technology ecosystem and, therefore, in our daily lives and businesses. The biotechnology sector is expected to reach significant investments in the near future.
3. *Late-stage capital dominates Europe VC*: 71% of the total amount invested is in the late-stage; this demonstrates the confidence that European investors have with the maturity processes.
4. *United Kingdom and Ireland are the leading countries*: The UK and Ireland represented 30.55% of the total CV invested in Europe. The UK hit a new VC investment high on Checkout.com's massive rounds ($1bn). Germany (DACH) continues with a solid situation, and France is positioned as the country with the largest rounds of financing, while the countries of southern Europe hardly exceed 5% of the total capital invested in the first quarter and those of Central and Eastern Europe (CEE) represented less than 5%. CEE countries are presented with a complicated scenario with the injection of VC due to the ongoing political turmoil with Russia.

5. *Technology applied to the environment and finance are the hottest areas of VC investment*: ESG and climate tech are well positioned for growth in VC investment. Fintech and e-commerce dominate the top 10 funding rounds in Europe.

When investing, VC must take into account the profile of the entrepreneur to facilitate the choice of funds to which proposals are submitted by various entrepreneurs. To form the profile of entrepreneurs that VC can invest in, Santillán Salgado et al. (2015) indicate that honesty, knowledge of the sector, physical and mental health, and teamwork are significant characteristics worthy of attention when investing. Other characteristics such as the independence of the entrepreneur, her/his resume, and the compatibility with the fund are also very important, but with less specific weight compared to the first four characteristics.

4 Differences Between Business Angels and Venture Capital: Who Is Who?

Once the concepts of VC and BA have been explained, it is necessary to compare the two types of financing to further know what type of financing the entrepreneur may be interested in based on these various characteristics. Both forms of financing present similar aspects although they have significant differences that separate them. In addition, advantages and disadvantages for entrepreneurs are also stated.

As previously stated, a BA is a person (or group of people) who contribute their own financial amount in new entrepreneurial projects, and VC financing is managed by an organization that transacts the money of limited partners. The main function of this organization is to invest in various projects of existing entities that are at the expansion stage.

Normally, BA invest in projects in which they have experience. They seek to finance nearby companies and sectors with low volatility while VC tend to invest without giving so much importance to geographical location and choosing sectors with great growth potential, with large foreign markets and innovation, such as technology, communication, and biotechnology sectors. Nonetheless, VC organizations tend to invest in conservative projects and remain attached to the chosen project for a long horizon of time, for instance, until the company achieves the desired sale or IPO (Dutta and Folta 2016).

Before investing in a new project, the BA assess the business plan and analyze the rates of return on investment (ROI). The agreements are smaller and more informal than in VC since the BA are based on their intuition when choosing a project (Bessière et al. 2020). However, the requirements are strict and demanding in compliance with the plans presented. BA take an extremely high risk due to the insecurity and instability of the initial stage of the enterprise. In return, they expect to receive a high profit when the company starts billing (Capizzi et al. 2022).

In the relationship between entrepreneur and investor, the BA brings advice, business experience, knowledge in the sector, trust, and a network of business and personal contacts. VC organizations offer advice as well as a network of business and personal contacts to entrepreneurs. They also stimulate the prestige and credibility of the new projects.

The BA and VC companies will be connected with the enterprise for a long period of time and sometimes demand control of the business by the founder. The process to obtain financing VC is complex because it requires more of a legal and accounting background and requires auditing of the company in which to make the investment. In addition, sometimes VC also requires membership of the Board of Directors, the right to vote and involvement in decision-making, to control the evolution of the company. The risk, return, and profitability of the project should be high in exchange for VC participation.

Finally, BA may not have an exit strategy for withdrawal of investment since they are based on intuitions, enthusiasm for the project, and previous experiences. Regarding the investment output of VC, it is important to have a clear exit strategy to be able to withdraw the money and report the profits to the VC shareholders.

In conclusion, BA is a financing option in the first round and VC in the second round, where the amount of resources to be raised is higher. Depending on the stage the business has reached, the entrepreneur must choose between these two options. Entrepreneurs willing to accept financing from BA will be open to attracting other types of external financing, such as VC (Elitzur and Gavious 2003). However, Bonini and Capizzi (2019) pointed out that companies that receive capital from BA in the initial stage and surviving companies usually access financing from VC in the later stages. Hence, other studies have revealed a negative relationship between BA and VC; these types of financing can act as dynamic substitutes (Cumming and Zhang 2019; Hellmann et al. 2019). Consequently, the entrepreneur should address the requirements, demands, and problems arising from the chosen external financing. Table 1 presents a summary of all the characteristics of BA and VC.

5 Conclusions

Entrepreneurs cannot focus only on developing a revolutionary idea that brings value and develops a realistic and quality business project. Attracting the capital needed for the start-up to work is a complicated task and requires a lot of effort. Before starting to search for financing, entrepreneurs must perform a preliminary analysis to determine the optimal amount of money and the type of financing according to their needs. It is also very important to know the types of financing and investors, since not all investors are equal and do not expect the same from entrepreneurs.

This chapter helps entrepreneurs to learn about two types of financing widely used by current entrepreneurs: VC and BA. However, it is important for the entrepreneur to be advised in advance of the most recognized BA or VC companies in her/his country and, specifically, who are the most influential investors in their

Table 1 Comparison between VC and BA financing

Investor type	Business angels	Venture capital
Form	A private investor or group of investors	An organization
Investment source	Own capital	Other People's money (OPM)
Way of investing	Equity in projects, in which they have experience	External means of financing in various projects
Investment stage	Early stage	Mostly later stage
Investment horizon	Long term	Long term
Process/method to get funding	Minor	Higher. More complex
Involvement of investors	They may have another occupation (entrepreneur, businessman, etc.)	Main function
What does it offer?	Advice, business experience, knowledge in the sector, trust and a network of business and personal contacts	Advice, network of business and personal contacts, prestige and credibility
Control over the business	Demand control of the business by the founder	Demand control of the business
Management team	Complete with good learning of a sector	Not know the sector
Agreements	Less formalized than professional investors	Complex contracts
Investment return	Lower required return than financing entities	High return on investment. High profit
Investment risk	Extremely high due to initial stage uncertainty	High level of risk
Approach to risk	Acceptance of higher level of risk than venture funds	Conservative
Requirements	Strict and demanding in compliance with the plans presented	It does not require endorsement from entrepreneurs
Derived problems	Financing can be insufficient. Investor brings more problems than solutions to the company	Combination of entrepreneurs who inflate their income statements and investors who are looking for bargains
Investment scope/ location	Companies that are relatively close and usually invest in companies from their own country	They tend to invest without giving so much importance to geographical location and tend to invest globally
Sectors of the company	All sectors. Especially the less volatile sectors of the economy	Sectors with great growth potential, with large foreign markets and technology
Investment output/exit strategy	Often in unplanned way. Less important	planned. Very important

Source: Own elaboration based on previous articles, such as Avdeitchikova et al. (2008), Brzozowska (2008) and Clerq et al. (2006)

sector of activity. The psychological profile of investors tends to lead them to invest in projects in the same sector of activity.

Another point to be taken into consideration by the entrepreneur is the need to reach out to VC and BA investors. To avoid unnecessary expenses, entrepreneurs must avoid intermediaries. It is best to contact the investor directly. Obtaining financing from BA and VC is not easy, and there is no type of guarantee to access the capital of these investors. To this end, entrepreneurs will have to do a lot of networking at different events attended by these types of investors, such as forums for the transfer of knowledge from the company to society, events on entrepreneurship, programs and calls related to start-ups and entrepreneurship, assistance to business incubators, and coworking spaces or meetings with experts in the sector, among others, which will increase the chances of these investors to decide to bet on the project. Social networks and the digital and print press will also facilitate the connection between investor and entrepreneur, since the interest generated will put the two parties in contact with each other.

Therefore, entrepreneurs need to know the concept, characteristics, and growth expectations of VC and BA investors to successfully find the financing necessary for their start-up to be developed or continue to grow.

References

Avdeitchikova S, Landström H, Månsson N (2008) What do we mean when we talk about business angels? Some reflections on definitions and sampling. Ventur Cap 10(4):371–394. https://doi.org/10.1080/13691060802351214

Bessière V, Stéphany E, Wirtz P (2020) Crowdfunding, business angels, and venture capital: an exploratory study of the concept of the funding trajectory. Ventur Cap 22(2):135–160. https://doi.org/10.1080/13691066.2019.1599188

Block J, Fisch C, Vismara S, Andres R (2019) Private equity investment criteria: an experimental conjoint analysis of venture capital, business angels, and family offices. J Corp Finan 58:329–352. https://doi.org/10.1016/j.jcorpfin.2019.05.009

Bonini S, Capizzi V (2019) The role of venture capital in the emerging entrepreneurial finance ecosystem: future threats and opportunities. Venture Capital: An International Journal of Entrepreneurial Finance 21:137–175. https://doi.org/10.1080/13691066.2019.1608697

Bruton GD, Fried VH, Manigart S (2005) Institutional influences on the worldwide expansion of venture capital. Entrep Theory Pract 29(6):737–760. https://doi.org/10.1111/j.1540-6520.2005.00106.x

Brzozowska K (2008) Business angels in Poland in comparison to informal venture capital market in European Union. Eng Econ 2(57):7–14

Capizzi V, Croce A, Tenca F (2022) Do business angels' investments make it easier to raise follow-on venture capital financing? An analysis of the relevance of business angels' investment practices. Br J Manag 33(1):306–326. https://doi.org/10.1111/1467-8551.12526

Collewaert V, Manigart S (2016) Valuation of angel-backed companies: the role of investor human capital. J Small Bus Manag 54(1):356–372. https://doi.org/10.1111/jsbm.12150

Cumming D, Zhang M (2019) Angel investors around the world. J Int Bus Stud 50(5):692–719

Clerq D, Fried VH, Lehtonen O, Sapienza HJ (2006) An Entrepreneur's guide to the venture capital galaxy. Acad Manag Perspect 20(3):90–112. http://wsbe.wnh.edu.publ

Dutta S, Folta TB (2016) A comparison of the effect of angels and venture capitalists on innovation and value creation. J Bus Ventur 31(1):39–54. https://doi.org/10.1016/j.jbusvent.2015.08.003
Elitzur R, Gavious A (2003) Contracting, signaling, and moral hazard: a model of entrepreneurs, "angels", and venture capitalists. J Bus Ventur 18:709–725. https://doi.org/10.1016/S0883-9026(03)00027-2
European Business Angels Network (2021) EBAN Statistics Compendium European Early Stage Market Statistics:2021
European Commission (2016) Fostering business angel activities in support of SME growth
European Commission (2013) Regulation (EU) no 345/2013 of the European Parliament and of the council of 17 April 2013 on European venture capital funds text with EEA relevance
Grilli L, Mrkajic B, Latifi G (2018) Venture capital in Europe: social capital, formal institutions and mediation effects. Small Bus Econ 51:393–410. https://doi.org/10.1007/s11187-018-0007-7
Harrison RT, Mason CM (2019) Venture capital 20 years on: reflections on the evolution of a field. Venture Capital 21:1. https://doi.org/10.1080/13691066.2019.1562627
Hellmann TF, Schure P, Vo D (2019) Angels and venture capitalists: substitutes or complements?, Saïd Business School Working Paper WP 2015–2. 10.1016/j.jfineco.2021.04.001
Kelly P (2007) Business angel research: the road traveled and the journey ahead. In: Handbook Of Research On Venture Capital, pp 315–331. https://doi.org/10.4337/9781847208781.00021
KPMG (2022) Venture Pulse Q1 2022. Aavailable at: https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/04/venture-pulse.pdf
Mason CM (2006) Informal sources of venture finance. The lifecycle of entrepreneurial ventures. pp. 259–299. https://doi.org/10.1007/978-0-387-32313-8_10
Morales-Alonso G, Vila GA, Lemus-Aguilar I, Hidalgo A (2020) Data retrieval from online social media networks for defining business angels' profile. J Enterprising Commun 14:57–75. https://doi.org/10.1108/JEC-10-2019-0095/FULL/PDF
Paul S, Whittam G, Wyper J (2007) Towards a model of the business angel investment process. Ventur Cap 9(2):107–125. https://doi.org/10.1080/13691060601185425
PitchBook (2022) Q1 2022 European Venture Report. Available at: https://pitchbook.com/news/reports/q1-2022-european-venture-report
Ruhnka JC, Young JE (1987) A venture capital model of the development process for new ventures. J Bus Ventur 2(2):167–184. https://doi.org/10.1016/0883-9026(87)90006-1
Santillán Salgado RJ, Domínguez EG, Perales NAH (2015) El perfil del emprendedor que apoyan los fondos de capital privado/capital emprendedor en México. Contaduría y Administración 60:149–174. https://doi.org/10.1016/J.CYA.2015.08.011
Sendra-Pons P, Comeig I, Mas-Tur A (2022) Institutional factors affecting entrepreneurship: a QCA analysis. Eur Res Manag Bus Econ 28(3):100187
Shane S, Nicolaou N (2017) Exploring the changing institutions of early-stage finance. J Inst Econ 14(6):1121–1137. https://doi.org/10.1017/S1744137417000467

Gema Albort-Morant holds a PhD degree with international mention in Strategic Management and International Business from University of Seville (Spain). Currently, she is an Assistant Professor of Finance at the Department of Financial Economics and Operations Management at University of Seville. Her research is focused on Innovation, Sustainability, Finance, Entrepreneurship, and Fintech. She has published previous works within edited books, academic conference proceedings, and refereed scientific journals, including Journal of Business Research, Journal of Knowledge Management, or Technological Forecasting and Social Change among others.

Carlos Sanchís-Pedregosa carried out a PhD degree with international mention in Economic Sciences and Management from University of Seville (Spain). Currently, he is an Associate Professor of Finance at the Department of Financial Economics and Operations Management at University of Seville. He has published articles in international journals such as Operations

Management Research, International Journal of Logistics Management, Economic Research, Global Business Review, or the Journal of International Studies.

David Perea El Khalifi holds a PhD degree with international mention in Open Source Intelligence (OSINT) to corporative disclosure of public administration from the University of Huelva (Spain). Now, he is a researcher at the Research Center in Accounting and Taxation of the University of Aveiro (Portugal) and at the research group in New Technologies and Accounting at the University of Huelva (Spain). His main research interests are in the field of Data Analysis, Big Data, Finance, and Engagement. Some of his research papers have been published in journals such as Government Information Quarterly or Journal of Tourism and Services among others.

Ana I. Irimia-Diéguez received a Ph.D. in Business Administration from University of Seville (Spain). She is an Associate Professor of Finance at the Department of Financial Economics and Operations Management at the University of Seville (Spain). Her research and teaching focus on Corporate Finance, Value Creation, Risk, Project Finance, Microfinance, and Fintech. She has participated in several funded project and has been author or co-author of various books. Some of her research papers have been published in Journal of Business Research, Review of Managerial Science, and many others.

Access to Capital Markets for Entrepreneurs

Leticia Castaño, José E. Farinós, and Ana M. Ibáñez

Abstract One of the hardest problems faced by entrepreneurs is how to finance and give visibility to their company in order for it to grow. Small- and medium-sized enterprises (SMEs) are highly dependent on self-financing and bank financing. Therefore, they require a favorable environment to be able to meet their financing needs, including access to capital markets. Certain alternatives have been launched in Europe in this regard. In Spain, BME Growth is a market aimed at small-cap companies seeking to expand, with tailor-made regulations designed specifically for them and costs and processes adapted to their characteristics. In addition to access to financing, other advantages of being a public company are increased visibility, continuous valuation, and liquidity of the company's shares. As a prior step for those companies still not ready to join BME Growth but planning to do so in the next 2–3 years, the Pre-Market Environment (known in Spanish as *Entorno Pre Mercado* (EpM)) accompanies them along the way and helps them become familiar with the operation of financial markets and to gain access to an ecosystem of investors, experts, entrepreneurs, advisors, and financial market professionals. In this chapter, after contextualizing the securities markets for SMEs in Europe, BME Growth for the Spanish case is analyzed in detail: its creation, main characteristics and advantages, requirements for incorporation and permanence, costs, characteristics of listed companies, and success stories of the market. Next, the EpM is defined and analyzed as a step prior to going public in BME Growth. The chapter concludes with the details of a success story, *Soluciones Cuatroochenta*, a company that first joined the EpM and then moved to BME Growth.

L. Castaño (✉)
Bolsas y Mercados Españoles (BME)-SIX Group, Valencia, Spain

Department of Corporate Finance, Universitat de València, Valencia, Spain
e-mail: leticia.castano@six-group.com

J. E. Farinós · A. M. Ibáñez
Department of Corporate Finance, Universitat de València, Valencia, Spain
e-mail: jose.e.farinos@uv.es; ana.m.ibanez@uv.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_7

Keywords SME · Going public · BME Growth · Stock market · Spain · Pre-Market Environment

1 Introduction

Throughout this book, the different financing options available to entrepreneurs, either through equity or debt, have been analyzed. Once the entrepreneur has gone through the stages from raising their very first money by any of the four Fs (Founder, Family, Friends and/or Fools) until reaching the phase of maturity, the stock market becomes the ideal tool to grow, diversify entrepreneur risk, and offer an exit to those investors in early stages whose objective is not that of permanence in the company. Thus, equity crowdfunding, business angel, venture capital (VC), or private equity (PE) can also act as a "bridge" toward listing on stock markets. The majority of these growing companies that reach this point of maturity are known as small- and medium-size enterprises (hereinafter SMEs).

This chapter's objective is to discuss how SMEs go public. Stock markets offer growing companies many advantages, such as raising equity to finance growth, increased visibility, constant valuation, and liquidity for their shares. Greater visibility attracts a larger number of investors and, hence, a more efficient way to obtain financing; likewise, a greater number of investors help to increase share liquidity, which in turn helps the company to obtain its target valuation in the market. Nevertheless, going public involves costs, both monetary and in terms of the dissemination of information.

This chapter puts into context the markets for small- and medium-sized enterprises in Europe and then focuses on the Spanish case: BME Growth. It additionally analyzes what requirements a company must meet to join and remain on BME Growth, what advantages it brings, and what costs it must assume. Some characteristics of the listed companies and success stories are also explained. Finally, a step prior to going public on BME Growth is analyzed. This is called the "Pre-Market Environment" ("*Entorno Pre Mercado*" or "EpM" in Spanish terminology), an exclusive training and networking program for SMEs in expansion to learn about the operation of capital markets and to access private and institutional investors. Its characteristics, the requirements for incorporation, maintenance and costs involved, and the main figures of this environment and some success stories are detailed. A practical example is given of the first company that joined the EpM, which after 3 years of "learning" made the leap to BME Growth and since then had grown exponentially. The chapter ends with a few conclusions that highlight the importance of the stock markets for SMEs.

2 Stock Markets for SMEs: An European Union Objective

SMEs are of huge importance in the European economy as they are the main drivers of economic growth and employment generation in this region. SMEs make up 99% of companies in the European Union, create two out of three private sector jobs, and contribute to over half of the total added value generated by companies in the Union (Gouardères 2021). However, one of the major obstacles they face is the difficulty in finding financial resources as larger companies can in terms of cost and volume. This causes them to be highly dependent on self-financing and bank financing in the short and medium term. One of the alternatives to this dependence is the possibility of equity financing in the stock markets. Nevertheless, some of the main challenges that SMEs encounter in accessing capital markets are (1) the asymmetry of information with respect to large companies, (2) the initial and subsequent incorporation costs, and (3) the regulatory requirements that hinder SMEs accessing the European stock markets.

The European Union, aware of the need to make it easier for small companies to grow by taking advantage of the benefits of being listed, has been putting several initiatives in place during recent decades to promote specific markets for SMEs. Posner (2004), for example, lists 47 SME markets that emerged between 1977 and 2003, some of which never materialized. The markets that have been most successful so far have been the so-called Alternative Markets, according to the classification proposed by Vismara et al. (2012), as opposed to previous "Second Markets" and "New Markets." In contrast to former regulated markets, the most relevant initiative of the Capital Markets Union was the creation of a new category of Multilateral Trading Facility (MTF) called "SME Growth Market" contained in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments,[1] better known as MIFID II (European Parliament 2014).[2,3] The creation of the SME Growth Market under MIFID II aims to facilitate the further development of specialized markets designed to meet the needs of SME issuers and to homogenize quality and transparency standards among growth markets in Europe. Contrary to previous attempts, this latter initiative seems to have been more successful since, by the end of 2022, 18 MTFs in Europe had

[1] A key objective of the Capital Markets Union is, among others, to facilitate access to diversified sources of finance for smaller companies in the EU. This makes it cheaper and simpler for them to access public markets and ultimately reduces reliance on bank financing, enabling a broader investor base and easier access to equity and debt financing (European Securities and Market Authority 2021).

[2] See explanation of Multilateral Trading Facility in Sect. 3.1 below.

[3] Article 33(3) of MiFID II sets out the conditions that an MTF must meet when applying to its National Competent Authority for registration. They include a 50% threshold on the minimum number of SME issuers traded on the SME Growth Market, appropriate criteria for initial and continued admission to trading, information to be published by issuers, dissemination of information to the public and compliance with systems and controls under the Market Abuse Regulation (Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse).

obtained this rating (European Securities and Market Authority 2023). As a result of these attempts, the number of listed SME companies and the market capitalization of listed SMEs have experienced a remarkable growth, rising from 1.000 companies and 30 million euros in 2014 to nearly 1.500 companies and 110 million euros in 2022, having peaked at 140 million euros in 2021 (Federation of European Securities Exchanges 2023).

Although specific provisions have been included in various European Commission rules that create regulatory relief and incentives tailored for SME issuers trading on the SME Growth Market, both the European Commission and the industry in general continue to work to identify areas for improvement to boost SME access to the markets (European Securities and Market Authority 2021; Technical Expert Stakeholder Group on SMEs 2021), since European capital markets have lagged, and continue to lag, behind other developed economies in terms of the number of Initial Public Offerings (IPO).

Thus, some of the ideas proposed by the Technical Expert Stakeholder Group (TESG) on SMEs to facilitate and encourage the admission process for SMEs in the SME Growth Market is the establishment of a pre-listing sandbox or pre-listing environment. The pre-listing sandbox could provide an interesting support for the pre-admission phase of an SME in terms of individual and personalized advice on the applicable legal requirements during this process. This pre-listing sandbox could be offered through national programs organized by the competent national authorities and the stock exchanges themselves. In this regard, although such a proposal has been incorporated in the report issued by the TESG in 2021 (Technical Expert Stakeholder Group on SMEs 2021), there are already several sandboxes or pre-listing environments in Europe that try to fulfill the abovementioned task. Section 4 presents the Spanish experience called *Entorno Pre-Mercado*.

3 The Stock Market for SMEs in Spain: BME Growth

In Spain, as in Europe, SMEs are one of the main drivers of the economy: over 99% of Spanish companies are SMEs, employing 80% of the country's workforce and accounting for 65% of Spanish GDP (BME Growth 2022b). However, they are also highly dependent on bank credit, even more than in the other EU countries.[4] Thus, following the European trend regarding the creation of alternative markets that facilitate access to the securities markets for SMEs, the Alternative Stock Market for growth companies (known in Spanish as *Mercado Alternativo Bursátil – Empresas en Expansión* (MAB-EE)) was created in Spain in 2008, a market aimed at small-cap companies seeking to expand, with a special set of regulations designed specifically for them and with costs and processes adapted to their characteristics. In October 2020, this market changed its name to BME Growth, at the same time as

[4] A comparative of the relative weight of market financing vs. bank credit of Spain and other countries in the period 1990–2018 can be found in Cambón and Canadell (2018).

it was recognized by the *Comisión Nacional del Mercado de Valores* (CNMV), the Spanish Security Exchange Commission, of the European category of SME Growth Market (known in Spanish as *Mercado de Pymes en Expansión*), thus reinforcing its relevance at a global level.

