De Gruyter Handbook of Entrepreneurial Finance

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Edited by
David Lingelbach

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This book is dedicated to Vale, who inspired its opening story. The world is lucky to have you in it.

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David Lingelbach
Introduction

December 22, 2030. As her plane descended carefully through Bogotá's now-perpetually stormy cloudbank, Mu Tha readied herself for the meeting of her life. The city's rapid emergence as the new center of startup finance had caught everyone off guard, most especially the old guard on Sand Hill Road in Silicon Valley choking on that region's near-constant wildfires and the hubris and overreach of the techbro culture of the 2020s. Colombia's capital hadn't been the first pick as a finance center, but with New York, London, Shanghai, Hong Kong, and Singapore now underwater from rapid searise, governments and international organizations around the world had scrambled to make more resilient the global financial system, especially that part of it that would finance the only hope the globe had to get out of the now-cascading existential crises it faced.

Mu Tha was typical of the new generation of financiers that had arisen in the new world order. A member of the Kayan Padaung ethnic minority of the now-failed state of Myanmar, Daw Mu (Daw is a title of respect for women in that country) had been a leader in the resistance to the military junta that took power in 2021, suffering hideously disfiguring torture at their hands that had left her in near-constant pain. But as indigenous people like her gained power in the topsy turvy world of the late 2020s, Mu's disadvantages in the Western-, and then Chinese-dominated, world suddenly became advantages. Because neither the Western models of neoliberal capitalism nor Chinese models of state capitalism were working to save the planet. And as global warming accelerated, and vaccine-resistant pandemics became an annual event, ancient ways of thinking were coming to the fore again. And people like Daw Mu – indigenous people, women, people of color, marginalized people in general – were the key actors in getting financial resources to innovative startups that could save the planet.

Mu's meeting in Bogotá was with the board of the UN's Fund to Save the Planet (UNFSP). Established by UN Secretary General Greta Thunberg and inspired by Kim Stanley Robinson's *The Ministry for the Future*, UNFSP had been capitalized at $100 trillion through the confiscation of wealth of the world's wealthiest people. The fund had one purpose: to fund innovations to arrest climate change, pandemics, and any other existential threats facing the planet, and to do so as quickly and efficiently as possible.

As UNFSP's chief executive, Mu's meeting today was the most important of her life. For she would be proposing a massive investment in the only startup she and her team felt could stop the world from spinning out of control. Afterward, she was looking forward to celebrating the 30th birthday of her best friend Vale at a cozy vegetarian restaurant. Until then, the bumps she felt as her plane navigated Bogotá's turbulence were only a taste of what was to come.

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In reality, will things turn out the way that this fictional story suggests? Who knows! But this story helps to open the mind to some of the themes that motivated this new Handbook of Entrepreneurial Finance. First, the sense that the ground is shifting under the feet of both researchers and practitioners. Next, that existential questions like climate change are increasingly shaping the opportunity set with which these practitioners and those who study them work. And, finally, that previously marginalized voices are coming quickly to the fore, as are aspects of entrepreneurial finance that didn't exist a decade ago.

Dear readers! Welcome to entrepreneurial finance, and to the De Gruyter Handbook of Entrepreneurial Finance. The aim of this book is to provide readers with an up-to-date survey about what we know about entrepreneurial finance in all its forms, and to suggest where our knowledge about this field might head next. The book is very much an academic survey, but one informed by practice. Its nineteen chapters are authored by a diverse, global body of thirty-five contributors including leading researchers, emerging voices, and practitioners. These contributors are currently based at universities or organizations located in sixteen countries and one indigenous people's land: Australia, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, Hungary, New Zealand, South Africa, the Star Blanket Cree Nation Urban Indian Reserve, Sweden, Switzerland, United Kingdom, United States, and Vietnam. These colleagues have research agendas or work programs that take them across the world.