3.1 What Is BME Growth?

BME Growth is a Spanish stock market for SMEs that allows small- and medium-sized growing companies to access the capital markets and, therefore, have access to capital to finance, develop, and expand their business models. It also provides visibility and credibility to companies and offers liquidity, professionalization, and valuation. It is a market aimed at companies from any sector of activity, although there is currently a greater presence of companies from the technology, biotech and health, engineering, telecommunications, and renewable energy industries. The representation of the real estate sector (known in Spanish as SOCIMI) is also highly relevant.[5] Although the origin is predominantly local, it is open to all companies regardless of their country of origin.

In its legal form, BME Growth is a Multilateral Trading Facility (MTF), and it is the segment for small- and medium-sized companies of the BME MTF Equity market. It belongs to *Bolsas y Mercados Españoles, Sistemas de Negociación S.A.* (BMESN), a company of *Bolsas y Mercados Españoles* (BME)-SIX Group, the operator of all the securities markets and financial systems in Spain. BME Growth is subject to the CNMV's supervision.

BME Growth, as an MTF, is a self-regulated market with its own regulations, circulars, and operating instructions. All these regulations can be consulted on the BME Growth website (https://www.bmegrowth.es/ing/BME-Growth/Normativa.aspx? Accessed 13 November 2022). Unlike markets classified as regulated, BME Growth has a more flexible regulation in terms of admission to trading, maintenance and transparency requirements, since neither the rules applicable to regulated markets nor the regulations applicable to listed companies as defined in the Securities Market Law are of application (*Reino de España* 2023). As an MTF, it is obliged to have a public operating regulation which must be governed by transparent, objective, and non-discriminatory criteria and must be authorized and registered in the corresponding CNMV registry. Likewise, the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Iberclear)* is the entity in charge of the accounting registration of the securities admitted to trading on BME Growth, as well as the settlement of the transactions conducted on the market. Since 2020, it has had the European status of SME Growth Market. The main characteristics of BME Growth are summarized in Box 1.

[5] SOCIMI stands for *Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario*, is the Spanish equivalent to the international figure of Real Estate Investment Trust (REIT), that is, a collective investment vehicles whose purpose is the direct or indirect holding of real estate assets for rental purposes.

Box 1 Main Characteristics of BME Growth

"SME Growth Market" seal granted by the CNMV: highest standard of quality, transparency and investor protection at a European level
For growth companies with an innovative, disruptive and technological profile
A tailored regulation and requirements ensuring transparency and protection for the investor
It provides financing, liquidity and visibility
It promotes the inorganic growth of its companies
Promoted by BME-SIX and supervised by the CNMV
For specialized institutional and retail investors
Agile and flexible incorporation process
Much lower costs than those of other *SME Growth Markets*

Source: Own elaboration based on Bolsas y Mercados Españoles (2023)

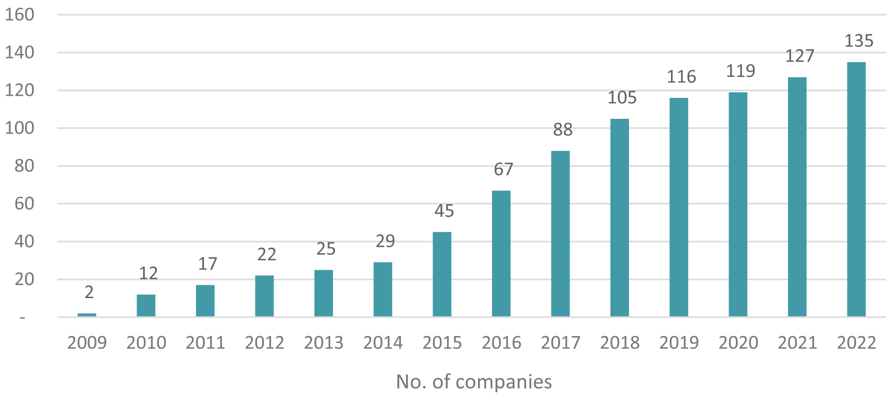

Fig. 1 Evolution of the number of companies in BME Growth in the period 2009–2022. *Source:* Own elaboration based on Bolsas y Mercados Españoles (2023)

Figure 1 shows the expansion of this market in the number of companies incorporated since the market was created.

3.2 *Why List on BME Growth?*

As stated above, the stock market can be an ideal platform for the growth of companies. Access to financing, increased visibility, continuous valuation, and liquidity of the company's shares are the main advantages that BME Growth offers to growing companies so that they can manage their projects more efficiently and speed up the necessary processes.

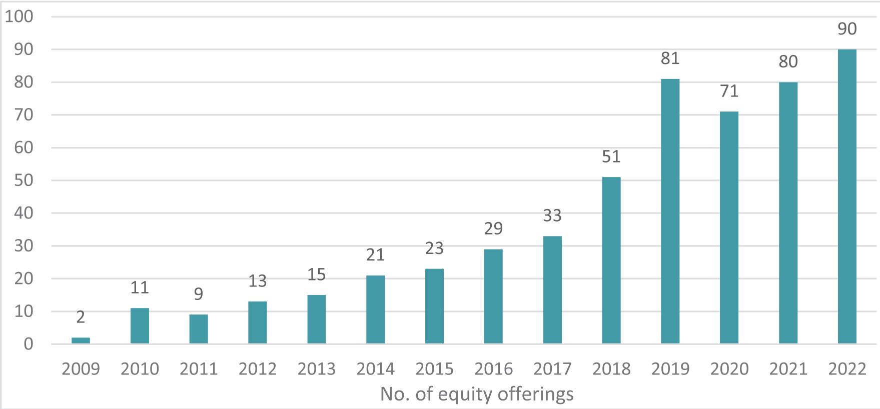

Fig. 2 Number of equity offerings made in BME Growth in the period 2009–2022. *Source:* Own elaboration based on information from BME Growth

Let us take a closer look at these advantages, as each company may have a different objective in its incorporation in the market or, in many cases, several of them.

3.2.1 Financing a Company's Growth

BME Growth opens up a range of alternatives for companies to obtain financial resources. A capital increase at the time the company goes public or at a subsequent point in time is an ideal way of raising funds to support the expansion of a company with characteristics of strength, flexibility, and financial risk reduction, in addition to maintaining the balance between equity and debt.

Furthermore, thanks to the possibility of going public, BME Growth facilitates the company's access to a broad investment community, either domestic and international investors or institutional and retail investors, other than venture capital or business angels.

Finally, it helps to consolidate the growth strategy through mergers and acquisitions (M&A) using the company's own shares as a means of payment in these processes.

Figures 2 and 3 show the number of equity offerings made and financing obtained by BME Growth companies in the period 2009–2022. A total of 532 equity offerings were made during this period, raising more than 6.5 billion euros in financing.

3.2.2 Standing, Visibility, and Brand

Listing on BME Growth provides the company with solvency, transparency, and prestige. A company that is ready to list on BME Growth has achieved a high degree of organization and control. And above all, it has gained the confidence of investors

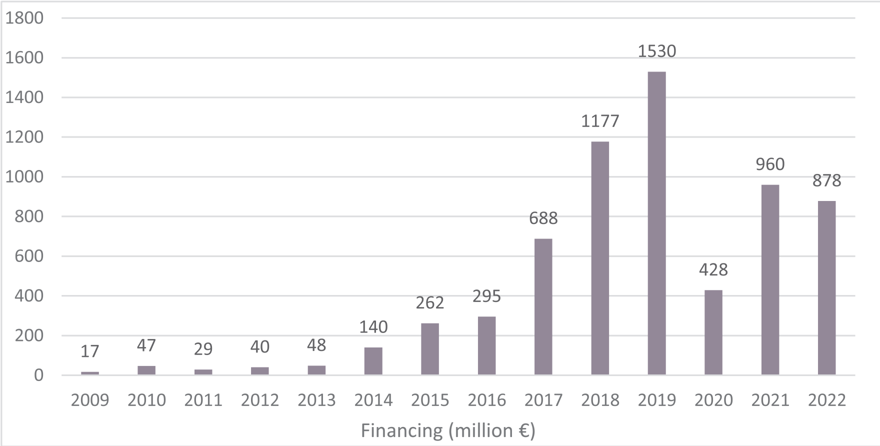

Fig. 3 Financing (million €) raised in BME Growth in the period 2009–2022. *Source:* Own elaboration based on information from BME Growth

in its project. This prestige is also recognized by the company's customers, suppliers, and financial partners, which facilitates relations with all of them.

BME Growth is in the news every day, and listed companies enjoy a greater presence in the media, given the greater demand for information from investors and market analysts. This greater visibility increases the company's prestige and brand image and complements its marketing and communication efforts.

3.2.3 Fair Valuation of the Company

The shares of a company listed on BME Growth have a permanent fair market value, given by investors. The price is established from the combination (matching) of purchase and sell orders. One of the many advantages of this objective valuation is that M&A transactions can be financed, either totally or partially, with shares issued by the company itself. In recent years, a considerable number of BME Growth companies have grown inorganically, thanks to financing their acquisitions with their own shares.

3.2.4 Liquidity

BME Growth provides a level of liquidity to shareholders (the ability of assets to be turned into cash, unreachable to unlisted companies). There are certain circumstances that assist a listed SME to obtain greater liquidity through BME Growth, such as (1) make an effort to be more visible (be proactive in the relationship with investors, analysts, road shows, corporate communication), (2) maintain a generous shareholder spread (without losing control), (3) be aware of the company size, (4) have the help of specialists (liquidity provider, communication consultants, financial advisors) to attract investors, and (5) have "anchor" shareholders/investors to help attract other investors.

Likewise, some shareholders or other types of entities such as venture capital that entered the company in its origins, including the founding partners of the companies, find in BME Growth the counterpart that allows them to reap the benefits of their business career at the most opportune moment, helping, in some cases, to resolve certain issues in family firms with the total or partial exit of some of the company shareholders.

3.2.5 Others

There are many other advantages to joining BME Growth. Being a public company disciplines and stimulates management (both through regulation and shareholder demand) as the transparency and information standards required by the market encourage the organization to have greater professionalization and investors seek companies managed by qualified professional teams. It also serves as an incentive for employees through share-based compensation policies and for other groups (customers, suppliers, etc.) with whom the company wishes to strengthen ties or who should be rewarded for any reason. Finally, it is a great support for internationalization. BME Growth companies take advantage of their information transparency, visibility, and valuation (it serves as a letter of introduction) to access resources from international investors, facilitating their capacity for international expansion. Box 2 summarizes the main advantages offered by BME Growth.

Box 2 Main Advantages Offered by BME Growth to Companies

Financing
Visibility, prestige, and brand image
Target valuation
Share liquidity
Improved credit rating
Requirements adapted to the company's size
Greater transparency
Encourages professional management
Reasonably priced
State aid available
Other corporate advantages: Family succession, helps M&A, etc.

Source: Own elaboration based on BME Growth (2022a)

3.3 Common Concerns of Entrepreneurs before Going Public

Entrepreneurs have two main concerns when the decision of going public arises: the loss of ownership control and the dissemination of internal information.

In terms of the first, if the entrepreneur had control over the company before going public, the process of joining BME Growth does not necessarily imply losing that control. Bear in mind that, once listed, the number of shares that can freely fluctuate in the market and, therefore, can change hands (i.e., the so-called free-float) is a decision that is the exclusive responsibility of the company's shareholders (of course, with a minimum amount of two million euros). As explained in Sect. 3.5, a capital dilution only occurs if the process of going public involves the selling of new shares (primary offering).

In relation to the second concern, entrepreneurs should be aware that investors' decisions are essentially based on public information regarding the companies. For this reason, companies have certain obligations to fulfil in terms of information: to audit their accounts, report on their economic and financial evolution, communicate information affecting the company, etc. This should be considered as an advantage rather than a concern, since it powerfully contributes to professionalizing and disciplining management, which makes the company work better and, on many occasions, is reflected in better results. Nowadays, even unlisted companies are under legal requirements to perform audits, file accounts with the Companies Register, and have greater surveillance by the tax authorities make companies much more transparent.

Many of the entrepreneurs who have joined BME Growth in recent years recognize that they have been motivated to analyze and, in many cases, restructure their own way of managing the company, orienting their activity in an even more professional and stringent matter, as they have to respond for their activity to a group of shareholders and investment professionals, who demand constant information of the rationality and opportuneness of that management. This change has affected several areas of the company and has contributed to creating a habit of transparency, information, and attention to shareholders and, in general, to those who surround the company's activity.

3.4 Is My Company Ready to Join BME Growth?

Listing on BME Growth is an important decision for any company. Access to the market requires certain requirements to be fulfilled. These are set out in Table 1.

Table 1 Main requirements for joining BME Growth

Formal	Public limited companies
	Spanish or foreign companies
	Share capital fully subscribed and paid up
	Shares represented by book entries
	Capitalization <1000 million euros
Minimum capital stock	There is no minimum
Accounting standard	EU company: IFRS or national accounting standards
	Non-EU member state: IFRS or US GAAP
Commercial activities	Already commercializing goods or services or have already performed significant activities directly related to the preparation of such commercial activity. Obtain significant income from this commercial activity or from transactions, operations and financial contributions based on preparatory activities that the companies have already performed
Corporate governance	Audit committee
	Independent directors
Initial documentation	Information document for admission to the market (IDAM) or EU growth prospectus with detailed information on the company, its business, financial statements and working capital and, if applicable, on the transaction to be performed
	Historical financial information: Last two audited fiscal years. If they do not have 24 consecutive audited months, it is mandatory to make forecasts for the current and following fiscal year approved by the Board of Directors
	Due diligence: Legal and financial by third-party specialists of recognized prestige
Free float	Shares held by shareholders holding less than 5% of the share capital shall represent in all an estimated value of no less than two million euros
Lock up	Only mandatory if the company has been active for less than 2 years
	The main shareholders, directors, and senior management must undertake not to sell shares or perform transactions equivalent to the sale of shares during the year following the company's admission to the market (except for those which are the subject of an offer to sell, whether or not the offer is considered a public offering)
Reference Price	A valuation prepared by an independent expert in accordance with internationally accepted criteria must be submitted and will be taken to set the reference price unless a placement of shares or a significant financial transaction has taken place in the 6 months prior to the application for the purpose of determining an initial reference price to the listing of the company's shares

(continued)

Table 1 (continued)

Specialists	Registered advisor (specific regulation in Bolsas y Mercados Españoles (2020c). It is mandatory and helps companies throughout the process, both in the phase of incorporation to the market and later and, on a day-to-day basis, to comply with the regulations required by the market. There is a list of Registered Advisors on the BME Growth website (https://www.bmegrowth.es/ing/BME-Growth/Registered-Advisors.aspx#ss_list. Accessed 15 September 2022)
	Liquidity Provider. All companies must have a designated Liquidity Provider at all times. This is a stock market intermediary with which the company signs a liquidity provision agreement. It offers purchase and sell positions during market sessions to ensure constant liquidity for the stock. The objective of liquidity provision contracts is to guarantee liquidity for transactions and ensure sufficient trading frequency. There is a list of Liquidity Providers on the BME Growth website (https://www.bmegrowth.es/ing/BME-Growth/ProveedoresLiquidez.aspx. Accessed 15 September 2022)
	Placement bank for shares in the case of an IPO

Source: Own elaboration based on Bolsas y Mercados Españoles (2020a) and Bolsas y Mercados Españoles (2022a)

3.5 How to Join to BME Growth? What Are the Stages in the BME Growth Admission Process?

Once it has been verified that the company meets the requirements for incorporation, it is important to choose the procedure that best suits the company's needs and objectives.

Companies have two main possibilities to join the market: firstly, through a listing process where the company does not place its shares among new investors but gives its shareholders the possibility to trade their shares on BME Growth without changes in the company shareholding or capital and, secondly, by making a sale of shares at the time of the incorporation, known as Initial Public Offering (IPO). In this second case, there are two options: (1) a primary offering (known in Spanish as *Oferta de Subscripción*), where the shares offered are newly issued, so that the company gets new funds, and (2) a secondary offering (known in Spanish as *Oferta de Venta*), where it is the company owner or owners who sell a significant number of shares.

Table 2 shows the different phases of the BME Growth admission process. After the accumulated experience, the market estimates that approximately 3–6 months may elapse from the time a company appoints a Registered Advisor up until it is admitted to the market.

3.6 How to Remain in BME Growth?

Companies listed on BME Growth must report the following information to the market through their corresponding Registered Adviser (Bolsas y Mercados Españoles 2020b).

Table 2 Stages in BME Growth admission process

Month 0	Kick-off meeting with the registered advisor, the company, BME Growth, and other advisors
Month 1	Legal and financial due diligence
Month 2–3	Compilation of the accessory documentation to comply with the listing file
	First version of the informative document
Month 3–4	Publication of informative document + liquidity contract
	Listing | ring the bell!
Other milestones	
Audit report | "comfort letter" | registration of securities in Iberclear | favorable report from the market and incorporations coordination committee | approval of the listing by the board of BME growth	

Source: Own elaboration based on Bolsas y Mercados Españoles (2023)

3.6.1 Regular Information

- Half-yearly information: A half-yearly financial report equivalent to the entity's interim financial statements subjected to at least a limited review by its auditor, within the 4 months following the end of the first 6-month period of each year.
- Annual information: Audited annual financial statements released in the 4 months following the end of the annual reporting period together with the corresponding Directors' Report.
- Information on the company's organizational structure and internal control system to comply with the reporting obligations established by the Market (every year, together with the publication of financial information).
- Information on the degree of compliance with forecasts, if applicable (every 6 months, together with the publication of financial information).
- Significant shareholdings: Obligation to report to the market every 6 months a list of shareholders with a position equal to or greater than 5% of the capital stock.

3.6.2 Insider Information and Other Relevant Information for Investors

- All the insider information and other relevant information from the issuers of securities listed or those who have applied to be listed on the market will be publicly disclosed by the market, in accordance with the provisions of the Spanish Securities Markets Law (*Reino de España* 2023).

3.6.3 Other Information to be Reported

- Significant shareholdings: of which the company is informed.
- Shareholder's agreements.

- Information on corporate transactions.
- Forecast or numerical estimates, if applicable.

3.6.4 Corporate Governance

- No annual corporate governance report is required.

3.6.5 Issuer's website

- The company's website must include all the public documents that have been submitted to the Market for their incorporation, as well as all the information subsequently submitted to the Market.

3.7 What Are the Fees?

A list of the costs that companies must assume for incorporation and subsequent permanence in BME Growth is given below. Some (BME Growth rates and *Iberclear* fees) are predetermined and public, and the rest will depend on the negotiation with the agents involved.

BME Growth rates (Bolsas y Mercados Españoles 2022b): A fixed fee of 1500 euros is charged for processing the application. A fixed rate of 10,000 euros plus a variable rate of 0.05 per thousand on the market capitalization of all securities to be admitted based on the opening price on the market is also applied. Thereafter, the fixed annual maintenance fee is 6000 euros.

Iberclear fees (Iberclear 2022): 0.40 basis points of the cash value of the securities are included, subject to a minimum of 500 euros and a maximum of 50,000 euros per issue. Annual fee is 500 euros.

Other costs:

- Costs related to the preparation of the company to comply with the incorporation requirements (lawyers, auditors, advisors, etc.). These will depend on the actions to be conducted prior to incorporation.
- If a capital increase/share placement is performed, the underwriter will charge a commission depending on the size of the issuance and its characteristics. This tends to be by far the largest expense.
- The company must also bear in mind the costs applied by the Registered Advisor and the Liquidity Provider. In both cases, they are negotiable and shall depend on the specific agreements signed.

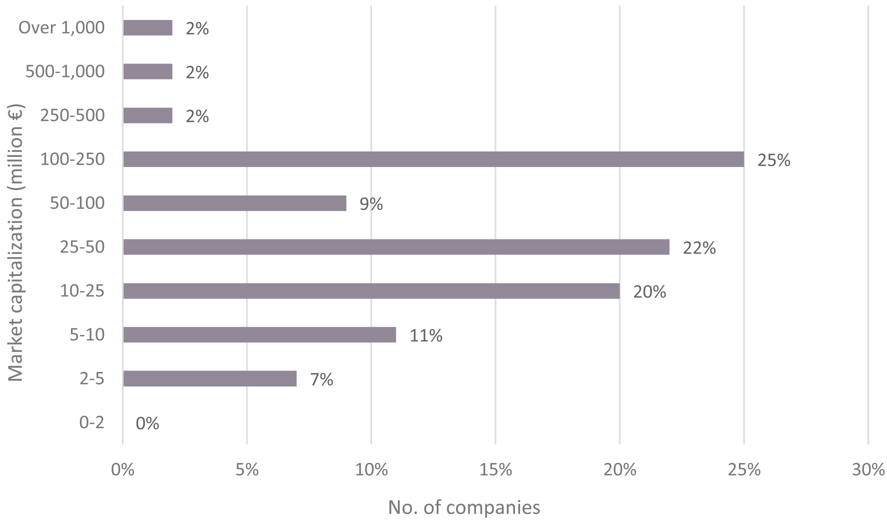

Fig. 4 Distribution by size (market capitalization) of BME Growth companies in 2022. *Source:* Own elaboration based on Bolsas y Mercados Españoles (2023)

3.8 *Characteristics of BME Growth Listed Companies*

Although there is diversity in terms of the size of the BME Growth companies, 76% of BME Growth companies are capitalized in a range between 10 million euros and 250 million euros (see Fig. 4).

In terms of industry, the market is currently concentrated in four sectors: pharmaceutical products and biotechnology, electronics and software, engineering and others, and renewable energy, as can be seen in Fig. 5. The REIT industry (which does not appear in Fig. 5) also has a considerable weight in BME Growth as it amounted to 80 of these companies in 2022.

3.9 *Success Stories*

Some of BME Growth's success stories are listed below. Table 3 shows some companies that are multiplying their fundamentals and value in BME Growth.

Furthermore, several interviews with BME Growth companies explaining why they chose to list on BME Growth or how they fared can be found at the following link https://www.bmegrowth.es/ing/BME-Growth/HistoriasExito.aspx (accessed 22 September 2022).

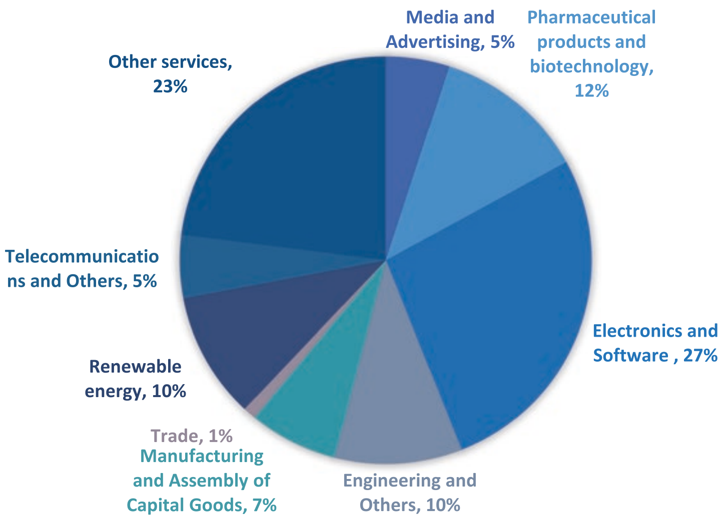

Fig. 5 Distribution by sector of listed companies on BME Growth in 2022 (excluding the 80 REITs). *Source:* Own elaboration based on Bolsas y Mercados Españoles (2023)

4 Pre-Market Environment (*Entorno Pre Mercado* (EpM))

*4.1 What Is the Pre-Market Environment (*Entorno Pre Mercado *(EpM))?*

Pre-Market Environment (known in Spanish as *Entorno Pre Mercado (*EpM)) is a unique training and networking program to provide growing SMEs with information on how capital markets work and how to access private and institutional investors from *Bolsas y Mercados Españoles* (BME)-SIX Group. It aims to accompany firms that plan to access the capital markets in 2–3 years. This environment is similar to other initiatives or pre-markets already in existence in Europe that aim to provide support to SMEs in the pre-listing phase to a securities market and could be considered as a pre-listing sandbox, as defined by the Technical Expert Stakeholder Group (TESG) on SMEs (Technical Expert Stakeholder Group on SMEs 2021).

It is an initiative that was born at the end of 2017 jointly between *Bolsa de Valencia* (BME) and the Big Ban Angels Association with the aim of fostering a financial culture in which companies, their managers, and private investors could raise and provide financing in the markets. Initially, it was aimed at companies located in the Valencian Community, but it was quickly opened up to the rest of Spain and is currently global.

The main objective of the Pre-Market Environment is to give startups the support they need to develop the capabilities required by market regulations and to enable

Table 3 Companies that are multiplying their fundamentals and value in BME Growth

Company	Sector	Insights	Revaluation since incorporation (data as of 2022)
ENERGÍA, INNOVACIÓN Y DESARROLLO FOTOVOLTAICO, S.A. (EIDF)	Renewable energy	• Market cap: €1620 million • Year of listing: 2021 • Initial valuation: €58 million • Debt issuance at MARF • M&A: 2 companies acquired	+2567%
PROEDUCA ALTUS, S.A.	Digital education	• Market cap: €899 million • Year of listing: 2019 • Initial valuation: €223 million • Sales 2021: €211 million • Sales 2022: €247 million • M&A: 1 company acquired	+303%
SINGULAR PEOPLE, S.A.	Software & Digitalization	• Market cap: €212 million • Year of listing: 2021 • Initial valuation: €160 million. • Sales 2020: €45 million • Sales 2021: €59 million • M&A: 2 companies acquired	+32%
IZERTIS, S.A.	Technology and digitalization	• Market cap: €203 million • Year of listing: 2019 • No. capital increases: 12 • Sales 2019: €46 million • Sales 2021: €65 million • M&A: 15 companies acquired • Debt issuance at MARF	+461%
ALTIA CONSULTORES, S.A	Technology consulting	• Market cap: €178 million • Year of listing: 2011 • Initial valuation: €18.7 million • Sales 2011: €20.1 million • Sales 2021: €126 million	+856%
MAKING SCIENCE GROUP, S.A.	Software y digitalization	• Market cap: €81 million • Year of listing: 2019 • No. capital increases: 4 • Sales 2019: €35 million • Sales 2021: €110 million • M&A: 11 companies acquired • Debt issuance at MARF	+207%

(continued)

Table 3 (continued)

Company	Sector	Insights	Revaluation since incorporation (data as of 2022)
AGILE CONTECT, S.A.	TMT	• Market cap: €100 million • Year of listing: 2015 • No. capital increases: 10 • Sales 2015: €8 million • Sales 2021: €52 M million • M&A: 3 companies acquired • Debt issuance at MARF	+560%
GIGAS HOSTING, S.A.	Electronic and software	• Market cap: €118 million • Year of listing: 2015 • No. Capital increases: 4 • Sales 2015: €4 million • Sales 2021: €52 million • M&A: 9 companies acquired • Debt issuance at MARF	+684%
PARLEM TELECOM COMPANYIA DE TELECOMUNICACIONS, S.A.	TMT	• Market cap: €90 million • Year of listing: 2020 • Initial valuation: €45.5 million • Sales 2020: €19 million • Sales 2021: €37 million • M&A: 4 companies acquired	+42%
NBI BEARINGS EUROPE, S.A	Industrial	• Market cap: €68 million • Year of listing: 2015 • Initial valuation: €17 million • Sales 2015: €8 million • Sales 2021: €43 million • M&A: 7 companies acquired	+296%
SOLUCIONES CUATROOCHENTA, S.A.	Software & Digitalization	• Market cap: €36 million • Year of listing: 2020 • Initial valuation: €21 million • Sales 2020: €12 million • Sales 2021: €15 million • M&A: 5 companies acquired	+70%
NETEX KNOWLEDGE FACTORY, S.A.	Digital education	• Market cap: €29 million • Year of listing: 2017 • Initial valuation: €16.4 million • Sales 2017: €5 million • Sales 2021: €12 million • M&A: 1 company acquired	+77%

(continued)

Table 3 (continued)

Company	Sector	Insights	Revaluation since incorporation (data as of 2022)
MASMOVIL IBERCOM, S.A.	TMT	• Year of listing: 2012 • Initial valuation: €16 million • 2012–2017: 7 capital increases • 2017: Jumps to main market (€764 million) • 2019: Member of the IBEX 35 • 2021: Acquired for €3000 million	Appreciation of 4675% at BME growth
GRENERGY RENOVABLES, S.A.	Renewable energy	• Year of listing: 2015 • Initial valuation: €30 M million • 2015–2019: 2 capital increases • 2019: Debt issuance of €22 M million at MARF • 2019: Jumps to main market (€400 million)	Appreciation of 1235% at BME growth
ATRYS HEALTH, S.A.	Healthcare	• Year of listing: 2015 • Initial valuation: €12 million • 2015–2022: 9 capital increases • 2019: Debt issuance of €25 million at MARF • 2022: Jumps to main market (€600 million)	Appreciation of 4900% at BME growth

Source: Own elaboration based on Bolsas y Mercados Españoles (2023)

them to obtain financing through the capital markets managed by BME. EpM consists of two segments: an initial segment for new companies (startups segment) and a growth segment for veteran companies (growth segment). The open and collaborative nature of the EpM encourages the participation of investors, consultants, and capital market professionals, who interact with the companies in an ecosystem that is enriching for all parties. In this regard, the environment has a series of partners that are associations, foundations, business schools, venture capital firms, crowdfunding platforms, and other interested entities that actively collaborate with the aim of promoting the EpM's objectives (for more information on the Partners, visit the EpM website https://www.entornopremercado.es/ing/Partners. Accessed 16 September 2022).

EpM connects unlisted companies looking for growth financing with private investors interested in investment alternatives in companies with potential expansion. It allows investors exclusive access to its information by registering in the EpM user register. The relationship between companies, investors, and partners is facilitated through seminars, workshops, conferences, training sessions, and investor's day, among others.

4.2 Why Join the EpM?

EpM is the best option if a company is thinking of joining BME Growth in the medium term (2–3 years). Let us see what it can offer.

4.2.1 Specialized Training

It offers access to a training program focused on capital markets with sessions that, among other aspects, explain the changes that companies will have to undergo in terms of their capital structure and corporate governance, the key figures involved in the market admission process, information and transparency requirements, etc. Practical cases of how companies become listed on BME Growth are also analyzed (for more information on the training program, visit the EpM website https://www.entornopremercado.es/ing/training. Accessed 16 September 2022).

4.2.2 Practice and Experience

It allows practice to ensure compliance with the requirements to remain part of the EpM, along with recommendations from market professionals, watching companies operate as if they were already listed. It also helps to develop expertise in making financing decisions.

4.2.3 Visibility

Being in the EPM generates greater visibility and a greater presence in the media, supporting access to investment and financing.

4.2.4 High Value Networking

EpM is an ecosystem of investors, entrepreneurs, consultants, and market experts that fosters networking through seminars, events, conferences, and training sessions, encouraging interaction between companies and access to other participants.

4.2.5 Professional Advice

Firms can get direct access to market professionals to resolve doubts and queries.

Álvaro Castro, Surveillance manager and Board Member of BME Growth, explains the advantages of being part of the *EpM* in the following video: https://youtu.be/xHuaj6Uy-PE (Accessed 17 September 2022).

4.3 What Must I Comply with to Be Part of the EpM?

- Be a public or private limited company.
- In operation for at least 2 years (from the date of execution of the deed of incorporation).
- File audited annual accounts for the year prior to the application for inclusion (or undertake to have them audited within 90 days).
- Present business forecasts and estimates for the next 3 years.
- Have financing requirements from 0.5 million euros or to be in an advanced stage and to have expressed interest in financing through the stock markets.
- Present a document of incorporation to the environment and have the approval of the Advisory and Strategy Committee.

4.4 How to Stay in the EpM?

4.4.1 Regular Information

On an annual basis, within 6 months following the close of each fiscal year:

- Annual accounts and the audit report.
- The management report, including important milestones and clarifications to any qualifications, that, when applicable, are reflected in the audit report.
- Information on the shareholder, management, and organizational structure.
- Report on degree of business plan compliance.
- Information on the investment rounds implemented during the year, indicating the total amount received and the resulting Company valuation.

On a biannual basis, within 2 months following the close of the first semester of each fiscal year:

- The interim financial statements (balance sheet and income statement).
- Report on degree of business plan compliance.
- Information on the significant milestones during the period.

4.4.2 Immediately Inform BME of Any Significant Milestone

Information that directly or indirectly affects the valuation, solvency, and prospects of the Company and that may affect any decision to acquire or transfer securities.

4.4.3 Maintain Minimum Solvency Conditions

- Maintain a positive book value of the equity.
- Not to incur cause for dissolution or a mandatory capital reduction.
- Remain up to date with tax authority and Social Security payments.

4.5 What Are the Costs?

The costs to be part of the EpM are as follows:

- For admission to the EpM and the training program: 2800 euros.
- The fee for membership of the EpM, use of the facilities, and the dissemination resources of BME facilities: 400 euros per quarter.

Note that 100% of the admission fee will be reimbursed in the event of joining any of the markets managed by BME.

4.6 EpM in Figures

Figure 6 shows the main figures of the *EpM*.

Nearly 30 companies have participated in the EpM. At the end of 2022, there were 23 participating companies in EpM of which 3 belong to the Growth segment and 20 companies belong to the Startups segment. The industries to which they belong are highly varied, highlighting the biotechnology, renewables, fintech, technology, and telecommunications sectors.

Regarding the partners, the profile is very varied, mainly being associations, foundations, business schools, venture capital firms, crowdfunding platforms, entrepreneurs' associations, financial boutiques, advisory firms, law firms, Registered Advisors, and other entities.

Fig. 6 Main figures of the *Entorno Pre Mercado* in 2022. *Source:* Own elaboration based on Entorno Pre Mercado (2023)

4.7 Success Stories

By the end of 2022, six companies had joined BME Growth following their transition to the EpM, thus meeting this environment's objective.

The first of these was *Soluciones Cuatroochenta* in October 2020 (see Sect. 5). The second was *Parlem Telecom* in June 2021. It was followed by *Intercity Football Club* at the end of October 2021, *Enerside* in March 2022, and *Substrate AI* in May 2022. The final one was *Energy Solar Tech* in December 2022.

5 ***Soluciones Cuatroochenta*. From EpM to BME Growth**

Soluciones Cuatroochenta is a success story as it was within the first group of companies that joined the EpM in 2017 and was the first company to join BME Growth from the EpM in October 2020. Since its IPO to BME Growth, it has grown exponentially in both size and turnover.

Soluciones Cuatroochenta is a technology company specialized in developing and implementing digital cloud solutions to meet the challenges and objectives of its clients located in 14 countries of Europe and Latin America. The company, which started as an *app* development company, has become a solvent technological partner undertaking digital transformations with the most powerful management and cybersecurity solutions.

Founded in November 2011 by Alfredo R. Cebrián (Teruel, 1984), graduate in Advertising and Public Relations and CEO, and Sergio Aguado (Segovia, 1982), senior engineer in Computer Science and CTO, *Soluciones Cuatrochenta* was born in a meeting of entrepreneurs of the *Parc Científic i Tecnològic* of the *Universitat Jaume I* (UJI), the university where they both studied. In 2013, they received the Student Entrepreneurship Award from the Social Council of the UJI. The success of this company founded by these two young entrepreneurs became remarkable in the following years. So much so that in 2017 the company was one of the three selected (from among several applications) to be part of the EpM (https://youtu.be/oOUDbEC4_6o. Accessed 22 September 2022).

Soluciones Cuatrochenta, a limited company, joined EpM in 2017, with revenues in the year prior to incorporation (2016) of nearly one million euros and 25 employees. At the close of 2017, revenues already stood at 1.7 million euros, and it had 37 employees. In 2018, as a part of the preparatory actions to make the leap to BME Growth, it was transformed into a public limited company, performed a stock split, and incorporated new members in its Board of Directors. In that year, its revenues amounted to 1.85 million euros and it had 42 employees.

In 2019, the company added two new board members and, following the latest acquisitions, prepared consolidated financial statements for the first time, with revenues of 4.7 million euros. The number of employees stood at 85.

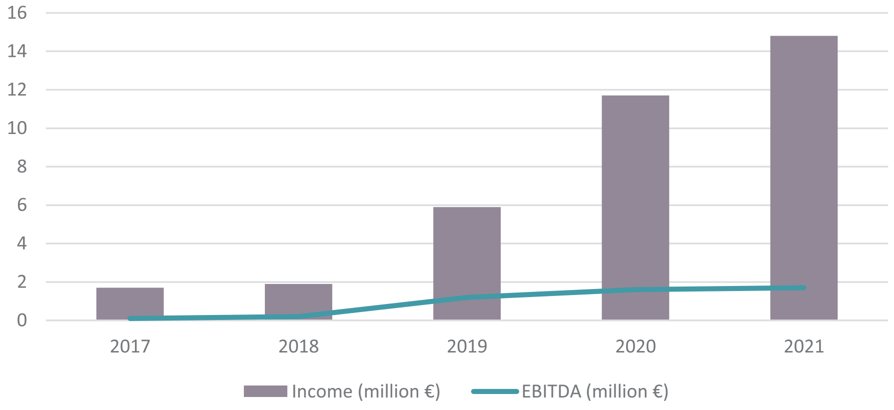

Fig. 7 Evolution of Cuatroochenta Solutions' income and EBITDA during the period 2017–2021. *Source:* Own elaboration based on Soluciones Cuatroochenta (2022)

In 2020, as steps prior to its incorporation into BME Growth, it sets up an audit committee, converted its shares into book entries, and amended its articles of incorporation to bring them into line with market regulations. At the end of September, it made a primary offering for 2.5 million euros in which it received subscription orders for a total amount equivalent to 6.3 times the aforementioned offer. As a result, the capital increase was subscribed by a total of 1105 shareholders (10 former shareholders at that date and 1095 new shareholders). Finally, in October 2020, it was incorporated into BME Growth with a value of 20.8 million euros. That year it obtained consolidated revenues of €11.7 million.[6] In 2021, the company continued to grow, and revenues rose again, reaching almost €15 million.

As can be seen in Fig. 7, *Soluciones Cuatroochenta* has increased its revenues more than eightfold since 2017, which represents a growth of 72% Compound Annual Growth Rate (CAGR). In terms of EBITDA, the company has also achieved a very relevant growth, reaching 104% CAGR in the same period. The number of employees has grown from 37 at the end of 2017 to almost 191 at the end of 2021.

Soluciones Cuatroochenta has been involved in several corporate and financing transactions in recent years. The company has a successful track record of acquisitions, having closed two relevant acquisitions during its time in the EpM and five transactions since its incorporation in BME Growth. In terms of financing, since its incorporation in 2011 until its entry in the EpM (2017), the company performed two capital increases for a total effective amount of 235 thousand euros. Since that time, *Soluciones Cuatroochenta* has carried out 14 capital increases (including the primary offering at the time of incorporation to BME Growth) for a total effective amount of 13.5 million euros. Likewise, the company

[6] On the BME Growth website, you can consult the Information Document for Admission to the Market (IDAM). https://www.bmegrowth.es/docs/documentos/Otros/2020/09/05509_Folleto_20200924.pdf. Accessed 21 September 2022.

has been establishing strategic relationships with institutional investors to guarantee part of the necessary financing to develop its strategic plan. Of particular note are the framework agreement signed with the Smart Fund of Banco Santander in January 2021 and the investment agreement with Inveready Convertible Finance II FCR in December 2021, which not only provides access to economic resources but also allows the company to add to the project its extensive experience in growth companies and an extensive network of connections with which to establish interesting synergies.

Alfredo R. Cebrián, CEO and co-founder of *Soluciones Cuatroochenta,* explains the experience of being part of EpM in the following video: https://www.youtube.com/watch?v=Y7TXkygubqo (accessed 17 September 2022) in which Jesús González, Managing Director of BME Growth, also explains what BME Growth is and its main advantages. You can also watch the "opening bell" of the company in its incorporation in BME Growth at the following link: https://youtu.be/saC-zHxmU_BU (accessed 17 September 2022). The company's CEO additionally explains, among other issues, what BME Growth has brought them and their experience of incorporation in the following video: https://youtu.be/t2HF9kfW63k (accessed 17 September 2022). Finally, the evolution of the company in the presentation made by the CFO, David Osuna, at the Medcap Forum held in Madrid in May 2022 can be seen at the following link: https://youtu.be/t7oTFDkkBWQ (accessed 17 September 2022).

6 Conclusions

After a certain time has elapsed since the start of the entrepreneur's business idea, when the company reaches a certain degree of maturity, a major challenge for the entrepreneur arises: how to continue financing my company in order to grow? In recent years, the EU has promoted the creation of alternative stock markets aimed at opening the capital markets to small companies with strong growth potential, innovative companies, or expanding companies that are looking for partners and financing since one of the biggest obstacles faced by SMEs is the difficulty in finding financial resources under the same conditions as larger companies.

A good example of the effort to bring the market closer to SMEs is the Spanish case, where in March 2008 the Alternative Stock Market for growth companies (known in Spanish as the *Mercado Alternativo Bursátil para Empresas en Expansión* (MAB-EE)) was created. Currently called BME Growth, a non-regulated market with the status of Multilateral Trading Facility (MTF), it is aimed at trading securities of small-cap companies seeking to expand and was recognized in 2020 by the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores)* as a European SME Growth Market.

Some of the advantages of becoming a public company are access to sources of financing other than banks, increased visibility, continuous valuation, and liquidity of the company's shares, so that companies can manage their projects more efficiently and accelerate the processes required to do so.

BME Growth has a specifically designed regulation, costs, and processes adapted to the characteristics of this type of companies, maintaining high levels of transparency. The market has a set of Registered Advisors to help companies throughout the process, both in the incorporation phase and later, on a day-to-day basis, to comply with the regulations required by the Market. A large number of companies have developed their growth in this market over the last few years.

In a previous step, for those companies that are not yet ready to join BME Growth but are planning to do so in 2–3 years, the Pre-Market Environment (known in Spanish as *Entorno Pre Mercado* (EpM)) accompanies them along the way. The role of the EpM is to familiarize them with the stock markets and give them access to an ecosystem of investors, experts, entrepreneurs, advisors, and financial market professionals.

References

BME Growth (2022a) BME Growth website. Companies. Why list on BME Growth? section. https://www.bmegrowth.es/ing/BME-Growth/Why-List-On-BME-Growth.aspx. Accessed 9 Sept 2022

BME Growth (2022b) BME Growth website. What is BME Growth? section. https://www.bmegrowth.es/ing/BME-Growth/What-Is.aspx#se_top. Accessed 9 Sept 2022

Bolsas y Mercados Españoles (2020a) Circular 1/2020. Requirements and procedure for incorporation and exclusion in the BME Growth trading segment of BME MTF Equity. https://www.bmegrowth.es/docs/normativa/ing/circulares/2020/1_2020_CIRC_INCORPORACI%C3%93N__BME_Growth__1_.pdf. Accessed 15 Sept 2022

Bolsas y Mercados Españoles (2020b) Circular 3/2020. Information to be provided by companies admitted to trading in the BME Growth segment of BME MTF Equity. https://www.bmegrowth.es/docs/normativa/ing/circulares/2020/3_2020_CIRC_INFORMACI%C3%93N_BME_Growth.pdf. Accessed 15 Sept 2022

Bolsas y Mercados Españoles (2020c) Circular 4/2020. Registered advisor in the BME Growth trading segment of BME MTF Equity. https://www.bmegrowth.es/docs/normativa/ing/circulares/2020/4_2020_CIRC_Asesor_Registrado_BME_Growth.pdf. Accessed 15 Sept 2022

Bolsas y Mercados Españoles (2022a) Circular 2/2022. Amendment to Circular 1/2020 of 30 July on requirements and procedures applicable to admission and exclusion from trading in the BME Growth segment of BME MTF Equity and to Circular 3/2020 of 30 July on information to be provided by companies admitted to trading in the BME Growth segment of BME MTF Equity. https://www.bmegrowth.es/docs/normativa/ing/circulares/2022/20220722_Circular_2-2022_Modificaci%C3%B3n_Circulares__1_y_3-2020_en_GB.pdf

Bolsas y Mercados Españoles (2022b) Circular 4/2020. Tarifas aplicables en BME MTF equity https://wwwbmegrowthes/docs/normativa/esp/circulares/2022/Tarifas-BME-MTF-Equity-2023-Circular-4-2022-pdf Accessed 15 Mar 2022

Bolsas y Mercados Españoles (2023) BME growth. A boost for business growth https://wwwbmegrowthes/docs/docsSubidos/Presentaciones-web/Presentacio-n-general-BME-Growth-2023_20230206-ENGpdf Accessed 10 Feb 2023

Cambón MI, Canadell E (2018) La presencia de las empresas españolas no financieras en los mercados de capitales. In: Boletín Trimestral (III). CNMV. www.cnmv.es/DocPortal/Publicaciones/Boletin/Boletin_III_Trimestre_2018.pdf

Entorno Pre Mercado (2023) Entorno Pre Mercado website. https://www.entornopremercado.es/ing/Home. Accessed 8 Jan 2023

European Parliament (2014) Directive 2014/65/EU of the European Parliament and of the council of 15 may 2014 on markets in financial instruments and amending directive 2002/92/EC and directive 2011/61/EU. Off J Eur Union 12:349–496. http://data.europa.eu/eli/dir/2014/65/oj

European Securities and Market Authority (2021) MiFID II review report on the functioning of the regime for SME Growth Markets. https://www.esma.europa.eu/file/112516/download?token=YrfsKlyb

European Securities and Market Authority (2023) European Securities and market Authority website. MIFID/UCITS/AIFMD/EUVECA entities section. https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_upreg. Accessed 4 Jan 2023

Federation of European Securities Exchanges (2023) FESE Capital Markets Fact Sheet – Q4 2022. https://www.fese.eu/app/uploads/2023/01/FESE-Capital-Markets-Fact-Sheet-2022-Q4.pdf. Accessed 10 Mar 2023

Gouardères F (2021) Las pequeñas y medianas empresas. Fichas temáticas sobre la Unión Europea. Parlamento Europeo. https://www.europarl.europa.eu/ftu/pdf/es/FTU_2.4.2.pdf

Iberclear (2022) Fees for participants. https://www.bmegrowth.es/docs/normativa/esp/circulares/2022/tarifas_Iberclear_desde_27-6-22_ingles.pdf. Accessed 15 Mar 2023

Posner E (2004) Copying the Nasdaq stock market in Europe: supranational politics and the convergence-divergence debate. Institute of European Studies. https://www.semanticscholar.org/paper/Copying-the-Nasdaq-Stock-Market-in-Europe%3A-Politics-Posner/eca0f9728985a99a7931362054962319d14056f5

Reino de España (2023) Ley 6/2023, de 17 de marzo, de los Mercados de Valores y de los Servicios de Inversión. Boletín Oficial del Estado, 6 de abril. no. 66. https://www.boe.es/eli/es/l/2023/03/17/6/con

Soluciones Cuatroochenta (2022) Soluciones Cuatroochenta website. Results section. https://cuatroochenta.com/en/investors/#results. Accessed 28 Sept 2022

Technical Expert Stakeholder Group on SMEs (2021) Empowering EU capital markets for SMEs. Making listing cool again. https://ec.europa.eu/info/sites/default/files/business_economy_euro/growth_and_investment/documents/210525-report-tesg-cmu-smes_en.pdf

Vismara S, Paleari S, Ritter JR (2012) Europe's second markets for small companies. Eur Financ Manag 18(3):352–388. https://doi.org/10.1111/j.1468-036X.2012.00641.x

Leticia Castaño is a member of the Market Coordination and Admission Committee of BME Growth, part of Bolsas y Mercados Españoles (BME)-SIX Group. She also collaborates in the training program and in the analysis of candidate companies in the Pre-Market Environment (EpM) of the same group. She has over 15 years of experience in the stock market, having joined the Valencia Stock Exchange of the Bolsas y Mercados Españoles (BME)-SIX Group in 2007, where she has held various positions. She holds a PhD in Accounting and Corporate Finance from the Universitat de València (Spain) and collaborates at the University of Valencia as an assistant professor in the Department of Corporate Finance of this university.

José E. Farinós is an Associate Professor in the Department of Corporate Finance at the Universitat de València (Spain). He holds a PhD in Economics and Business from the Universitat de València (Spain). He teaches Corporate Finance at both undergraduate and postgraduate levels as well as specialization and master's diplomas. His areas of research interest are IPOs and corporate acquisitions, topics on which he has supervised several doctoral theses and has published numerous articles in national and international journals. Moreover, he collaborates as a referee of prestigious national and international journals.

Ana M. Ibáñez is an Associate Professor in the Department of Corporate Finance at the Universitat de València (Spain). She holds a PhD in Economics and Business from the Universitat

de València (Spain). Her research has focused on the efficiency of capital markets and the study of the price discovery and she has supervised several theses focusing on corporate events such as earnings releases and IPOs. As a result of her research, she has published numerous articles in national and international journals, and she has also been involved as a referee of prestigious national and international journals. She teaches Corporate Finance at both undergraduate and postgraduate levels.

Financing with Crypto Assets

Raúl Gómez-Martínez, Camilo Prado-Román, and Antonio Alcázar-Blanco

Abstract Money appears to cover the deficiencies of barter, and cryptocurrencies appear, as an evolution of money. Entrepreneurs have in cryptocurrencies a new asset to invest their treasury and an alternative means of payment to "fiat" money. Moreover, blockchain technology has multiple applications in the real world that are very useful for the entrepreneur. Security and utility tokens are a new source of financing and a tool to foster relationships with their customers or fans, and NFTs allow a safe and no fake art market.

Keywords Cryptocurrencies · Crypto assets · Alternative investment · Blockchain

1 Introduction

Coins appeared in the seventh century BC to facilitate trade, replacing barter as a means of payment, with three basic trade functions: to be a means of payment, to be a store of value that allows wealth to be accumulated, and to be a good that facilitates product valuation. Since then, money has evolved slowly in its conception, initially with the appearance of banknotes, and very rapidly in recent years with the appearance of fiat coins and cryptocurrencies.

In this chapter, we will go back to the origin of coins to learn about their functions and analyze their evolution until the appearance of cryptocurrencies and crypto assets. With the emergence of Fintech companies that offer services to buy, sell, and

R. Gómez-Martínez · C. Prado-Román
Department of Business Economics, Rey Juan Carlos University, Madrid, Spain
e-mail: raul.gomez.martinez@urjc.es; camilo.prado.roman@urjc.es

A. Alcázar-Blanco (✉)
Department of Financial Economics and Accounting, Universidad de Extremadura, Cáceres, Spain
e-mail: antoniocab@unex.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_8

hold them, these new digital assets are becoming a new source of financing for companies and a type of alternative investment to traditional investments.

Blockchain technology is finding new use cases in the real business world. With the appearance of security tokens and utility tokens, we find a new form of financing for companies, both in their initial stages (startups) and in more mature phases. Financing through tokens will allow the democratization of investment, like other sources of financing such as crowdfunding, with the power and security offered by blockchain technology.

2 The Origin of Money

Although some authors do not agree with the origin of money as described in texts on money and banking, the origin of money begins with trading through bartering, followed by the appearance of coins and finally money, identified as the instrument that allows us to fulfill our obligations and is related to legal tender. Its emergence gave rise to a boost to the economy due to different characteristics as follows:

1. **Means of payment**: Money is universally accepted. This eliminated the inefficiencies of barter by facilitating exchanges. Everyone could trade with everyone and not just those who were interested in exchanging the goods they owned.
2. **Deposit of value**: The first coins had to have some characteristics of durability or permanence over time to allow savings. This enabled the minting of metals of greater or lesser value in order to transfer the value of transactions over time.

The need for coins to be durable in order to fulfill their function as a store of value resulted in delaying the appearance of banknotes, and it was not until the seventh century in China that they began to be used officially. In Europe, banknotes came into use later, with paper money being introduced in Europe in the mid-seventeenth century in Sweden, although not as a means of payment, but as a receipt that an amount of gold or another metal had been deposited in the Bank of Stockholm.

3. **Unit of account**: It should be the unit of measurement in which the prices of all goods and services in the economy are expressed. Money is the numeraire of the economy, which facilitates the valuation of products and services.

The world's first coin appeared in what was known as Asia Minor, which is located in present-day Turkey, in the seventh century BC, and was a natural alloy of gold and silver known as "electrum." Shortly afterwards, coins began to be minted by the orders of Darius of Persia, and later in Greece, almost simultaneously, other types of coins also appeared in China and India.

Coins proliferated rapidly in all the developed countries of the world. Monarchs, aristocrats, cities, and institutions all began to mint money with their identifying seal to certify the authenticity of the coin's metallic value. Some of the earliest coins had a very stable composition, such as the drachma issued in Athens in the sixth century BC, containing around 65–67 grams of fine silver. Gold and silver coins used to circulate outside the country that issued them because of their intrinsic value. For example, the Spanish silver peso, whose material came from the mines of Peru and Mexico, became a common coin in China from the sixteenth century onwards.

From this point onwards, a monetary system originated, whose characteristics have remained constant for thousands of years. With the emergence of the gold standard, it was established that one currency unit was equivalent to a specific amount of gold and governments guaranteed the conversion of currency into a specific amount of gold and vice versa. Before the implementation of the gold standard, countries used gold and silver as a means of international payment, with the value of the different coins and banknotes issued in a country being equivalent to that country's gold.

After World War I, there was a decline in the gold standard, when the countries involved in the war began to print money without supporting it with this precious metal. The major European powers felt the need to complete large military projects. The financial burden of these projects was so great that there was not enough gold at the time of the exchange for all the excess currency that governments were printing. In 1971, the United States abandoned the gold standard, leading to the break-up of the system after World War II, with the dollar becoming the world's reference currency. The fall of the gold standard led to establishing an economic system based on trust. This resulted in the emergence of fiat money, whose existence is due to the authority that governs it, from the Latin "fiat," which means "let it be done" or "let it be so." It is a type of money that is characterized by its inconvertibility and lack of intrinsic value.

As fiduciary money, its value is formed on the basis of the economy, political situation, and foreign trade of the issuing country, i.e., on the basis of a more or less free supply and demand process. For example, if a country exports a large number of products or attracts foreign capital, the demand for that currency will increase, and it will therefore become more expensive in relation to the currencies of other countries (Fig. 1).

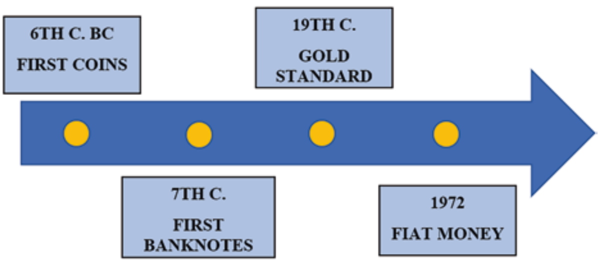

Fig. 1 Evolution of money. **Source:** Own elaboration

3 The Foreign Exchange Market

It is the largest financial market in the world with an average daily traded volume of around 5 trillion dollars. To get an idea of the size of the foreign exchange market, in 1 day a volume equivalent to the average monthly volume recorded on the Wall Street stock exchange is traded.

Most of the transactions involve the purchase and sale of financial assets denominated in a different currency, which implies an associated foreign exchange transaction, so this market is quite independent of actual business transactions. This implies that exchange rate developments cannot be explained by trade flows alone.

There are two important variables to be considered with respect to currencies, the exchange rate and the quotation.

The rate at which one currency is exchanged for another is called the exchange rate, which we must differentiate between:

- **Nominal exchange rate:** the relative price of two currencies, expressed in monetary units.
- **Real exchange rate**: used to measure the purchasing power of a foreign currency, it allows us to know the purchasing power of one currency against another.
- **Bilateral exchange rate**: the exchange rate that is measured relative to another currency.
- **Effective exchange rate**: weighted average of the bilateral exchange rates of a currency in relation to the currencies of the area's main trading partners. The weights used reflect each partner's share of trade in the area.

As for the quotation of the rates, it is no more than a quotient between the monetary units of the two currencies involved in the transaction. Thus, we can have:

- **Direct quotation**: Number of local currency units per foreign currency unit. For example, if we say that the exchange rate is 0.91 EUR/USD, we are saying that for each US dollar we would get 0 .91euro cents.
- **Indirect quotation**: This is the opposite, i.e., the number of foreign currency units per local currency unit. If we say that the exchange rate is 1.10 USD/EUR, we are saying that for every Euro exchanged, we will receive 1 US dollar and 10 cents.

Having analyzed these two variables, it is important to mention the different types of currencies in terms of convertibility, the power of the holder of a currency to convert it into another currency of the holder's choice. These are convertible and non-convertible currencies. In Europe, only the currencies accepted by the ECB are admitted to trading. To facilitate the identification of each currency, there are different types of coding, one of the most widely used being ISO coding.

The most important fiat currencies are:

1. **Dollar (USD):** The US dollar is currently the most important currency, as it is the most widely used globally, with an average daily turnover of USD 2.2 trillion. In addition, this currency is also used in other countries in Latin America

and the rest of the world, either as an accepted means of payment or as a reference currency to which the exchange rate of the currency of these countries is anchored.
2. **Euro (EUR):** Although its creation dates back to the beginning of 2002, it is now the second most important business currency, being pegged to 19 of the 28 countries of the European Union.
3. **Yen (JPY):** Japan's official currency has its main value in being one of the reserve currencies of choice for Asian countries. It is also the third most traded currency, with a trading volume of close to $550 million.
4. **Pound sterling (GBP):** The British currency holds the title of the oldest currency still in circulation, as well as being the fourth most traded currency in the world, with almost 324 million dollars a day.
5. **Swiss franc (CHF):** Although it is not one of the most traded currencies today (it is in the seventh place with a daily turnover of $122 million), it gained prominence on the international scene during the First and Second World Wars, when it established itself as a reserve and exchange currency during those years.

There are two differences between cryptocurrencies and "fiat" money. The first is found in the way in which they are issued; while fiat money is issued by a state or public institution, cryptocurrencies are issued in a decentralized manner. The second difference is that cryptocurrencies are not physically minted.

These two differences do not affect the way in which some currencies are exchanged for others, for this reason it is necessary to know the currency market to understand how to invest in crypto assets.

4 Interest Rate Parity and Purchasing Power Parity

Financial assets such as stocks or bonds can be valued by discounting the cash flows they generate. But currencies are an asset that does not create cash flows, so how can they be valued?

Interest rate parity means that the interest rate differential between two countries is equal to the differential between current and future exchange rates. It means that if there is a positive difference in interest rates, there must also be a positive difference in exchange rates. Thus, the future exchange rate will be higher than the current one. Therefore, the country with the highest interest rate will have to depreciate its currency in the future.

This relationship is what avoids a possible arbitrage in the foreign exchange market, because otherwise someone could finance himself in the country which offers lower interest rates and buy the other currency, obtaining a risk-free exchange.

As for the theory of Purchasing Power Parity, it proposes that the exchange rate between the currencies of two countries should allow the same goods and services to be purchased in each other's currency, i.e., for the purchasing power to be equivalent. It is currently used by the International Monetary Fund to adjust the nominal

GDP per capita of each country and make a direct comparison of different economies through their GDP.

Currencies are associated with a country that has an inflation rate and an exchange rate, but cryptocurrencies are a global and decentralized phenomenon. Although there are different attempts to value cryptocurrencies (e.g., based on the cost of their mining) for the moment there is no consensus on their use, and we can conclude that their price is determined exclusively by supply and demand.

5 Cryptocurrencies: What Are They and How Did They Appear?

A cryptocurrency or crypto asset is a digital currency that fulfills the three main functions that are attributed to money.

- **Means of payment:** In this case, as it is a virtual currency and is not physically minted in the form of banknotes or coins, it can only be accepted as a means of payment in digital transactions.
- **Deposit of value:** It is an asset that can be exchanged for fiat currencies at the market exchange rate and is, therefore, a store of value, although with a certain level of risk, as it has been observed that the exchange rate volatility between cryptocurrencies and the dollar (the main reference currency) has historically been very high.
- **Unit of account:** In the same way that goods and assets can be valued in fiat currencies, they can be valued in cryptocurrencies according to that exchange rate.

They are considered an alternative investment asset to traditional investments, which allow for investment portfolio diversification and have similar characteristics to a safe haven value of other types of investments such as gold (Bouri et al. 2017, 2019; Paule-Vianez et al. 2020). For many users, they are considered a type of high volatile investment due to their high level of speculation (Baur et al. 2018), with revaluations of 122% and 1360% during 2016 and 2017, respectively. In fact, cryptocurrencies are not the first digital currencies, as digital money has been used for years, such as debit and credit cards, transfers, etc.

In addition to being an asset in which companies can invest their treasury, more and more companies are accepting cryptocurrency as a means of payment for their products and services, especially those that operate globally and in the technological field. Due to the appreciation that cryptocurrencies have had since their origin, there are real fortunes based on these assets. Offering the possibility of disinvesting cryptocurrency by buying goods and services is an option that can open up new markets for companies.

In 2008, Satoshi Nakamoto developed the code to create and exchange Bitcoin and introduce it as a payment, that is, “a new electronic money system that makes full use of a peer-to-peer (P2P) network, with no trusted third party” (Ammous 2022).

About why cryptocurrencies appear, in the press we can read the most disruptive interpretation: A new decentralized monetary model is sought, independent of states and central banks. Alternatively, a more materialistic interpretation can be reached: Cryptocurrencies appear because, in a context in which all registry systems are centralized, there is an unsatisfied demand for free, secure, and decentralized registry systems.

6 Trading with Cryptocurrencies

Having analyzed the concept of cryptocurrency, it is essential to study how buying and selling cryptocurrencies works. Essentially, the cryptocurrency market follows the same characteristics as the foreign exchange market described above, which offers the possibility of buying and selling currencies bilaterally and through exchange markets:

- Brokered, through an exchange that puts supply and demand in contact with each other.
- Bilaterally, through a P2P "Peer to Peer" or "Person to Person" exchange. It is a form of exchange in which both people agree with each other to make the exchange. P2P exchanges allow market participants to trade directly with each other without any third party to process all trades.

Advantages of P2P trading:

- The price is agreed between the parties.
- There can be total anonymity if desired.
- There are no transaction records.
- Agreed prices can be higher or lower than market prices.
- Greater availability of means of collection and payment.
- Low commissions.

Disadvantages of P2P trading:

- Security, as it is often unknown with whom the exchange is made
- Less liquidity, as we have to find someone who is looking for the same amount as us
- More complex, as it not so simple at the beginning
- Slower when it comes to exchanging
- The need to negotiate the price

Finally, with regard to the taxation of cryptocurrencies, the tax agency indicates that investing in cryptocurrencies is taxed in the same way as investing in any other asset. The sales made are taxed in personal income tax, in the savings tax base as capital gains from a purchase and sale.

7 What Is Blockchain?

Blockchain technology was first introduced by Satoshi Nakamoto. It is at the basis of all cryptocurrencies, such as Bitcoin, and is used by the financial industry and applicable for different areas. It can be defined as a shared, unalterable ledger that facilitates the process of recording transactions and tracking assets in a business network. Virtually anything of value can be tracked and traded on a Blockchain network, reducing risk and costs for all involved.

Whenever a transaction takes place, it is recorded as a "block" of data. These transactions show the movement of an asset, which can be tangible (a product) or intangible (intellectual). The data block can record the information of your choice: who, what, when, when, where, how much, and even the condition, such as the temperature of a food shipment.

Each block is connected to the previous and subsequent block, forming a chain of data as an asset moves from one place to another or changes ownership. The blocks confirm both the exact time and sequence of transactions and are securely linked together to prevent them from being altered or inserted between two existing blocks – the transactions are linked together and form an irreversible chain, a blockchain.

Each additional block reinforces the verification of the previous block and, therefore, of the entire blockchain. This makes such a chain tamper-proof, which is the main advantage of inalterability. This prevents altering the chain and creates a reliable distributed ledger of transactions.

The advantages of blockchain networks include the following:

- **Increased confidence**: If you use a private network to which only members have access, with blockchain you can be assured that you will receive accurate and timely data and that your confidential blockchain records will be shared only with specific members of the network whom you have authorized.
- **Increased security:** All network members must agree on the accuracy of the data, and all validated transactions are unalterable, as they are permanently recorded.
- **Greater efficiency**: Time wasted on record reconciliation actions is eliminated. In order to speed up transactions, a set of rules, called a smart contract, is stored on the blockchain and executed automatically.

8 Types of Blockchain Networks

Cryptocurrencies are usually registered in public networks, but there are also other types of blockchain networks that we must mention:

- **Public blockchain networks:** A public blockchain is one that anybody can join and participate in, such as bitcoin. They have very little privacy for transactions

and security is weak. Examples of public blockchain networks are Bitcoin, Ethereum, or Polygon.
- **Private blockchain networks:** A private blockchain network, similar to a public blockchain network, is a decentralized peer-to-peer network. However, a single organization manages the network and controls who is allowed to participate, decides when to run a consensus protocol, and is responsible for the shared ledger maintenance. A private blockchain network can be run behind a corporate firewall and can even be hosted locally.
- **Licensed blockchain networks:** Companies that establish a private blockchain network will generally do so on a licensed blockchain network. It is important to note that public blockchain networks can also be authorized. This imposes restrictions on who can participate in the network and in which transactions. Participants will need permission to join.
- **Consortium blockchain:** Several organizations can share the responsibilities of maintaining a blockchain. These preselected organizations determine who can send transactions or access data. A consortium blockchain is ideal for businesses when all participants must be authorized and have a shared responsibility.

9 Cryptocurrency Mining and ICOs

Cryptocurrencies are generated through the digital mining process, whereby cryptocurrency units are rewarded for investing computing power in its public blockchain network to process transactions, ensure network security, and keep all participants in sync. Two important concepts need to be analyzed:

- **Miners**: Anyone can become a cryptocurrency miner by using specialized software and hardware. Mining software looks out for transactions that are announced over a peer-to-peer network and performs the appropriate tasks to process and confirm those transactions.
- **Gas fee**: Miners perform this work and can thus obtain fees paid by users who want their transactions processed on that network faster, in addition to receiving cryptocurrencies, which are created based on a fixed formula.

To mine cryptocurrencies, be it Bitcoin, Ethereum, or others, specialized equipment is required. This equipment is known as cryptocurrency “miners.” They are available from a number of global retailers.

The factors to consider in assessing the viability of a cryptocurrency mine are as follows:

- The equipment and its cost
- The competition at that moment
- The price of electricity and the energy consumption of being connected 24 hours a day
- The cooling required by the equipment and its corresponding energy

- The profitability of the cryptocurrency at that time
- The cryptocurrency we want to mine will vary from one to another

Alternatively, the cryptocurrencies can be issued in an ICO. An Initial Coin Offering (ICO) is a type of financing using cryptocurrencies. In an ICO, cryptocurrencies are sold in the form of "tokens" to speculators or investors in exchange for traditional cash or other cryptocurrencies such as Bitcoin or Ethereum (Hacker and Thomale 2018). The tokens are sold as "future" units of the coin when the ICO reaches its target, and the project is launched. They are smart contracts based on Blockchain technology that allow users to obtain external funding by issuing tokens without the need for intermediaries and financial globalization, as well as to raise capital much more quickly from the sale of tokens to different users.

ICOs do not have a good reputation nowadays. Projects have been observed that have raised financing with the sale of cryptocurrencies in the ICO. That money had to be used to develop a project whose utility pivoted on that cryptocurrency, but in some cases, nothing was developed. As a cryptocurrency is just a means of payment, there are no rights associated with it and investors felt cheated. This bad experience is a disincentive for entrepreneurs who want to finance themselves through an ICO.

10 Asset Tokenization

A blockchain token is a digital representation of a value or utility. Its registration on the blockchain ensures the record of token transactions taking place between people or entities. Asset tokenization is the process of generating tokens that digitally represent the securities or rights that can be legally issued by any natural or legal person, as well as any digital asset representing a work of art or a collector's item.

This tokenization process provides the following advantages for investors:

- **It democratizes investment**: It allows retail or wholesale investors to invest in financial or non-financial assets with minimal capital or to diversify the investment portfolio.
- **Liquidity**: It provides a bilateral secondary market that allows for immediate liquidity of the investment.
- **Transparency**: It facilitates free determination of prices showing the market value of assets.
- **Security**: Blockchain technology, as it is based on a distributed system, which is practically impossible to hack.

11 Types of Tokens

There are different types of tokens. All of them are recorded on blockchain networks, but each one has different characteristics:

The **Security Token** is a hybrid between company shares or a financial asset and a cryptocurrency, with the advantage of having a lower cost than stock market shares and the security and advantages of blockchain technology. Security tokens are a type of cryptographic token linked to traditional security (financial assets).

Blockchain technology enables security tokens to be digitalized, providing them with many advantages that reduce costs, time, and bureaucracy. Security tokens provide their owners with rights and obligations:

- Political rights: For example, voting rights
- Economic rights: For example, the right to participate in dividends

There are many types of security tokens according to which asset is representing:

- **Equity**: One of the most common is traditional company shares, which instead of being listed in a tradition stock market, or being represented physically, each share of the company is represented by a token recorded in a public blockchain network (Ethereum, Polygon, etc.).
- **Debt**: Entrepreneurs can go to the bank to request a loan, or they can issue tokens representing that debt and finance themselves through the sale of tokens. The owner of the token will have the following rights associated with the loan:
  - Right to receive interest, at a fixed or variable rate or by participating in the benefits of the project
  - Right to return the principal or to exchange it at the time of amortization for another asset
- **Investment fund**: The manager of a project can issue tokens, and each one is representative of the participation in an investment fund with a specific objective. The owners of the tokens will participate in the collective performance of the fund.

Insofar as a token is representative of a financial asset, it will be subject to the regulations that apply to that asset, in the case of Spain, the Securities Market Law and the MiFID regulations, and must therefore be supervised by the CNMV (Spanish Securities Market Commission).

The **Utility Tokens** are a special type of token that help companies by creating a kind of voucher that can be redeemed in the future for access to their services or any other commercial advantage such as discounts, participation in events, prize draws, etc. Unlike security tokens, by offering a potential reward, they fall outside the scope of financial assets and are therefore not regulated under MiFID.

Fan Tokens are a kind of utility tokens very famous nowadays. These tokens are designed to give owners the ability to enjoy special benefits. These assets act as a digital pass that allows their owners to win exclusive prizes or live unique experiences and even vote and influence some of the decisions of your favorite teams. Likewise, Fan Tokens are also used to purchase goods and function as a tool to enhance user loyalty programs.

Despite being closely linked to soccer, Fan Tokens are not exclusive to this sport. Although it is true that most of the teams that have launched this type of digital asset belong to the world of football, there are also basketball, tennis, Formula 1, or rugby teams, among others.

One of the main advantages that Fan Tokens provide to their owners is the possibility to influence some minor team decisions like the choice of a new uniform, the team motto, warm-up, or celebration music. These digital assets also offer new ways to bring fans closer to their favorite teams and players. This is what has grown the number of sports teams joining Partners and other platforms in the last year. In socios.com there, are currently more than 120 sports teams discovering the potential of blockchain technology through Fan Tokens. Likewise, the sale of Fan Tokens helps the teams to access financing resources.

Therefore, utility tokens and fan tokens have become a new source of financing for entrepreneurs, while also being a catalyst for the relationship with their customers or fans.

Up to this point, all the tokens described are fungible. The concept of fungible asset is defined as an asset that is determined only by its gender and can, therefore, be replaced by another, provided that the gender is the same. For example, coins are fungible because each unit is interchangeable for any other equivalent individual unit. A ten-dollar note is interchangeable with any other ten-dollar note that is genuine. This is an essential characteristic for any asset that is intended to act as a means of exchange.

In contrast, the non-fungible good is not replaceable; it has been determined by its species or individuality and cannot, therefore, be replaced by another, even within the same genus: the Non-Fungible Token (NFT). This is a token registered on the blockchain network that represents a unique asset. These can be fully digital assets or tokenized versions of real-world assets (paintings, sculptures, autographs, coins, etc.).

Fungibility is not an attribute that is beneficial for collectibles. Since NFTs are not fungible and therefore interchangeable with each other, they can act as proof of authenticity and ownership within the digital environment. Transactions are secure for bidders because tokens' unique code allows to verify the provenance.

NFTs have become the ally of artists of both physical and virtual works of art. They guarantee the authenticity of the work, thanks to the security and traceability of the blockchain network, in addition to allowing participation in the payments made to the holder of the copyright of a product for its exploitation, known as royalties.

NFTs are registered in public blockchain networks, especially in the Ethereum network, which makes it possible to define smart contracts with the characteristics of the asset and the transaction. In this smart contract, *royalties* can be defined in such a way that the author of the work can receive a percentage of the price of all transactions carried out with that asset.

Entrepreneurs who work in the world of art or whose activity is capable of generating highly valuable collector's items have NFTs as a tool that will allow them to guarantee the authenticity of these assets and participate in the second-hand market by applying royalties.

Likewise, businessmen in the luxury sector have in NFTs a differential tool to certify the authenticity of their work. Until now, luxury items have been associated with a certificate of authenticity that is as falsifiable as the item itself. A luxury bag or watch will only be authentic if it has an NFT associated with it. The absence of NFT will be an indication that we are talking about a fake.

12 STOs and UTOs

An STO (Security Token Offering) is the process of issuing and distributing security tokens that grant economic rights over the issuing company to investors, either in the form of equity or debt, and are backed by something tangible: profits, cash flows, assets, etc.

The process by which an asset, represented in a physical document, is converted into a digital asset (token) is as follows:

1. Signing of the contracts reflecting ownership rights.
2. Registration of these contracts and issuance of tokens for the proportional value of these assets.
3. The tokens are deposited in the owner's wallet.
4. Tokens can be exchanged bilaterally.
5. The issuer of the tokens will periodically remunerate the token holder for the return that these property rights have generated.

The process of issuing a token is equivalent to that followed by the IPO in the stock markets. The difference is that transactions are recorded on the blockchain network instead of being recorded in the centralized systems of an organized market.

A UTO (Utility Token Offering) is the process of issuing and distributing Utility Tokens to investors, giving them the right to access a service or receive a product, without affecting the fact that the offer usually refers to expectations of revaluation and liquidity or the possibility of trading them on specific markets.

13 Conclusions

Money appears to cover the deficiencies of barter, and cryptocurrencies appear, as an evolution of money, to cover an unsatisfied demand, offering a distributed and secure ledger system. Entrepreneurs today have in cryptocurrencies a new asset in which they can invest their treasury and an alternative means of payment to "fiat" money that opens up the marketing of their products and services in a new market.

In addition, blockchain technology has multiple applications in the real world that are very useful for the entrepreneur. Entrepreneurs have a new source of financing with the issuance of security and utility tokens, which they can also use as a tool to foster relationships with their customers or fans.

Another instrument based on blockchain technology, available to the entrepreneur, which is revolutionizing the art and collectors' items sector, is the NFTs, which allow these works of art and luxury items to be sold safely and without counterfeiting.

References

Ammous S (2022) "El patrón Bitcoin. La alternativa descentralizada a los bancos centrales" Deusto. Primera edición ampliada y actualizada: enero de 2022

Baur DG, Hong K, Lee AD (2018) Bitcoin: medium of exchange or speculative assets? J Int Financ Mark Inst Money 54:177–189

Bouri E, Molnár P, Azzi G, Roubaud D, Hagfors LI (2017) On the hedge and safe haven properties of Bitcoin: is it really more than a diversifier? Financ Res Lett 20:192–198

Bouri E, Shahzad SJH, Roubaud D (2019) Co-explosivity in the cryptocurrency market. Financ Res Lett 29:178–183

Hacker P, Thomale C (2018) Crypto-securities regulation: ICOs, token sales and cryptocurrencies under EU financial law. Eur Co Financial Law Rev 15(4):645–696. https://doi.org/10.1515/ecfr-2018-0021

Paule-Vianez J, Prado-Román C, Gómez-Martínez R (2020) Economic policy uncertainty and bitcoin. Is bitcoin a safe-haven asset? Eur J Manag Bus Econ

Raúl Gómez-Martínez Since 2007, he has been teaching finance subjects of Rey Juan Carlos University, and he has several articles published in scientific journals, as well as participation in congresses where he has obtained different awards. Since 1997, he has collaborated as a consultant with the main financial Spanish Banks, mainly in projects related to financial markets, big data and analytics, and blockchain. From June 2015 to December 2017, he was CEO of the technology company Apara, since January 2017 he is a founding partner of InvestMood Fintech, and since 2021 he is CEO of Open 4 Blockchain Fintech.

Camilo Prado-Román received his PhD in 2009 from Rey Juan Carlos University. He is an Associate Professor in Finance in the Business Economics Department at Rey Juan Carlos University (Madrid). Camilo is a member of the European Academy of Management and Business Economics (AEDEM) and now serves as Secretary General of the Academy. He was also Director for the Master in Advanced Management at Rey Juan Carlos University 2010–2018. His research interests include alternative investments, organizational legitimacy, SCR, and creating shared value.

Antonio Alcázar-Blanco obtained a PhD in Financial Economics and Accounting with the qualification of Outstanding Laude, Diploma in Business Studies from the University of Extremadura and degree in Actuarial and Financial Sciences from the same University, Master in Research in Social and Legal Sciences from the University of Extremadura and Master in Teacher Training in Compulsory Secondary Education and Baccalaureate, and Vocational Training and Language Teaching from the Antonio de Nebrija University and was Professor of the Department of Financial Economics and Accounting of the University of Extremadura.

Managing Transparency and Legitimacy in Startups

Sandra Escamilla-Solano, Antonio Fernández-Portillo, and Javier de la Fuente Flores

Abstract In recent years, society and companies have faced numerous crises, which have devastated not only the economy but also the confidence of stakeholders, especially that of investors and funders. This fact has resulted in entrepreneurs fighting to raise funds for their projects, regardless of the life phase of their projects. In this sense, the scientific evidence literature indicates that reducing the asymmetry of information between a company and a funder or investor is necessary. The responsible management of companies and how they disclose non-financial information translates into an improvement in transparency, having an impact on reputation, image, legitimacy, and results and therefore on improving access to new funds and better conditions. This chapter discusses the importance of transparency as a form of engagement with stakeholders and especially with funders. The development of new technologies acts in favor of transparency in that society can obtain information from companies at the click of a button. That is why companies must maintain an attitude of resilience to changes in the environment. So, the challenge is to know how to use these variables to their advantage, that is, how appropriate use of information and transparency allows them to send positive signals to an increasingly demanding market with companies.

Keywords Transparency · Legitimacy · Entrepreneurs · Risk · Financing

S. Escamilla-Solano
Department of Business Economics, Universidad Rey Juan Carlos, Madrid, Spain
e-mail: sandra.escamilla@urjc.es

A. Fernández-Portillo (✉)
Department of Financial Economics and Accounting, Universidad de Extremadura, Cáceres, Spain
e-mail: antoniofp@unex.es

J. de la Fuente Flores
Department of Entrepreneurship of the North Region, Tecnológico de Monterrey, Monterrey, Mexico
e-mail: javier.delafuente@tec.mx

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_9

1 Introduction

Access to financial resources and the conditions of term, cost, and enforceability are challenging for most entrepreneurs. Therefore, scientific evidence and public institutions have tried to highlight and demonstrate this financial problem, for most entrepreneurs, by implementing new instruments and mechanisms. That is why we can find numerous initiatives to face this challenge such as public aid, mutual guarantee societies, participative loans, and venture capital entities (Palacín-Sánchez and Di Pietro 2016). In the case of consolidated entrepreneurs, we find bank loans, or secondary markets, among other options, that try to mitigate, or at least soften, this challenge (Palacín-Sánchez and Di Pietro 2016).

Both founders and investors face cases where the uncertainty is so extreme that it qualifies as unknown: they decide to invest in ideas for markets that often do not exist yet, and they propose new products and services without knowing if they will work. Rather than simply being faced with decision contexts where probabilities are unknown (e.g., Knight 1921), entrepreneurial investors are faced with the kinds of "unknown unknowns" (Diebold et al. 2010), which include both uncertainty and noise due to a large amount of unsystematic risk and evolving certainty conditions around systematic risk (Knight 1921; Foss and Klein 2012). They must decide between uncertain solutions for a market and, at the same time, deal with the inherent uncertainty about the services, products, and markets themselves. This is the equivalent of "chasing an invisible moving target." Due to this problem, entrepreneurs have great difficulties in accessing financing, and this in many cases represents a major break in the development and even in the birth of new business projects (Blumberg and Letterie 2008; Krasniqi 2010; Vega et al. 2017).

That is why it seems necessary to continue investigating the process of obtaining financing for entrepreneurs, regardless of their phase, to detect new items that can help focus on the arduous task of obtaining financial resources for these business projects (Cassar 2004).

This work aims to face the reduction of uncertainty since we must be aware that, to access financing, we must provide information about the company to investors and lenders, regardless of whether it is a venture capital fund, microcredits, crowdfunding, crowdlending, or even in the more advanced levels of business projects in the stock market (Kerr and Nanda 2009; Hemer 2011; Shane 2012; Tomczak and Brem 2013; Ghosh and Guha 2014). In addition, in line with the above, there are several authors who point out that part of the problem of access to financing is of agency and information asymmetry (Denis 2004; Mahagaonkar 2009; Beck 2013). In this sense, it is very important to work to mitigate the decompensation of the information available to the parties involved (the entrepreneur and the investor), so that both parties can face the prospects with a little more security (Berger and Udell 1998; Jaworski 2012). The problem of acting in a context of information opacity translates into a manifest inability on the part of financing providers to know perfectly the quality of investment projects, which in this case are entrepreneurs or companies, so that distortion is generated in the efficient allocation of financial resources. Specifically, these asymmetries, which have been studied for decades, can manifest themselves in the well-known problems of adverse selection (Akerlof 1970; Jaworski 2012) or moral hazard that occurs when one of the intervening parties can be affected by actions taken by the other party that is not easily observed, because the information is difficult to verify (De Meza and Webb 1987).

Currently, entrepreneurs have at their disposal numerous ways to access financing, adapted to the different phases of maturity of the company, but in many cases, it faces difficulty on the part of the lender or investor to identify the most relevant entrepreneurial projects. This situation is transformed into a generalized tightening of the conditions of access to credit, which can sometimes generate an expulsion effect of the best and most solvent business projects since sometimes they are not willing to obtain financing with the required conditions (Minola and Giorgino 2008).

Bearing in mind all the above, it is necessary to know if there is any way to improve the interest of investors, in business projects, both new entrepreneurs, and those already consolidated. So, we understand that one way to answer this question is to consider as an objective of this work and analyze the importance of showing clear and transparent information about the company, in order to give the best possible image for future investors and financiers.

With this, we intend to take a step forward so that the company is better prepared to access what it wants from the existing types of external financing.

2 The Financing of Entrepreneurial Projects

In recent decades, research has been carried out on the difficulty of access to financing according to the needs, of companies, especially when they need it most, which is in its initial phases, or when they are going through a wrong time, in fact, this is one of the main factors that affect business failure (Díaz et al., 2014; Fernández-Portillo et al., 2018).

More than two decades ago authors such as Carpenter and Petersen (2002) noted in their research on this problem, which is also increased in the most innovative projects, due to the doubts generated by the return on investment associated with projects with a strong technological component (Riding et al. 2012; Hoyos-Iruarrizaga et al. 2017).

New business projects, especially those associated with new technologies, sometimes present difficulties for their commercialization, either due to a lack of maturity in their development or ignorance of the markets. In line with this, potential investors value them with a lot of risks, because they are usually associated with expensive and innovative processes, longer maturation periods, strong depreciation due to obsolescence, difficulties in communicating the milestones achieved, lack of management and marketing skills on the part of entrepreneurs, and uncertainty regarding the acceptance of the new product or service (Hoyos-Iruarrizaga and Saiz-Santos 2010; Riding et al. 2012).

In many cases, investments are based on a new and sophisticated technology or technical knowledge, which makes the investor have less information than the entrepreneur about the project to be financed, generated in most cases, by the lack of precedents in similar projects; the impossibility of carrying out an analysis of rigorous risk, which delimits access to financing; and the difficulty of recovering the investment in case of liquidation (Hoyos-Iruarrizaga et al. 2017; Minola and Giorgino 2008).

This situation means that new companies with an innovative profile cannot access bank financing due to the difficulty of demonstrating their solvency and providing guarantees, so this is not the ideal type of financing for new entrepreneurs (Freel 2007).

In this line, the business angel continuously searches for information about new entrepreneur's projects, for choosing the best project to invest in. If they do not have information, they invest in projects for intuition, with the risk added (Huang and Pearce 2015).

3 Information and Transparency: A Positive Sign for Investors

3.1 Transparency as a Vehicle for Generating Value

The concept of transparency is characterized by being of high complexity. That is why it cannot be understood as meaning that the level of transparency of the company is subject only to the rendering of its accounts or the information that it transmits to its stakeholders. Thus, Marcuello et al. (2007) identify as a transparency the company's ability to be available and capable of providing any type of information. In this line, Villanueva (2011) understands transparency as the position assumed by entities, whether public or private, to behave based on ethical standards and whose processes and results can be presented to all those who need their knowledge. This implies that the company will not be able to make distinctions between the stakeholders with which it relates. If the company were to consider that the level of transparency depends on the impact that the different stakeholders had on its activity, it could be more inclined to be more transparent with its investors, but very little with consumers or with society. Therefore, Ruiz et al. (2008) defend that the need to be transparent cannot only be identified by investors since the decisions of the company have an influence as a greater or lesser impact on all the stakeholders of the same. Therefore, transparency can be defined as the set of mechanisms whose main functions are the verification and evaluation of business actions and the analysis and communication of secure and truthful information by the different stakeholders of the company (Prado-Roman et al. 2018; Gálvez et al. (2009).

Transparency is an element of enormous relevance in all areas since it has been identified as a generator of both reputation (Baraibar and Luna 2012), trust

(Arredondo et al. 2014) and legitimacy (Díez et al. 2014). In order for transparency to be considered a generator of trust, the company must be able to respond to all the questions raised by any of its stakeholders about the operation of this. We must consider that the development of ICT and the accessibility to information of companies will increase the possibilities for investors to make more convenient decisions (Kliksberg 2003). This is because the concepts of transparency and information have been able to reduce the asymmetry between the company and the information related to decision-making known to the different stakeholders (García et al. 2016), and among them, we find investors and financiers.

The disclosure of both financial and non-financial information involves an exercise in self-criticism, are we transparent? Who do we want to provide information to? The first transparency exercise will be the search for the interest groups that the company has, how they define them, and how they prioritize them (Bonilla-Priego and Benítez-Hernández 2017). In this way, it shows the commitment not only that the company towards its stakeholders, in addition to transferring the company, focuses on the search for a greater benefit in the short term but also that sustainable decisions are made, and these can influence the different stakeholders of the company (López et al. 2007). In addition, a higher level of transparency will allow the company to enjoy a higher valuation, reduce financing costs, improve the return on its investments, and give investors a greater ability to focus their investment decisions on this company, as well as improve their reputation in the market (Gibbins et al. 1990; Lev 1992; Watson et al. 2002; Baraibar and Luna 2012).

By now we know that transparency is key in the strategic management of the company. According to how the company decide to manage it, it can serve as a vehicle for legitimacy, reputation, and trust with stakeholders. An example of successful transparency management can be found in companies that year after year present themselves for awards where the use of corporate social responsibility reports has transparency as its main focus. One of these awards is the Ecumenical Social Forum's award for the best report, where the level of disclosure of both financial and non-financial information is valued; those companies with a high degree of transparency are awarded year after year. On the other hand, it is also known that bad transparency management can lead to such a significant loss of trust that it can lead to a decrease in the company's legitimacy and reputation, as well as to a significant decrease in its overall stock market and economic valuation. An example of mismanagement of transparency can be found with the Volkswagen case where since 2008 it begins an environmental awareness campaign manifesting on the one hand a commitment to both the environment and society. It is in September 2015 that the scandal comes to light. The Volkswagen group revealed the use of a software that allowed the avoidance of NOx gases when certain tests were carried out on vehicles. This lack of transparency caused not only economic repercussions worldwide with a significant decline in sales, a stock market loss of more than 31% on the German stock exchange and about 52,028 million €, but a reputational loss that to this day has not yet recovered.

3.2 Corporate Social Responsibility as an Element that Enhances the Financial Attractiveness of the Company

Globalization has led to spectacular growth in the interrelationships of the agents operating in the world, with the main consequence of increasing the power of large multinationals. The role of new technologies (Prado 1995), the inclusion of ethical values in the company's strategy (Bañon et al. 2011), the need to increase the reputation and value of human capital (Lipovetsky 2006), as well as the need to disclose all the actions and measures they carry out (Escamilla-Casado et al. 2016) imply that the business paradigm changes.

CSR focuses "on the voluntary integration by the company, both in its form of governance and management, of social, environmental, economic concerns and respect for Human Rights derived from the relations that the company maintains with its direct stakeholders, as well as with any person who is affected by the development of its economic activity" (Escamilla-Casado et al. 2016:196). In short, it is about assuming a responsibility that goes beyond what is legally required and that is focused on improving the social and economic well-being of the company, as well as the environment that surrounds them.

Those who really make an evolution of CSR possible are the stakeholders that are affected by companies (Freeman, 1984). On the one hand, shareholders demand greater transparency in the actions carried out by the company with the aim of transferring confidence to the markets; on the other hand, consumers request quality, innovative products, and services with fair prices every day (Kliksberg 2006); employees who request increasingly humanized companies and are concerned about the well-being of the company's human capital (Del-Castillo-Feito et al. 2022). And finally, society is aware that for the company to succeed, CSR cannot remain on the sidelines. The role of companies to the society must be in line with the chosen economic model, considering the company as a social entity (Navarro García 2008) that is in contact with its environment. In this context, the application of CSR policies is justified by the fact that it helps to resolve conflicts and distribute the value created among the different stakeholders. Thus, socially responsible companies will obtain positive future effects that will ensure the sustainability of both the company and society (Porter and Kramer 2003); strengthen their competitive position, motivated by the greater acceptance of their image, and, therefore, minimize their reputational risk (Porter and Kramer 2003; Méndez 2005; Valderrama 2007); acquire competitive advantages (Olmedo and Martínez 2011); and help increase their legitimacy (Díez et al. 2014).

3.2.1 The Effect of Disclosure of Non-financial Information

Companies must know how to interact in a global world where the demands of society will be to reward or punish for their social, environmental, and economic actions, being much more demanding as a result of the scandals experienced (Baumann 2016; Barauskaite and Streimikiene 2020). Companies must be able to harmonize and balance value creation and sustainable development (Ntanos et al. 2018). Hence, a differentiating element is the disclosure of its shares to society (Escamilla-Casado et al., 2019; Torelli 2020), especially in sectors whose social and environmental impact is greater, so that they can turn it into a competitive advantage (Escamilla-Solano et al. 2016). In this way, it allows the company to know how society reacts to the disclosure of such information (El Akremi et al. 2018). It has always been considered that transparency is a variable to consider when analyzing the disclosure of CSR information, positively valuing this commitment on the part of the company to communicate the company's actions to stakeholders (Alejos 2015). There is no doubt about the benefits generated by the disclosure of information for the company's decision-making (Piechocki 2004; Toms 2002), but just as there is no consensus on whether or not it is CSR, when we analyze the level of disclosure of company information it tends to be confused with being more or less transparent. Baraibar Diez and Luna Sotorrío (2018) reveal that there is a problem in confusing transparency with disclosure, understanding transparency as something that goes beyond disclosure. Finally, we must point out that, within the practices carried out by responsible and sustainable companies, the practice of good governance in the company is identified as essential in the establishment of an adequate level of transparency (Canales and Romero 2017).

At this point, the following question should be asked: what is the effect of disclosure of non-financial information on companies? If the voluntariness of CSR practices is already accepted, one of the challenges we face is disclosure. While the disclosure of non-financial information is becoming a common practice at a global level, Europe Directive 95/2014/EU has been a turning point in addressing how companies disclose their CSR actions (Cupertino et al. 2022), by establishing a standardization in the disclosure of non-financial information at the European level (Ştefănescu et al. 2021).

In Spain, it will be Law 11/2018, which transposes the European Directive on non-financial information and diversity, that marks the path of the disclosure of this type of practice. Although the regulations are mandatory for companies with more than 500 employees (or if for two consecutive years it has an average of 250 employees), it is interesting that all companies disclose this type of information. The objective is none other than to improve sustainability and increase the confidence of the stakeholders, and among them again, we find investors and financiers. To do this, companies should expand on the information:

- Environmental environment: analysis of current and future effects of their impact on the environment, eco-efficiency program
- Social: actions to ensure gender equality, working conditions, respect for trade union rights, health and safety at work, and relations with local communities

- The anti-corruption
- Diversity: actions related to training, professional experience, age, capacity, and gender, as well as objectives and results of equality between the presence of men and women on the Board of Directors

3.2.2 Transparency and CSR Indicators

We always consider that when it comes to addressing CSR practices, it is only done by large companies, but the reality is not so. It is necessary that the managers of companies regardless of size or, going further, future entrepreneurs become aware of the advantages of the disclosure of CSR not only as a way to make transparent the benefits that their service offers to society but as a way to obtain a competitive advantage. It is vital that the stigma that the implementation of CSR actions is an expense for the company is removed. If long-term vision is maintained, the investment in CSR will allow acquiring capacities and skills that generate competitive sources, resulting in the improvement of its reputation and image, improving relations with society and environments where it develops its activity, increasing the satisfaction of stakeholders, as well as increasing employee motivation and reinforcing the values of the company's organizational culture (Escamilla-Casado et al. 2016: 201).

When it comes to addressing which are the indicators to evaluate the degree of transparency of companies, the indicators used by the Spanish Association of Transparency Professionals (Acreditra) are interesting, distributed in three blocks: Active Advertising, Right of Access to Public Information, and Transparent Organization with a total of 149 indicators. After performing an analysis of these, standard indicators are presented that any company should consider if it wants to use transparency as a vehicle that generates value and competitive sources.

Box 1 Indicators Used by the Spanish Association of Transparency Professionals (Acreditra)

Information about the entity and governing bodies	
1	Name and basic data of the entity
2	Purpose and functions of the entity
3	Relationship with public and private entities
4	Enumeration of governing bodies
5	Nominal list of members of the governing and management bodies
6	Updated curriculum vitae of the members of the governing and management bodies
Indicators of analysis of the organization and human resources	
7	General organization chart of the entity
8	Functions of departments

9	Contact of the departments
10	List of jobs
11	Job boards
12	Staff selection processes
Indicators of analysis of the relationship with the groups of interest	
13	Opening hours
14	Website
15	Prices and number of services and fees
16	Guide to procedures and procedures and/or service catalog
17	Complaints and suggestions
Indicators for the analysis of economic-financial information and equity	
18	Full quotes
19	Annual accounts
20	Debt ratios
21	Term of payment to suppliers
22	Economic-financial ratios
23	Financial sustainability report
Indicators for analysis of the level of planning, management and evaluation	
24	Statistical data and socioeconomic indicators on their territorial or sectoral scope of action
25	General plan or program of the entity
26	General memory of the entity
27	Effectiveness and efficiency indicators
Indicators of commitment analysis and general principles of transparency and good governance	
28	Code of Good Governance or Code of Ethics
29	Transparency regulations
30	Friendly and understandable website
31	Free access to transparency information
32	Publication on the web of news of interest
33	Gender equality
34	Social responsibility actions
35	Sustainability report

Source: Own elaboration based on Acreditra (2016).

Regarding CSR indicators, it should be borne in mind that various organizations have recommended and designed indicators and indices that are taken as a reference, for example, Global Reporting Initiative (GRI), Accountability, United Nations with the 2030 Agenda. Here are some indicators that can allow assessing whether a company is socially responsible or not.

Box 2 Indicators for Social Responsibility

Social dimension	
1	Assistance and social benefits
2	Sponsorship and patronage
3	Foundation
4	Reconciliation of work and family life
5	Employment for disabled personnel
6	Continuous training
7	Equal opportunity
8	Respect for human rights
9	Occupational Health & Safety
10	Corporative volunteering
11	Customer satisfaction
12	Certificate family-responsible company
Environmental dimension	
13	ISO Certificate
14	Environmental audits
15	Innovation projects
16	Waste management
17	Eco-efficiency programs
18	CO2 reduction programs
19	Environmental training
Economic dimension	
20	Inclusion of CSR mission, values, and vision
21	Good brand management
22	Included in sustainable indexes
23	Compliance with the United Nations Global Compact
24	Cost reduction
25	Code of Ethics and Conduct
26	Relationship with suppliers
27	Information transparency
28	SDG
29	Value creation management model

Source: Escamilla-Casado et al. (2019).

4 Conclusions

To conclude this chapter, we must be aware that entrepreneurs, regardless of the phase in which their company is, may need financing and make their company attractive to investors. In this line, we have detected that the more transparent a company is in the face of its investors, and financiers, the more profitable it will be, and consequently, it is more likely that it will survive the dreaded business failure (Díaz et al., 2014; Fernández-Portillo et al., 2018; Escamilla-Casado et al., 2016; Escamilla-Solano et al., 2019).

Based on these premises, we have managed to show the most relevant indicators of the disclosure of non-financial information, which are of most interest to improve the performance of listed companies (Escamilla-Solano et al., 2019). With all this, we want to conclude that, for the entrepreneur, it can be decisive to invest in the disclosure of their information, following already defined patterns, such as those shown in this work, because they help reduce the bias of company-investor information and therefore improve confidence in the business project, on which you want to invest. As for the limitations of this work, we want to collect that this work is limited by the lack of an ad-hoc field study, which allows this study to be tested in business projects at different levels of their life cycle, in order to demonstrate that this proposal is empirically contrasted in all phases of the development of a company. For this reason, we must delve into an empirical study with companies at different stages of their life cycle. That is why, as a future line of research, we propose to carry out an empirical study with companies at different stages of their life cycle.

References

Acreditra (2016) "Principales resultados recogidos en el Segundo Barómetro de la Transparencia de España 2016 desarrollado por Acreditra". Disponible en: http://acreditra.com

Akerlof GA (1970) 4. The market for 'lemons': quality uncertainty and the market mechanism. Market Failure or Success, 66

Alejos CL (2015) Transparencia: fuente de confianza en la empresa", Cuadernos de la Cátedra "la Caixa" de Responsabilidad Social de la Empresa y Gobierno Corporativo, 27: 1–32

Arredondo TFG, De la Garza GJ, Vázquez PJC (2014) Transparencia en las organizaciones, una aproximación desde la perspectiva de los colaboradores. Estudios Gerenciales 30:408–418

Bañon A, Guillen M, Ramon N (2011) La empresa ética y responsable. Universia Business Review 30:32–43

Baraibar Diez E, Luna Sotorrío L (2018) The mediating effect of transparency in the relationship between corporate social responsibility and corporate reputation. RBGN-Revista Brasileira de Gestao de Negocios 20(1):5–21

Baraibar E, Luna L (2012) The influence of transparency of university social responsibility in the creation of reputation. Reg Sect Econ Stud 12(3):21–31

Barauskaite G, Streimikiene D (2020) Corporate social responsibility and financial performance of companies: the puzzle of concepts, definitions and assessment methods. Corp Soc Responsib Environ Manag 28(1):278–287

Baumann D (2016) Corporate social responsibility in a globalizing world. Bus Ethics Q 26(1):137–141

Beck T (2013) Bank financing for SMEs–lessons from the literature. Natl Inst Econ Rev 225(1):23–38

Berger AN, Udell GF (1998) The economics of small business finance: the roles of private equity and debt markets in the financial growth cycle. J Bank Financ 22(6-8):613–673

Blumberg BF, Letterie WA (2008) Business starters and credit rationing. Small Bus Econ 30(2):187–200

Bonilla-Priego MJ, Benítez-Hernández P (2017) El diálogo con los grupos de interés en las memorias de sostenibilidad del sector hotelero español. Revista de Contabilidad – Spanish Accounting Review 20(2):157–166
Canales JM, Romero A (2017) Algunas consideraciones sobre la transparencia pública y el buen gobierno. Revista Española de Transparencia 5:115–127
Carpenter RE, Petersen BC (2002) Capital market imperfections, high-tech investment, and new equity financing. Econ J 112(477):F54–F72
Cassar G (2004) The financing of business start-ups. J Bus Ventur 19(2):261–283
Cupertino S, Vitale G, Ruggiero P (2022) Performance and (non) mandatory disclosure: the moderating role of the Directive 2014/95/EU. J Appl Acc Res 23(1):163–183. https://doi.org/10.1108/JAAR-04-2021-0115
De Meza D, Webb DC (1987) Too much investment: a problem of asymmetric information. Q J Econ 102(2):281–292
Del-Castillo-Feito C, Blanco-González A, Hernández-Perlines F (2022) The impacts of socially responsible human resources management on organizational legitimacy. Technol Forecast Soc Chang 174:121274. https://doi.org/10.1016/j.techfore.2021.121274
Denis DJ (2004) Entrepreneurial finance: an overview of the issues and evidence. J Corp Finan 10(2):301–326
Díaz JC, Fernández-Portillo A, Sánchez-Escobedo MC, Hernández-Mogollón R (2014) Estructura intelectual del fracas empresarial. Faedpyme international review 3(5):43–55. http://hdl.handle.net/10317/4354
Diebold FX, Doherty NA, Herring RJ (2010) The known, the unknown, and the unknowable in financial risk management: measurement and theory advancing practice. Princeton University Press
Díez F, Blanco A, Cruz AI, Prado C (2014) Efecto de la Responsabilidad Social Empresarial sobre la Legitimidad de las Empresas. Anuario Jurídico y Económico Escurialense 47
El Akremi A, Gond JP, Swaen V, De Roeck K, Igalens J (2018) How do employeesperceive corporate responsibility? Development and validation of a multidimensional corporatestakeholder responsibility scale. J Manag 44(2):619–657
Escamilla-Casado S, Plaza-Casado P, Flores-Ureba S (2016) Análisis de la divulgación de la información sobre la responsabilidad social corporativa en las empresas de transporte público urbano en España. Revista de Contabilidad – Spanish. Account Rev 19(2):195–203
Escamilla-Solano S, Fernández-Portillo A, Paule-Vianez J, Plaza-Casado P (2019) Effect of the disclosure of corporate social responsibility on business profitability. A dimensional analysis in the Spanish stock market. Sustainability 11(23):6732
Fernández-Portillo A, Díaz-Casero JC, Sánchez-Escobedo MC, Hernández-Mogollón R (2018) Conocimiento certificado del fracas empresarial: un análisis bibliométrico del periodo 1965-2012. Espacios 40(16):18–38
Foss NJ, Klein PG (2012) Organizing entrepreneurial judgment: a new approach to the firm. Cambridge University Press
Freel MS (2007) Are small innovators credit rationed? Small Bus Econ 28(1):23–35
Freeman RE (1984) Strategic management: a stakeholder approach. Pitman, Boston
Gálvez RMM, Caba PMC, López GM (2009) La Transparencia On-line de las ONG Españolas. Revista Española del Tercer Sector 13(SeptiembreDiciembre):63–86
García LMJ, Amat O, Rocafort A (2016) Self-perception of ethical behaviour: the case of listed Spanish companies. Intangible Capital 12(1):319–335
Ghosh C, Guha S (2014) Do micro enterprises choose microfinance institutions to meet their financial needs? Evidence from Mumbai slums. J Dev Entrep 19(3):1–17
Gibbins M, Richardson A, Waterhouse J (1990) The management of corporate financial disclosures: opportunism, ritualism, policies and processes. J Account Res 28(1):121–143
Hemer J. (2011) A snapshot on crowdfunding. Working papers firms and region, R2/2011
Hoyos-Iruarrizaga J, Fernández-Sainz A, Saiz-Santos M (2017) High value-added business angels at post-investment stages: key predictors. Int Small Bus J 35(8):949–968

Hoyos-Iruarrizaga J, Saiz-Santos M (2010) Financiacion del proceso emprendedor: particularidades en las nuevas iniciativas de base innovadora. European Academic Publishers, Madrid
Huang L, Pearce JL (2015) Managing the unknowable: the effectiveness of early-stage investor gut feel in entrepreneurial investment decisions. Adm Sci Q 60(4):634–670
Jaworski J (2012) Demand for financial information in small business management. Empirical Study " e-Finanse" 8(3):10–25
Kerr W, & Nanda R. (2009) Financing constraints and entrepreneurship. WP n° 15498. National Bureau of Economic Research
Kliksberg B (2003) La ética importa. Revista Venezolana de Gerencia 8(24):661–665
Kliksberg B (2006) "Ética empresarial: ¿Moda o demanda imparable?", Fundación Carolina, Working Papers
Knight FH (1921). 1921. Risk, uncertainty and profit. Boston/New York
Krasniqi BA (2010) Are small firms really credit constrained? Empirical evidence from kosova. Int Entrep Manag J 6(4):459–479
Lev B (1992) Information disclosure strategy. Calif Manag Rev 34(Summer):9–32
Lipovetsky G (2006) Metamorfosis de la cultura liberal. Ética, medios de comunicación, empresa. Anagrama, Barcelona
López MV, Garcia A, Rodriguez L (2007) Sustainable development and corporate performance: A study based on the Dow Jones sustainability index. J Bus Ethics 75(3):285–300. https://doi.org/10.1007/s10551-006-9253-8
Mahagaonkar P (2009) Money and ideas: four studies on finance, innovation and the business life cycle (vol. 25). Springer Science & Business Media
Marcuello C, Bellostas A, Marcuello C, Moneva JM (2007) Transparencia y rendición de cuentas de cuentas en las empresas de inserción. Revista de Economía Pública, Social y Cooperativa 59:91–122
Méndez M (2005) Ética y responsabilidad social corporativa. Ética y Economía. ICE 823:141–155
Minola T, Giorgino M (2008) Who's going to provide the funding for high tech start-ups? A model for the analysis of determinants with a fuzzy approach. R&D Manag 38(3):335–351
Navarro García F (2008) Responsabilidad Social Corporativa: Teoría y Práctica. ESIC EDITORIAL
Ntanos S, Kyriakopoulos G, Chalikias M, Arabatzis G, Skordoulis M, Galatsidas S, Drosos D (2018) A social assessment of the usage of renewable energy sources and its contribution to life quality: the case of an Attica urban area in Greece. Sustainability 10(5):1414
Olmedo I, Martínez IM (2011) Medida de la reputación empresarial en PYMES de servicios. Revista Europea de Dirección y Economía de la Empresa 20(3):77–102
Palacín-Sánchez MJ, Di Pietro F (2016) The role of the regional financial sector in the capital structure of small and medium-sized enterprises (SMEs). Reg Stud 50(7):1232–1247
Piechocki R (2004) Transparency of annual sustainability reports. Corp Reput Rev 7(2):107–123
Porter ME, Kramer MR (2003) La filantropía empresarial como ventaja competitiva. Harvard Deusto Business Review 112:7–20
Prado C (1995) Globalización de la empresa e integración de los enfoques no organizativos en la dirección", RACEF: 8
Prado-Roman A, Plaza-Casado P, Escamilla-Solano S, Cruz-Suárez A (2018) La identificación de la transparencia como una herramienta de diferenciación en el sector bancario español. Revista Española de la Transparencia 7:99–123
Riding, A., Orser, B. and Chamberli, T. (2012). Ventur Cap, Vol. 14, n° 2–3, pp. 199–214
Ruiz M, Tirado P, y Morales, A. (2008) Transparencia y calidad de la información económico-financiera en las entidades no lucrativas. Un estudio empírico a nivel andaluz. Revista de Economía Pública, Social y Cooperativa 63:253–274
Shane S (2012) The importance of angel investing in financing the growth of entrepreneurial ventures. Q J Finance 2:2
Ştefănescu CA, Tiron-Tudor A, Moise EM (2021) EU non-financial reporting research – insights, gaps, patterns and future agenda. J Bus Econ Manag 22(1):257–276. https://doi.org/10.3846/jbem.2020.13479

Tomczak A, Brem A (2013) A conceptualized investment model of crowdfunding. Ventur Cap 15:335–359
Toms JS (2002) Firms resources, quality signals and the determinants of corporate environmental reputation: some UK evidence. Br Account Rev 34(3):257–282
Torelli, R. (2020). "Sustainability, responsibility and ethics: different concepts for a single path". Soc Responsib J, 17 (%), 719-739
Valderrama JA (2007) Reflexiones en torno a la RS de las empresas. Teoría y Praxis 3:125–134
Vega M, Di Pietro F, Alfalla R (2017) Emprendimiento, financiación para los emprendedores y creación de empleo: evidencias a través de datos de panel. WPOM: Working Papers on Operations Management 8(2):44–65
Villanueva E (2011) "Aproximaciones conceptuales a la idea de transparencia", en Instituto Federal de Acceso a la Información Pública (IFAI), Transparencia: libros, autores e ideas. Coyoacán: IFAI, 57-65
Watson A, Shrives P, Marston C (2002) Voluntary disclosure of accounting ratios in the UK. British Accounting Review 34:289–313

Sandra Escamilla-Solano Doctor in Financial Economics and Accounting from Rey Juan Carlos University. Professor of Finance in the Business Economics Department of Rey Juan Carlos University. Corporate Social Responsibility Specialist. Member of the European Academy of Management and Business Economics, member of the Chair of Ecotransporte, Technology and Mobility, and a member of Business Management & Economic Research Group. She has participated in projects from prestigious institutions such as the Royal Academy of Economics and Finance (RACEF); FAEDEI, Comunity of Madrid, and Smartcities Observatory. Author and reviewer of several publications in journals, books, and lectures both nationally and internationally.

Antonio Fernández-Portillo International Doctor in Financial Economics and Accounting with Extraordinary Award. Associate Professor (tenure) of the Department of Financial Economics and Accounting in the Faculty of Business, Finance and Tourism, where I am also Manager of Quality. Professor collaborator of the Technologic of Monterrey where I perform online master sessions on Entrepreneurship and Innovation. Head of the EMTURIN Research Group, where I directed several entrepreneurship and innovation programs, as well as competitive European and regional projects. In addition, I am part of the international networks such as, GEM, GUESSS, and FaedPyme, as I am the excutive director of GUESSS in the UEx, excutive director of FaedPyme Extremadura, excutive director of GEM Extremdura and I was the Head of Digitization of GEM Spain. I am an author of numerous research articles on Business and Management. I am Academic and Head of Digitization at the European Academy of Management and Business Economics.

Javier de la Fuente Flores He holds a PhD in Entrepreneurship with focused on Entrepreneurial Universities and Regional Development. He has collaborated and is collaborating with the productive governmental and academic sectors in Mexico in different leadership positions, always focused on the promotion of entrepreneurship and regional development, also participating as leader in different international projects. These projects are part of the public, private, and academic development agencies, such as incubators, accelerators, the Inter-American Development Bank, and the Technology Park of the state of Veracruz Mexico. He has served as Principal of different campuses of the Tecnológico de Monterrey system (Universidad Tecmilenio), and as Regional Director of the Department of Entrepreneurship at Tecnológico de Monterrey.

Corporate Governance in Startups

Inmaculada Bel, Alfredo Juan Grau, and Amalia Rodrigo

Abstract This study aims to examine how Spanish startups disclose information on corporate governance, by empirically analyzing a set of startups in this context. In particular, this chapter focuses on four startups from Science Park at the University of Valencia, exploring whether the Spanish startups fulfill the recommendations of codes of corporate good governance. Thus, we explore such characteristics of corporate governance as the size of the board, the number of advisors to the board, the board's gender diversity, and questions relating to two Sustainable Development Goals (SDGs). The results of the startups completing a questionnaire emphasize the need to continue work in the field of corporate governance, to assist startups with a long way to go. The corporate boards should consider implementing codes of corporate governance and corporate social responsibility activities in their companies.

Keywords Corporate board practices · Startups · Gender diversity · Internal audit committee · External directors

1 Introduction

The financial scandals that occurred in the last decade, the worldwide financial crisis, and the coronavirus pandemic have called into question financial reporting quality, transparency, disclosure of nonfinancial information, and the financial system generally. However, both national and international regulators have elaborated a set of corporate governance recommendations and regulations to mitigate or reduce these problems. Among such regulations are "codes of corporate good governance" (CCGs) that regulatory bodies have developed. The Cadbury committee (1992) defined corporate governance as the technique or system for supervising and managing firms. In this sense, corporate governance comprises the methods and actions

I. Bel (✉) · A. J. Grau · A. Rodrigo
Department of Corporate Finance, Universitat de València, Valencia, Spain
e-mail: inmaculada.bel@uv.es; alfredo.grau@uv.es; amalia.rodrigo@uv.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_10

by which a board of directors, senior management, or a chief executive officer (CEO) directs and controls the firm.

Corporate governance plays an important role in the establishment of ethical and social practices throughout the firm's structure and its relations with creditors, customers, employees, shareholders, investors, and regulatory bodies. Moreover, it enhances the legal compliance recommendations and prevents unethical and illegal firm behavior (Al-Malkawi et al. 2010). Most empirical literature on corporate governance has examined characteristics of listed companies on this field, theoretically and empirically, whether in a Spanish or an international context.

A startup is a newly developed or young company that presents great growth potential and markets services and products using information and communication technologies. In this sense, Kollmann et al. (2016) define startups as companies whose (highly) innovative technologies and/or business models characterize them. Usually, they are less than 10 years old and have increased or are trying to increase their number of employees and/or sales. The Spanish Association of Startups defines the term "startups" as an independent technology-based project or company that appears with the mission of validating a clearly innovative business, product, or service model that has high growth potential. In this sense, Fernández and Beukel (2017) explain that the most important characteristics of startups are the absence of routines and their flexible encouragement of innovative skills. These factors are very important for managers who monitor these companies. They must emphasize creativity and engage with partners to get the legitimacy and resources they lack.

This chapter presents Spanish startup cases, specifically the four startups in the Science Park at University of Valencia study, and extends the corporate governance literature by testing whether the Spanish startups comply with the recommendations on corporate governance. This chapter will explore the importance of several corporate governance variables, such as the size of the board, its gender diversity, and two SDG-related questions. Additionally, a descriptive analysis such as the one in this study is more important in a country like Spain, where studies examining attributes of the corporate governance system in its startups have not proliferated.

2 Some Aspects of Startups in Spain

Following the Informa report (2021), Spanish startups represent 4% of the total number of Spanish companies that remain active, out of the total number of businesses created between 2016 and 2021. In this sense, the report noted that Spain already has 23,383 startups, a 3% increase over the previous year. Moreover, between 2016 and 2021 in Spain, 570,000 companies were created, of which 25,452 were startups, based on their development of innovative technological activity. In 2021, the 23,383 startups were among the 423,508 active companies. Moreover, about 95% of startups are micro-companies, and only 0.87% are large companies.

Regarding location, the Informa Report (2021) explains that Madrid represents 27% of the population, followed by Catalonia with 22.70%. Melilla is the community with the lowest proportion at 0.04%. The Valencian community represents 10.17%. The Spanish startups' industries mostly relate to developing technological activities. In this classification, high-technology services represent 79.52%, manufacturing activities with high-level programming activities represent technology at 13.96%, and only 3.25% pursue activities that are not technological. Spain's startup age is 2.3 years under the European mean and represents 2.4%, compared to the United Kingdom (2.7%), Germany (2.4%), France (2.4%), and Italy (2.4%).

Moreover, the National Observatory of Technology and Society (ONTSI) included in its 2019 report that in 2018, the proportion of female founders of startups was 15.6%, the same as the European average. Of the large European economies, the most representative value for this statistic is the United Kingdom's with 18.8%, followed by France with 20%. Alarcos (2021) explained that the typical female digital startup (i) was a microenterprise less than 5 years old, (ii) employed between 0 and 4 people (70%), (iii) was not part of a predominant industry, and (iv) did not reach one million euros in turnover (92%). In fact, in that regard, a significant number reported less than 100,000 euros (72%).

3 Good Corporate Governance Practices in Spain

The basis of the Spanish corporate governance system is stronger ownership concentration, fragile investor protection, less developed capital markets, less strict insider information regulations, and a one-tier board system where executives and non-executive directors serve on the same board. The ownership concentration implies that majority shareholders who introduce institutional directors onto corporate boards dominate the listed companies (De Miguel et al. 2004). In Spain, institutional directors are called "gray" or "proprietary" directors. According to the Unified Code of Corporate Governance (2006), these are the "directors who own equity stake above or equal to the legally determined threshold for significant holdings, or otherwise appointed due to their status as shareholders."

The higher ownership concentration led to the Spanish corporate governance system differing from other countries that present widespread ownership, such as Japan, the United Kingdom, or the United States, where it is less common for institutional investors to designate institutional directors on corporate boards. Therefore, the Spanish capital markets act as controlling shareholders and directors on boards, apart from acting as company funding sources. Pucheta-Martínez and García-Meca (2019) found that Spanish boards had, on average, 21% institutional directors, of whom around 7.1% represented financial entities and insurance firms (pressure-sensitive institutional directors), and 13.9% represented mutual and investment funds (pressure-resistant institutional directors). In contrast, Jiang and Liu (2021) reported the evolution of the presence of institutional directors in the United States from 1998 to 2011, where, on average, only 3.99% of directors are institutional directors. This situation explains one of the main problems in the Spanish companies, namely, the expropriation of minority shareholders' wealth by major shareholders (Shleifer and Vishny 1997). In Spain, the ownership structure, investor protection, and litigation risk for directors and auditors may differ between civil and common-law environments (La Porta et al. 1998, 1999).

Spanish regulators elaborated a series of Good Corporate Governance Codes to enhance the Spanish situation. In 1998, Spanish regulators approved the Olivencia Code, whose main purpose was to improve the business context by aligning the interests of managers and shareholders. In 2003, the Aldama Report updated the Olivencia Report and focused on transparency of principles, security in listed companies and the markets, and administrators' loyalty. Law Number 26/2003, of 17 July 2003, on the transparency of listed companies, modified the Securities Market Act (*Ley del Mercado de Valores*) and the Public Companies Act (rewritten text of the *Ley de Sociedades Anónimas*), which attempted to change the public firms' transparency and adopted many corporate governance recommendations.

In 2006, the Unified Good Governance Code (UGGC) also called Conthe Code (2006) was elaborated, updating and harmonizing the recommendations included in the Olivencia and Aldama reports. In the Conthe Code (2006), the statutes are based on the recommendations concerning directors, corporate boards, and board subcommittees. In recommendation 15, this code argues the necessity of including female directors on corporate boards, to attain equity between men and women. In this respect, Spanish standards allow companies to decide the implementation of these recommendations and their intention of "compliance or explanation" principles, to enforce the corporate governance suggestions without sanctions for those companies that do not comply. To improve the recommendations that the new legislation affected, the *Spanish National Securities Market Commission* elaborated a partial update of the Unified Code in June 2013. That year, an experts commission elaborated the Good Governance Code for listed companies (hereafter the Good Governance Code 2015), based on policy reforms and initiatives to ensure good corporate governance. Finally, in June 2020, the *Spanish National Securities Market Commission* published the Good Governance Code for listed companies with the main goal of enhancing the relevance of nonfinancial information and sustainability, the inclusion of female directors on boards, the clarification of directors' remuneration, and greater attention to reputational and nonfinancial risks in general.

Spanish good corporate governance codes promulgate a set of recommendations that modify the functions, activities, and structure of the board of directors. Concerning such aspects, a one-tier board structure characterizes Spanish-listed companies, where the board of directors assume the control functions of the company, ensuring the alignment of interests between shareholders and managers (Kang et al. 2007), leading to a decrease in information asymmetries (De Andres and Vallelado 2008), favoring compliance with standards and regulations, and connecting the firm to the outside context (Carter et al. 2010). Hence, the corporate board is an important corporate governance tool for monitoring managerial behavior (Fama and Jensen 1983).

The corporate board should carry out its duties with unity and separate judgment, considering all the firm's shareholders equally (Conthe Code, 2006). According to the main functions and competencies of the board, the eighth recommendation of the Conthe Code (2006) explains that its general functions are based on connecting the company with its shareholders (disclosure information), controlling its managers, and promoting the company's strategic policy. The Good Governance Code for listed companies (2020) recommends including between 5 and 15 members on corporate boards, and the tenth principle explains that the selection policy should consider a board composition that balances age, experience, gender, and knowledge. Regarding board composition, all codes recommend the inclusion of a large number of non-executive directors and a combination of independent and institutional directors, while the proportion of executive directors should be minimal, due to the complexity and the proportion of ownership interests they may control. In this line, the chairman is responsible for corporate boards acting efficiently. The president communicates the meetings, participates actively in the board discussions, and ensures that the directors have all information on time and correctly. However, there is an open debate on whether the chairman should be the same person as the CEO since, in that case, the necessity of including safeguards to reduce the risk of concentrating power in a single person, as the fifth recommendation of the Olivencia Code indicates (1998), becomes impossible. Another recommendation of the codes is the inclusion of female directors on corporate boards. The Conthe Code (2006) supported and enhanced female presence on boards of directors since the previous reports did not support this idea. Moreover, this premise was implemented with Act 3/ 2007 of 22 March for "Effective Equality between Women and Men" (LOIMH), whose article 75 proposes the equitable nomination of female and male directors to corporate boards. This act advised Spanish corporate boards of listed firms to consider the inclusion of a gender quota of 40% by 2015, although this proportion was not possible. In 2015, the Good Governance Code increased the proportion of gender quota to 30% by 2020, but the boards did not obtain those results. For this reason, the Good Governance Code (2020) recommended that boards of directors of listed Spanish firms reach a gender quota of at least 40% by 2022. According to Instituto de las Mujeres (2021), the proportion of female directors on IBEX35 firms' respective boards increased to 37% in 2020, a lower proportion than expected.

4 Startup Case Study in Corporate Board Practices in Spain

This section presents a descriptive analysis of some corporate governance variables in the context of Spanish startups, as well as the scope of the SDGs. Notably, a great amount of data and information on corporate governance is available for listed companies. However, such data and information are very limited for startups, due to their nature. Most do not prepare or provide annual information on corporate governance activities or, if they do, they do not make these reports public, so processing them for incorporation into databases is difficult.

Table 1 Results of the survey of good corporate governance practices for Spanish startups

	Question 1	Question 2	Question 3	Question 4	Question 5
	How old is the company you manage?	How many male managers are there?	How many women managers are there?	How many external directors are there?	The president is man or a woman?
Startup 1	6	1	2	0	Man
Startup 2	1	1	0	0	Man
Startup 3	3	8	2	0	Man
Startup 4	6	2	1	0	Man

	Question 6	Question 7	Question 8
	How many times a year does the board meet?	Does it have an Internal audit committee?	Does it have a Code of Ethics related to the protection of the environment?
Startup 1	24	No	Yes
Startup 2	1	No	No
Startup 3	24	Yes	Yes
Startup 4	12	Yes	Yes

Source: Compiled by authors

Table 2 Results of the survey on the scope of the SDGs for Spanish startups

	Question 1	Question 2			
	Have any of the Sustainable Development Goals (SDGs) been included in the Company's purpose or mission?	If so, indicate the SDG(s) you are implementing or have implemented			
Startup1	Yes	SDG 5	SDG 12	SDG 14	SDG 15
Startup2	No, but we will include them	SDG 8			
Startup3	Yes	SDG 3	SDG 9	SDG 10	SDG 11
Startup4	Yes	SDG 14			

Source: Compiled by authors

The sample for this analysis comprises four Spanish companies belonging to the technology sector for the year 2021. These companies present heterogeneous characteristics, such as experience, size, age, number of employees, and turnover volume. Data on these companies came from one of their managers participating in a survey on good corporate governance practices and SDGs (see Tables 1 and 2).

Analyzing the results of the survey through the items that appear in Table 1, in general terms, shows that the companies had a very short life span. This is obvious since this type of technology-based company, as a startup, was not very old. Specifically, two of these companies had reached a maximum age of 6 years, and the rest show very limited experience.

Analyzing gender diversity within the management teams shows scant representation of female managers in positions of responsibility. Specifically, for one of these startups, the presence of eight male managers outnumbers only two female managers. Only one case shows twice as many female as male managers. In general, only 30% of the members of the average corporate board are females. Moreover, in all the startups in the sample, a male occupies the president's position. This results in these startups not accomplishing the aims of the Good Governance Code (2020) 15 recommendations for a gender quota of at least 40% by 2022.

As main findings, the low rate of female representation on the board for the group of startups in Spain is remarkable, showing that the male profile still has major importance on corporate boards. The evidence is very different for large companies and, mainly, for the listed ones, with a much greater presence of female directors, bringing beneficial effects of female management on the board for firm value (Campbell and Minguez Vera 2010; Mínguez-Vera and López-Martínez 2010; Martín-Ugedo et al. 2019).

Respecting external directors providing their experience and advice for improving the proper functioning of the company, as expected, these companies are just starting or have little experience in the sector, so they do not have external directors. The findings obtained in this study contradict recommendation 15 of the Good Governance Code (2020), which explains that the external directors should represent a large majority of the corporate board, and the number of internal directors should be the minimum necessary.

As for the meetings the board of directors holds, as the company experience increases, so does the number of meetings. Indeed, the three oldest startups tended to meet twice a month, on average. In contrast, the youngest startup only called one meeting per fiscal year. However, the outcomes reveal that startups are far from meeting at least eight times a year, recommendation 26 of the Good Governance Code (2020).

The internal audit committee plays a relevant role in monitoring, controlling, and supervising aspects that relate to accounting, auditing, and both financial and nonfinancial risk management. Interestingly, not all of the largest startups by age have this commission. Only two out of three have it, and, predictably, the youngest does not. In this case, we cannot assert that greater age implies the existence of an internal audit committee; that depends on the members who integrate corporate boards.

Also deserving special attention, given the idiosyncrasy of these companies, is the existence of corporate ethical codes that intend the company to contribute to the preservation of the environment. In this case, all the startups that have interacted in the market for several years align with the philosophy of designing and executing an ethical code that largely contributes to their survival over time. On the contrary, the youngest startup does not have an established code of ethics, but from our point of view, it is a matter of time before they draw one up.

On the other hand, regarding the questions in the survey related to the SDGs, practically all the startups in our sample are strongly committed to the United Nations' 2030 Agenda (see Table 2). Indeed, all these companies have incorporated the execution of part of the SDGs into their business strategy, except for the youngest startup – despite not currently addressing them, it states that it will do so in the future. Following Good Governance Code (2020) recommendation 55, companies develop an appropriate environmental and social policy and offer transparency information based on its development, implementation, and outcomes.

Summing up, Spanish startups are working on such aspects as guaranteeing healthy lives and promoting well-being, contributing to making equality between males and females a reality, fostering inclusive and sustainable economic growth, developing resilient infrastructures as well as promoting innovation, reducing inequality between countries, contributing to sustainable consumption and production, and supporting the preservation of the seas and their marine resources, sustainable management of forests, and biodiversity.

5 Conclusions

In recent years, researchers and academics have increased interest in corporate governance in the national and international context. Thus, this study aims to examine how the Spanish startups disclose corporate governance information. Specifically, it presents some related results for a sample of four startups from Science Park at University of Valencia. Data collected using a questionnaire that included eight corporate governance questions reported the size of the board, the number of board advisors, its gender diversity, and responses to two SDG-related questions.

The main conclusions are as follows:

(1) In our sample, the technology-based startups have a short life span. In fact, most are just starting out or have little experience in the sector. Accordingly, they do not involve an external director in their corporate management.

(2) The number of meetings the board members hold relates positively to the company's experience: the older the company is, the greater the number of meetings per fiscal year. On average, the three oldest startups meet twice a month. In contrast, the youngest startup only meets once a year.

(3) The existence of an internal audit committee depends on the members who populate the corporate boards.

(4) The same happens with the existence of corporate ethical codes to contribute to the preservation of the environment. In the case of the youngest startups, it still is a future intention; the oldest have already adopted an ethical code.

(5) Gender diversity within the management team is currently a challenge for most companies; males still predominate. Overall, only 30% of the members of the average corporate board are females. Moreover, all startups in the sample have a male president.

(6) SDGs are a concern common to the companies in the sample because all of them have already included SDGs in their business strategy or are thinking of doing so in the near future. As the previous section shows, Spanish startups are relatively young companies that need more time to include good corporate governance practices. In this sense, policymakers should encourage the startups to consider the corporate governance recommendations, to increase the number of independent and female directors in positions of responsibility and considering the incorporation of

corporate social responsibility strategies, especially the SDGs, that could increase value and enrich the firm.

Several limitations of the study should be acknowledged. First, the sample used in this study comprised only four startups from Science Park at University of Valencia. For this reason, the results obtained should not be extrapolated to other countries and periods. Extending this study to a wider sample of countries, periods, and number of startups would help to generalize our findings. Also, the variables this study used are those on which previous empirical studies of listed companies have focused, so there may be other variables that we have not considered.

References

Act 3 (2007, March 22) For effective equality between women and men

Alarcos TM (2021) El emprendimiento digital femenino en España: Situación y prospección Mujeres, tecnología y sociedad digital. https://www.informeticplus.com/el-emprendimiento-digital-femenino-en-espana-situacion-y-prospeccion-mujeres-tecnologia-y-sociedad-digital-instituto-de-las-mujeres-y-ontsi

Aldama Report (2003) Report of the special commission to foster transparency and security in the markets and listed companies. Ministerio de Economía y Hacienda, Madrid

Al-Malkawi HN, Rafferty M, Pillai R (2010) Dividend policy: a review of theories and empirical evidence. International Bulletin of Business Administration 9

Cadbury SA. (Chairman)(1992) The report of the committee on the financial aspects of corporate governance. Gee, London

Campbell K, Minguez Vera A (2010) Female board appointments and firm valuation: short and long-term effects. J Manag Gov 14(1):37–59

Carter DA, D'Souza F, Simkins BJ, Simpson WG (2010) The gender and ethnic diversity of US boards and board committees and firm financial performance. Corp Gov 18(5):396–414

De Andres P, Vallelado E (2008) Corporate governance in banking: the role of the board of directors. J Bank Financ 32(12):2570–2580

De Miguel A, Pindado J, De La Torre C (2004) Ownership structure and firm value: new evidence from Spain. Strateg Manag J 25(12):1199–1207. https://doi.org/10.1002/smj.430

Fama EF, Jensen MC (1983) Separation of ownership and control. J Law Econ 26(2):301–325. https://doi.org/10.1086/467037

Fernández EG, Beukel K (2017) La innovación abierta y la comparación entre los startups y las empresas establecidas en España. Universia Business Review 55:18–33

Good Governance Code of listed Companies (2015) Unified Good Governance Code of Listed Companies. Madrid

Good Governance Code of listed Companies (2020) Unified Good Governance Code of Listed Companies. Madrid

Informa Report (2021) Las empresas start-ups en España. Dirección de Estudios. https://cdn.informa.es/sites/5c1a2fd74c7cb3612da076ea/content_entry5c5021510fa1c000c25b51f0/60c9db7b56c007602a2b5fec/files/start_up_v1.pdf?1623841659

Instituto de las Mujeres (2021) Presencia de mujeres en los consejos de administración y en la alta dirección de las empresas públicas. Subdirección General para el Emprendimiento, la Igualdad en la Empresa y la Negociación Colectiva de Mujeres, Instituto de las Mujeres

Jiang GJ, Liu C (2021) Getting on board: the monitoring effect of institutional directors. J Corp Finan 67:101865

Kang H, Cheng M, Gray SJ (2007) Corporate governance and board composition: diversity and independence of Australian boards. Corp Gov 15(2):194–207

Kollmann T, Stöckmann C, Hensellek S, Kensbock J (2016) European startup monitor 2016. Universität Duisburg-Essen Lehrstuhl für E-Business, Graz
La Porta R, Lopez-de-Silanes F, Shleifer A, Vishny R (1998) Law and finance. J Pol Eco 106:1113–1155
La Porta R, Lopez-de-Silanes F, Shleifer A (1999) Corporate ownership around the world. J Fin 54(2):471–517
Martín-Ugedo JF, Mínguez-Vera A, Rossi F (2019) Female directors and firm performance in Italian and Spanish listed firms: does masculinity matter? Academia Revista Latinoamericana de Administración 32(3):411–436
Mínguez-Vera A, López-Martínez R (2010) Female directors and SMES: an empirical analysis. J Glob Strat Manag 8(2):34–46
National Observatory of Technology and Society (ONTSI) (2019) Barómetro de emprendimiento en España. Concepto e indicadores. Diciembre. Available at: https://www.ontsi.es/sites/ontsi/files/2019-12/BarometroEmprendimiento_ConceptosIndicadores_diciembre2019.pdf
Olivencia Report. (1998). Report of the special commission on the ethics code for the members of the board of companies, Madrid
Pucheta-Martínez MC, García-Meca E (2019) Monitoring, corporate performance and institutional directors. Aust Account Rev 29(1):208–219
Shleifer A, Vishny RW (1997) A survey of corporate governance. J Financ 52:737–783. https://doi.org/10.1111/j.1540-6261.1997.tb04820.x
Unified Code of Corporate Governance (CUBG) (2006) Informe del grupo especial de trabajo sobre buen gobierno de las sociedades cotizadas, Comité Conthe. Madrid

Inmaculada Bel PhD in Finance and Accountancy (University of Jaume I, Spain). Associate Professor of Corporate Finance (University of Valencia, Spain). Her research is based on corporate social responsibility and corporate governance. She has published papers in: Business Ethics. the Environment & Responsibility, Business Strategy and the Environment, Business Ethics: A European Review, Industrial, and Corporate Change.

Alfredo Juan Grau PhD in Financial Economics (University of Valencia, Spain). Associate Professor of Corporate Finance. His main research interests concern sustainable finance, corporate governance, and gender diversity. He has published papers in Business Ethics, the Environment and Responsibility, International Business Review, Journal of Business Research, Small Business Economics, European Journal of Finance, and Quantitative Finance, among others.

Amalia Rodrigo Master's in Financial Economics, Master's in Industrial Economics and PhD in Economics (University of Valencia, SPAIN). Associate Professor of Corporate Finance. Her main research is based on experimental economics, behavioral finance, and corporate finance. She has published papers in Journal of Economic Interaction and Coordination, Economía Industrial, Frontiers in Psychology, and Sustainability, among others.

A Practical Fundraising Toolkit to Raise Funds

Katherine Coronel-Pangol, Carmen Orden-Cruz, and Jessica Paule-Vianez

Abstract This chapter aims to provide a practical guide to facilitate the process of seeking financing for entrepreneurs. The aim is to highlight some common mistakes entrepreneurs make in their search for funding and some alternatives or guidelines to make this journey less complicated. In general, an entrepreneur must convince an investor of their project's growth potential with persuasive business arguments. However, not all types of financing are suitable for every project, and so it is important to have a solid understanding of the project, the environment in which it operates, and its current growth stage. Finally, two case studies are presented to illustrate a successful outcome and one that was a failure.

Keywords Mistakes in financing decision-making · Financing · Guidelines to raise funds

1 Introduction

One of the fundamental factors that entrepreneurs, businesspeople, or anyone involved in a business activity need to consider is how they finance their business. Rossi et al. (2021) emphasize that adequate financing and the correct selection of the type of financing is vital to strengthening a company's competitive advantage. Sources of finance can often be seen as being a double-edged sword. Sources of finance that are appropriate for a particular set of business circumstances with financing options that meet a company's specific needs can be one of the potential advantages for that company and one of the determinants of its success. However, access to inadequate financing accompanied with high costs that do not meet a company's needs can be one of the principal causes of its failure.

K. Coronel-Pangol (✉) · C. Orden-Cruz · J. Paule-Vianez
Department of Business Economics, Rey Juan Carlos University, Madrid, Spain
e-mail: kt.coronel2018@alumnos.urjc.es; carmen.delaorden@urjc.es; jessica.paule@urjc.es

P. Sendra-Pons et al. (eds.), *New Frontiers in Entrepreneurial Fundraising*, Contributions to Finance and Accounting,
https://doi.org/10.1007/978-3-031-33994-3_11

Financing must be understood as a dynamic factor in business management and is a fundamental pillar in decision-making. Financing follows the life cycle of a company, and so not all financing alternatives are suitable for all people and companies. Berger and Udell (1998) worked with the theory of financial growth and recommended specific financing alternatives depending on each organization's business growth stage. Thus, in the beginning, these sources are informal and non-traditional and rely mainly on the support of friends, family, and fools (the denominated 3F), i.e., people who have trust in your project. However, as a company grows and matures into more a formal structure, financing alternatives, too, become more formal and eventually reach the stage when the company can access the public equity markets (Table 1).

Table 1 shows that the sources of funding, which have been explained throughout this book, evolve at each stage. As mentioned earlier, when the company is at a seed stage, the primary sources of financing are informal, such as family, friends, and fools. Other options include non-traditional sources such as accelerators, crowdfunding, and business angels. Once the company has passed the seed stage and has established itself as a start-up, in addition to the previously mentioned sources, it is possible to consider more traditional solutions provided by banks, such as commercial and asset-backed loans. These alternatives represent a suitable financial solution for the company, as the amounts involved are generally higher with terms that are more suitable, and which provide ample benefits for companies in the start-up phase to take the next leap and become a company in the growth stage.

When the company reaches the growth stage, it abandons the financing that has supported it so far (principally, family, and friends) and only takes up funding suitable for corporations. In addition to the previous sources, financing from government subsidies and grants are usually awarded to encourage start-ups. And the first debt issue is one of the approaches for the company to advance to the final stage – the maturity stage. The company is now at a stage when it can enter the public

Table 1 Stages of company's growth and financing sources

Seed Stage	Start-up	Growth	Maturity
– Family, friends, and fools – Business accelerators – Crowdfunding – Business angels – Venture capital	– Family, friends, and fools – Business accelerators – Crowdfunding – Business angels – Venture capital – Corporative venture capital – Venture debt – Asset-bank loans – Commercial credits	– Crowdfunding – Business angels – Venture capital – Corporative venture capital – Publicly funded program – Venture debt – Bank loans – Commercial credit – Commercial bank credit – Private capital – High yield bonds	– Venture capital – Commercial bank credit – Private equity – High yield bonds – Initial public offering (IPO)

Source: Alemany and Andreoli (2018)

capital markets by launching an Initial Public Offering (IPO). The company is then able to generate most of its equity financing through the stock market (Nguyen and Canh 2021). It is important to note that venture capital is maintained as an alternative in all phases of a company's life cycle.

2 Top Mistakes When Seeking Finance and How to Avoid Them

When someone starts a business, it is easy to make mistakes. Errors in financial decision-making in particular are often costly and sometimes can, in addition to financial losses, lead to business failure.

One of the first mistakes made by start-ups and new enterprises is to seek funding from sources that do not correspond to their financing stage. This mistake usually occurs in the initial stages of business activity. Fathonih et al. (2019) stress that each growth stage would be more effective if the entrepreneur utilizes the funding options appropriate to that particular stage of growth. Among the main benefits of selecting the proper financing option are affordable interest rates, terms that are aligned with the needs of the business, and amounts that allow for adequately financing the existing business and potential growth projects. The first financing alternative that many people consider is to use their own money. However, money used for daily living expenses should not be committed to starting a business. An individual should only consider starting a business with personal resources with the surplus remaining from all income and after accounting for all living expenses. This will require a detailed analysis of the founder's financial situation. It should be noted that the resources injected into a business represent investments that are expected to generate profitability and thus be self-sustaining. In contrast, resources earmarked for personal consumption only represent expenses for which no financial return can be expected. Additionally, it should be considered that the financial sector is more benevolent towards productive activities. Thus, the use of resources for this type of activities tends to have a lower cost than financing for consumption. For example, the interest rate of a productive loan is much lower than that of a consumer loan.

However, lack of knowledge of the different financial products can be a problem for entrepreneurs, who then may select an inappropriate product, leading to high financing costs.

Another mistake, which is often made by some entrepreneurs, is not forecasting a company's financial needs in a planned way over different time horizons (Bucardo et al. 2015). Companies often seek financing to solve a current, specific problem. However, they neglect to determine whether this need is recurrent and the frequency of the need. A company should therefore develop short-, medium-, and long-term financial plans that anticipate financial needs. The continuous search for capital in a disorganized way, either by applying for loans or credits or by requesting contributions from partners, can result in the loss of credibility. Funders lose confidence in businesses that demonstrate a lack of planning and poor fiscal management which can then lead to a business losing access to some financing sources and financing alternatives. It is important to stress that planning should be realistic and detailed. Generally, funds acquired through financing serve to increase productivity and performance of operational activities. So, in addition, to adequate and proper financial planning as noted above, operational and commercial planning is also necessary to support and validate financial planning.

Finding a suitable financing alternative should be seen as a tool and not as a business objective. Funds acquired through financing should be used to generate a return that exceeds the cost of the financing. If the use of capital is not clearly identified and managed carefully, the business may find that it is using it to pay current expenses resulting in a financial mismatch.

Large investors, such as Warren Buffett, often say as one of their golden rules that investors should only invest in companies that they understand well. So, it is essential for an entrepreneur, which is seeking financing, to be able to explain to an investor the potential of the business proposition and the plan to manage any likely difficulties and problems.

The investor must be able to visualize a company's product/service functionality and usefulness and to gauge potential market demand. One mistake that entrepreneurs often make is focus on the technical characteristics of their products (Cunningham 2021). Investors are generally more interested in the bottom line, in how markets will react to the product, and the perception of the future consumer. The entrepreneur must therefore prepare a business plan that identifies the problem being solved, how the company's product solves the problem, the likelihood that consumers will buy the product, and then finally making sure that there is a satisfactory return generated over an appropriate period.

Another critical issue that needs to be considered when fund raising is the organization's ownership structure, especially when the business is family owned (Brunninge and Nordqvist 2004). Access to external financing, primarily through angel investors or venture capitalists, as well as financing through debt and equity issuance requires information transparency. The requirement for information transparency often generates controversy among private company family owners that are reluctant to share financial information resulting in a reduction of viable financing options open to them. In the Table 2 is showed some mistakes and recommendations.

3 How to Convince Investors: Speak Their Language

Using the appropriate language can be the key to success. Firstly, a distinction must be made between the sources of financing through capital markets (bonds and stocks) or through banks (credits and loans). Other sources of financing more specifically for entrepreneurs are business angel, venture capital and crowdfunding. Moreover, informal financing for entrepreneurs is the 3F.

Table 2 Mistakes and recommendations for entrepreneurs trying to raise funds

When an entrepreneur seeks to raise funds	
Main mistakes What should not be done?	Recommendations What should be done?
– Seek funding that is not appropriate for their business stage – Lack of knowledge of the different financing alternatives – Lack of planning of financial needs – Technical language in the explanation of the product – Lack of a clearly defined business model with projected scalability and sustainability	– Identify the stage of the business and appropriate sources of finance – Investigate the different financing alternatives analyzing their conditions and characteristics – Design a financial plan in a clear and orderly manner – Use commercial business language with an approach that addresses marketing channels, product acceptance in the market, product scalability, and growth potential

Source: Own elaboration

The first step in thinking about how to finance a company is to identify the stage in which the venture is located. As was shown in Table 1, the ventures can be in various stages

3.1 Seed Capital: Design or Development Stage

At this stage, the venture is just a concept in the entrepreneur's head, so the first step is to get a good description of the intended product or service. This stage can be very short or can last for many years until the business idea is clearly defined. Depending on the nature of the product, this phase can incur high costs, so it is necessary to have financing from this stage onwards. Generally, investment through family and friends is the most prominent at this stage. It is also possible to start with venture capital financing, especially when high costs are going to be incurred, such as for product prototyping. It is important to note that there will be no return on investment at this stage. Also, it will probably be the riskiest of the entire life cycle of the venture, so investors (family, friends, or venture capitalists) should be aware that there is a high probability of losing all resources that have been invested in the seed stage. Some collaborative platforms also operate at this stage of the venture.

The final result of the seed stage should be a solid and realistic business plan, with supporting third party feasibility and viability reports, which speak to the technical merits of the idea and the likelihood of operational success. This business plan will serve as the basis for the execution of the venture's future operational stages and the application for additional funding.

3.2 Start-Up or Launch

Now, we are in the second phase of the venture. The idea has been clearly and precisely defined and launched on the market. The main characteristics of this stage are a legal structure, physical or virtual installation, and the start of commercial operations in the market. This stage is executed based on the work plan in the previous step and provides the business with the first results of the customer's response to the product or service that is being offered. In this phase, usually, heavy investments are required to achieve all the above. While the close circle of friends and family is still used, financing can also be sought from venture capitalists and angel investors. In addition, financial institutions are used to apply for credits and loans. Having several funding sources requires an analysis of the cost and benefits of each option. A thorough analysis will enable management to make a sound decision and to choose the best financing option. According to Kaplan and Stromberg (2004), the cost of funding through venture capital may be one of the cheapest in the short term as there is usually no interest cost but expensive in the long run as the original owners get their ownership diluted with new offerings. In addition, because venture capital investors usually get a seat on the board, these investors will influence the strategic and commercial decisions of the venture. This situation can sometimes be beneficial as this type of investor usually has broad experience in managing start-ups. The downside is that they can sometimes take a narrow view on strategy and can pigeonhole the venture into a certain way of management which can ultimately result in an unsuccessful project. On the other hand, if the entrepreneur opts for debt financing, the lender will not, rightly or wrongly, intervene in the venture's strategic decision-making process. Debt financing at the early stages of a venture stresses the company's cash flow as it requires the regular payment of interest and principal at a time when cash is tight. Over the long term, however, if a venture is successful, debt financing represents a lower overall cost of capital as it does not result in a dilution of the founder's ownership interests.

3.3 Growth

This stage is characterized by expanding sales and increasing market share. Market and customer response have proven to be effective and timely. Opportunities begin to present themselves for ventures to expand and sometimes even to divest of parts of the business. The company becomes a market leader or positions itself as a strong competitor. To continue to be positioned correctly in this stage, additional investments may need to be made to increase productive capacity, to ramp up marketing programs, and to continue research into improving product performance to gain competitive advantage. Business, production, and financial strategies must change with all of the above.

As the company grows, its financing needs also increase. Funding through the close circle (family and friends) are no longer a suitable option. In addition to venture capital, other financing options should be considered. These include government programs, formal credits, loans through banking, and debt issuance through high-yield bonds. The public high-yield bond option should be considered only if the company is willing to provide ample and transparent information to the market.

3.4 Maturity/Expansion

Business maturity is practically the final stage of a venture. At this stage, the business has completely changed its source of financing and has transitioned to primarily being funding in the institutional private and public capital markets. Prior to accessing the public markets, the business must decide whether to continue its expansion, maintain its current position, or start to wind down. Many entrepreneurs and creators of the initial seed stage do not reach this stage because, along the way, due to financial problems or lacking the management ability to scale up, they decide to sell their ventures to investors with greater liquidity and management capabilities.

An entrepreneur must be very clear about the life cycle of his product to know which source of financing to turn to. When appropriate financing is used, there is a greater probability of obtaining the resources required to continue with the entrepreneur's operations.

Previously, the different phases of financing have been presented. The following are some recommendations for entrepreneurs and small businesses seeking financing and not failing in the attempt.

Knowing the Sources of Financing in the Market Among the main variables that influence the success of obtaining funds are education and financial inclusion. These variables are important for understanding and accessing the various products offered by the financial system and the different sources of finance. Those who are aware of the different financial products available to them have the opportunity to make a better decision on the optimal financial solution. It should be stressed that this knowledge should not be exclusive to the financial products offered by banks, but should also correspond to non-traditional alternatives, such as venture capital, angel investors, collaborative networks (crowdfunding), or other similar alternatives. In many cases, entrepreneurs often see banks as their only financing alternative, but if they are not at the right stage, the outcome of a search limited to banks could be disappointing. A thorough search for all other suitable financing alternatives can be the answer for many ventures that find themselves faced with the dilemma of whether to continue developing their idea or giving up altogether. Clearly identifying the financing alternatives and the financial products that are provided by each alternative will enable an entrepreneur to prepare realistic financial plans based on their particular set of the financing needs.

Determining the Financial Needs Identifying the stage of the venture's life cycle and knowing each available financial source enables proper financial planning. As previously mentioned, one of the mistakes made when looking for financing is not having a clear idea of what the financing needs are going to be, as well as a clear plan for the use of proceeds and resulting profitability. Entrepreneurs must continually plan the requirements and use of proceeds with three approaches: short, medium, and long term. This way, the entrepreneur can even allocate funds if they are part of a specialized program according to the needs of a specific activity. Businesses should also not have an excess of liquidity that place an undue burden as a result of the high cost of financing (Palomares et al. 2019). Proper financial planning allows the entrepreneur to present themself to the investor as a responsible and empowered person in their venture and can convey an image of security and confidence. Financial planning is critical in the early stages. It is the only tool the entrepreneur can use for conveying his business idea and prototype. Therefore, orderly and realistic planning can be an excellent letter of introduction for obtaining funding.

Make a Functional Explanation of the Product Generally, investors or banks will require a written and verbal explanation of the venture. Because of their technical or technological background, many entrepreneurs make the mistake of presenting their ventures with a very technical approach. This situation can give the impression that while they know their product and how it functions, it can also generate a disinterest in the investor. It is vital to remember that investors or banks are business professionals, and most will rely on a technical expert to provide comfort on the technical merits of a product or service. So, while they will want to know about a product's technical characteristics at a high level, they will also want to know about other aspects of the venture such as product acceptance in the market, profit margin, product turnover rate, marketing policies, target market, and other issues that cover potential market demand. An important concern for investors is the venture's sustainability and the ability of the venture to sustain itself over its life. If sustainability is not clear, it could mean that the venture will constantly require capital investments. Concern over sustainability can even allow the financing of projects with a social focus, i.e., those that do not pursue an economic objective. Some investors look for ventures that contribute to solving global problems such as unemployment, hunger, poverty, or other similar issues with societal consequences, so focusing the venture on these issues can sometimes generate a much more positive response from an investor.

Share Institutional Philosophy and Know the Investor When an entrepreneur has developed his list of targeted investors, it becomes easier for him to prepare his presentation. Generally, those aspects, in which there is an overlap in philosophy, should be emphasized as it shows that there is an alignment of interest. This will allow for a common language to develop between the entrepreneur and the investor. It then becomes much easier to understand the business idea and improves the likelihood of getting permission for an investment in the venture.

4 A Success Story: What Entrepreneurs Can Learn

One success story in 2022 that occurred in Latin America was the fintech – Kushki. It is interesting to analyze Kushki for what it represents. It is a technology start-up that originated in Ecuador, South America, which is not a place known for this type of entrepreneurship. It grew exponentially in just 6 years and only with Latin talent. It currently operates in 14 countries and is considered the largest payment platform in Latin America.

Kushki was born in Ecuador in November 2016. The company's goal was to reduce the use of cash in the region. By June 2017, it had already entered the Colombian market and, by 2019, the Peruvian and Chilean markets. In December 2021, it opened its operations worldwide; in June 2022, it was considered a unicorn venture employing more than 700 people remotely worldwide.

As described above, Kushki has gone through the start-up and growth stages. In 2022, it entered the maturity stage, where it raised significant capital through several financing rounds. For example, in 2021, it raised 86 million dollars; in June 2022, it raised substantial funding of approximately 100 million dollars. Its valuation increased to 1.5 billion dollars with leading investors such as Kaszek Ventures, Clocktower Ventures, SoftBank Latin America Fund, and DILA Capital, among others (Kuski 2022).

The company has shown that it intends to expand still further, indicating that new funds will be used to accelerate the project. The new objective will be to create a modern payments infrastructure for Latin America and facilitate digital payment transactions of any category, regardless of the country. They also mention that this infrastructure will play a key role in accelerating digital transformation and economic growth in the region by enabling businesses to grow faster through the Internet and to drive consumer adoption of digital payments (Kuski 2022). As can be seen in this venture statement, the language used is simple and understandable, even for a person who has never used a payment platform and even more so for someone who has not designed one. This venture talks about the region in which it will work. It shows the problems it seeks to solve and how this business idea generally improves the lives of the people in the region that the company will provide this service. This discourse has probably allowed several investors to see potential in this venture and decide to invest in it. Its private valuation in excess of $1 billion has enabled it to be labeled as a unicorn company (Bloomberg 2022).

Other aspects have also helped Kushki secure its latest funding. While its 200% growth over the last year immediately catches the eye of investors, the platform also sells itself as a solution. It does this by not only making virtual payments through a secure platform but also helping businesses across the region reduce the cost and complexity of online payments while improving acceptance rates and reducing fraud. These latter benefits even have a social element.

Kushki is a venture that has gone through all its stages and phases. It emerged before 2016 as a business idea financed with resources provided by friends and family. In addition to carrying out technical work (creation of the platform), the founders also did a solid commercial job, selling their platform to customers and investors. Early commercial success led to the venture being listed in financing rounds by 2018. It is also important to note that prudent funds management was key to facilitating new rounds of capital.

One of Kushki's investment partners said: "Kushki's long-term vision and technology infrastructure match Softbank's vision of reimagining the Latin America of the future. We are impressed with the achievements and accelerated growth they have achieved in such a short period. How large companies are leveraging their infrastructure across the region is impressive." So, it can be seen that when a venture's philosophy coincides with that of their investors, it is easier to generate a connection that facilitates the investor's decision (El Universo 2021).

Kushki's directors emphasize that certain requirements must be met to participate in investment rounds, such as transparent information, positive results from external audits, and a good business model with scalability. In addition, they stress that investors are interested in growing the ventures rather than simply evaluating their functionality or product features (Forbes 2022).

Kushki is one of the best examples of entrepreneurship and how to get funding. This start-up, from its inception, has shown its interest in growing, initially to a regional and then to a global market. Moreover, it has shown solutions to real problems. It has identified broad market needs. It has demonstrated its scalability and sustainability as one of its main objectives. It has shown its commercial and business management skills. And finally, it has presented transparent results, data, and reports. All this has been a kind of recipe that has allowed this start-up to obtain financing never seen before in Ecuador in investment rounds and to consolidate itself as the largest payment platform in Latin America.

5 A Resounding Failure: What Entrepreneurs Should Never Do

A clear example of what not to do when starting a business is 38 Studios company. The story of this company shows how having an attractive business idea, sufficient initial financial resources, and a high-level and highly involved team, both emotionally and financially, are not enough for a business idea to succeed. Relevant issues such as lack of experience in the business world, poor financial management with inaccurate cost estimates, setting unrealistic goals, lack of transparency, and poor communication of the company's progress to stakeholders can lead to the bankruptcy of ventures with the best expectations.

You cannot talk about 38 Studios without mentioning its founder Curt Schilling, a retired professional baseball pitcher. Schilling was a baseball legend characterized by his combativeness on and off the field. His aggressiveness was demonstrated, for example, by the two games he pitched during the 2004 playoffs when he threw with his injured ankle soaking his sock in blood. This performance helped his team – the Boston Red Sox – win its first World Series in nearly a century.

Schilling was also a big fan of video games, especially online multiplayer role-playing games where players interact in constantly evolving digital worlds. As one of the best baseball players with a substantial fortune that he amassed during that time (he earned more than $114 million over two decades), he decided to develop a video game of his own.

Schilling founded Monster Games in 2006, later renamed 38 Studios (his jersey number), with the ambitious goal of creating a Massive Multiplayer Online Role-Playing Game (MMORPGs) that would compete with the extraordinarily successful World of Warcraft.

Schilling was highly motivated and had high expectations for the project. Therefore, he recruited top talent such as R.A. Salvatore, famous fantasy writer, and Spawn creator Todd MacFarlane. In addition, he took great care to motivate his employees by providing them with first-class health care, a gym, high-end customized gaming laptops, free food, travel expenses covered, etc. To succeed again, Schilling wanted a company with the best employees being treated as well as possible.

At the start of the company, Schilling injected $5 million. By early 2010, he had already invested $30 million of his own money in 38 Studios, even though several friends had also invested in the company.

Developing the company's proposed video games requires high levels of capital. For example, Blizzard invested $200 million during its first 4 years of developing World of Warcraft. Therefore, in 2010 Schilling made a deal with Donald Carcieri, Rhode Island's Republican governor, receiving $75 million in loans from the Rhode Island Economic Development Corporation, promising to build an MMORPG universe and create 450 jobs over 2 years. This loan was signed without collateral.

When the company set up shop in Rhode Island, it expanded rapidly, creating many new jobs and recruiting top-notch employers. Meanwhile, the so-called Copernicus project had a promising performance. However, it was still years away from launch and had to pay off the Rhode Island loan when the project's burn rate was more than $4 million monthly.

While in February 2012, 38 Studios' first title, "Kingdoms of Amalur: Reckoning" had moderate success, the estimations for the launch of Copernicus project saw no chance of being on the market that year. This situation, coupled with the company's huge operating costs and high debt service led to debt defaults. They initially tried to hide the defaults, but word spread among the company's vice presidents and executives of the problems 38 Studios found itself.

In May 2012, a $1.125 million cheque to the state of Rhode Island bounced, and Lincoln Chafee, the new governor of Rhode Island, communicated his goal to "keep 38 Studios solvent." These words caused potential investors to retire, leaving the company with little chance of raising the much-needed funds to start the Copernicus project.

In the following month, the studio declared bankruptcy, leading to a mass layoff of more than 1000 workers. The 2-minute Youtube trailer that some employees made showing Copernicus was a last-ditch effort to get a game publisher to hire them.

While Copernicus was eventually projected to launch in June 2013, the company's poor planning of spending drove it into bankruptcy before then.

The high debts that the company left behind after its bankruptcy meant that its employees never recovered all the money owed to them, just as investors, suppliers, and insurers lost their money. Notably, the fact that Rhode Island's $75 million loans were unsecured meant that Rhode Island taxpayers were responsible for repaying the loan, which amounted to $112.6 million with interest.

6 Conclusions and Practical Guidelines

Being an entrepreneur is complicated, and seeking financing is more difficult. These recommendations can help to make the road less winding.

- Identify clearly the phase in which the entrepreneurship or company is and the source of financing that fits better. It is needed to remember that there is no bad source of financing.
- Investigate all the financing sources available in the market, both in the traditional and alternative sectors. For each one, you should evaluate their conditions and characteristics. It would be convenient to make a list of advantages and disadvantages to determine the best financing alternative.
- Make a clear and orderly financial plan. A good plan will tell you how much you need, how you will spend, and how you will pay for it.
- Sell your idea well to impress the funder. Demonstrate that you will have market acceptance of your product or service and will have growth potential. These factors can help you access the best possible financing.
- Look at the example of others to learn and replicate the right things and avoid mistakes. They can save a lot of resources and generate outstanding results.

References

Alemany L, Andreoli JJ (2018) Entrepreneurial finance. Cambridge University Press

Berger A, Udell G (1998) The economics of small business finance: the roles of private equity and debt markets in the financial growth cycle. J Bank Financ 22:613–673

Bloomberg (2022) Kushki se convierte en el primer unicornio ecuatoriano. Recuperado de: https://www.bloomberglinea.com/2022/06/07/kushki-se-convierte-en-el-primer-unicornio-ecuatoriano/

Brunninge O, Nordqvist M (2004) Ownership structure, board composition and entrepreneurship: evidence from family firms and venture-capital-backed firms. Int J Entrep Behav Res 10(1/2):85–105

Bucardo M, Saavedra M, Camarena M (2015) Hacia una comprensión de los conceptos de emprendedores y empresarios. Suma de Negocios 6(13):98–107

Cunningham L (2021) The essays of Warren Buffett: lessons for investors and managers. John Wiley & Sons

El Universo (2021) La empresa ecuatoriana Kushki ya es un gigante tecnológico, tras conquistar mercado de capitales. Recuperado de: https://www.eluniverso.com/noticias/economia/kushki-empresa-tecnologia-financiamiento-america-latina-expansion-junio-2021-nota/

Fathonih A, Anggadwita G, Ibraimi S (2019) Sharia venture capital as financing alternative of Muslim entrepreneurs: opportunities, challenges, and future research directions. Journal of Enterprising Communities: People and Places in the Global Economy 13(3):333–352. https://doi.org/10.1108/JEC-11-2018-0090

Forbes (2022) ¡Kushki lo logró: es el primer unicornio ecuatoriano! Recuperado de: https://www.forbes.com.ec/negocios/que-hace-kushki-nuevo-unicornio-latinoamericano-n17209

Kaplan S, Stromberg P (2004) Characteristics, contracts, and actions: evidence from venture capitalist analyses. J Financ 59(5):2177–2210

Kuski (2022) Con una extensión de $100 millones de nuestra Serie B, #SomosUnicornio. Disponible en: https://www.kushkipagos.com/blog/con-una-extension-de-usd100-millones-de-nuestra-serie-b-somosunicornio

Nguyen B, Canh NP (2021) Formal and informal financing decisions of small businesses. Small Bus Econ 57(3):1545–1567

Palomares D, Chisvert MJ, Suárez M (2019) Formación y orientación para el emprendimiento: Lo que dicen la bibliometría y los emprendedores noveles. Revista Española de Orientación y Psicopedagogía 30(1):131–149

Rossi S, Bonanno G, Giansoldati M, Gregori T (2021) Export starters and exiters: do innovation and finance matter? Struct Chang Econ Dyn 56:280–297

Katherine Coronel-Pangol Ph.D. candidate in the Social Sciences and Law Programme at the Rey Juan Carlos University (Spain). Master's Degree in Financial Planning and Advice from the Rey Juan Carlos University. Commercial Engineer from the University of Cuenca (Ecuador). She is developing her doctoral thesis on alternative financing and entrepreneurship. Author of publications on SME business management in Scopus and Latindex journals.

Carmen Orden-Cruz Associate Professor at the Department of Business Economics, Rey Juan Carlos University, Spain. She is Ph.D. in Finance from Complutense University of Madrid, Spain. Degree in Business Administration and Management and Master's Degree in Financial Management at the Complutense University of Madrid. Previous professional experience includes 20 years as a Fund Manager at Gesmadrid and Economist at the Economics Research Department, both at Caja Madrid Savings Bank Group (currently Caixabank). She has published in prestigious journals and has won several awards for her research.

Jessica Paule-Vianez Associate Professor at the Department of Business Economics, Rey Juan Carlos University, Spain. She is Ph.D. in Finance with International Mention from the Rey Juan Carlos University. Degree in Business Administration and Management, Degree in Finance and Accounting and Master's Degree in Research in Social and Legal Sciences from the University of Extremadura, and Interuniversity Master's Degree in Computational Statistical Treatment of Information at the Complutense University and the Polytechnic University from Madrid. She has published in prestigious journals and has won several awards for her research.