The field of entrepreneurial finance studies how new ventures obtain and manage external financial resources. Entrepreneurial finance employs theoretical insights from entrepreneurship and finance. Initial interest in the field was driven by the venture capital (VC) phenomenon and the startups funded by its participants, a phenomenon that continues to evolve (The Economist, 2021). For example, as of January 26th, 2022 seven of the ten largest companies in the world by market capitalization were funded by VCs: Apple, Microsoft, Amazon, Alphabet, Meta, Tencent, and Tesla. At that date those companies had a cumulative market capitalization of USD 10.2 trillion. Some observers contend that VC is one of the three great institutions of modern capitalism, alongside markets and companies (Mallaby, 2022).

More recently, academic and practitioner interest in entrepreneurial finance has shifted to financial innovations such as accelerators and crowdfunding. Even so, the fundamentals of startup financing have not changed. Most startups, in most of the world, and most of the time, obtain funding mainly from their founders and other individuals and businesses to which they are close.

And thus the problem that this book takes on. The bulk of the academic research on entrepreneurial finance has focused to date on phenomena that most entrepreneurs have found largely irrelevant or, at best, aspirational – VC and angel financing. Most entrepreneurs in the world, today and in the past, will never access VC, angel financing, or even more democratized forms of finance such as crowdfunding. As the editor of this Handbook, I am as guilty as many others in this discipline for focusing mainly on popular, sexy, and data-rich phenomena such as venture capital, at the expense of the distinctly much less sexy and considerably more opaque financial reality faced by founders around the world.

And yet, entrepreneurial finance is maturing as a field. This Handbook – one of several published over the past decade – is one evidence of that maturity. Another evidence is the number of literature reviews, editorials, and special issues seeking to make sense of where the field is at present, and where it might and should head.

Table I.1 indicates how early-stage scholarly work on the field has evolved since the 1950s.

Table I.1: Ph.D. Dissertations and Theses on Topics Related to Entrepreneurial Finance.

Decade	Entrepreneurial finance	Venture capital	Business angels	Crowdfunding	Corporate venturing	Total
1950–1959		2				2
1960–1969						0
1970–1979		11			1	12
1980–1989		15			2	17
1990–1999	2	46	2		1	51
2000–2009	3	448	5		11	467
2010–2019	22	229	4	91	6	352
2020–present*	26	88	8	38	3	163

Source: ProQuest Dissertations & Theses Global.
Note: *Through September 23, 2021.

Entrepreneurial finance has been fortunate to attract the interest of some of the leading researchers in entrepreneurship and finance. As is true in many other academic fields, some of these colleagues have a disproportionate impact on the field's development, as Table I.2 indicates:

Table I.2: Some Impactful Publications in Entrepreneurial Finance, Ranked by Total Citations.

Author(s)	Institutional Affiliation (at time of publication)	Date	Total Citations (a/o 9/24/21)	Citations/year
Sahlman	Harvard	1990	4,087	132
Mollick	Louvain	2015	4,065	678
Gompers & Lerner	Harvard	2004	3,566	210
Belleflamme, Lambert & Schwienbacher (2014)		2014	3,118	445

Table I.2 (continued)

Author(s)	Institutional Affiliation (at time of publication)	Date	Total Citations (a/o 9/24/21)	Citations/year
Kaplan & Stromberg	Chicago	2003	2,870	159
Kortum & Lerner	Chicago, Harvard	2001	2,833	142
Gompers & Lerner	Harvard	2001	2,290	114
Gompers	Harvard	1996	1,868	75
Bygrave & Timmons	Babson	1992	1,686	58
Ahlers et al.	MTI North America, York, WHU, Concordia	2015	1,572	262
Lerner	Harvard	1994	1,554	58
Cochrane	Chicago	2005	1,260	79

Note: Ranked by total citations (greater than 1000 total citations)

What is entrepreneurial finance? A discipline? A field? A phenomenon?

At a bare minimum, entrepreneurial finance is an established phenomenon. Depending on how one defines a new venture, entrepreneurial finance has been observed as far back as ancient Greece.

And there is little doubt that entrepreneurial finance is a proper academic field. Bird, Welsch, Astrachan, and Pistrui (2002) define three criteria for an academic field: a professional association, career opportunities through Ph.D. or certification programs, and a systematic theory and an established body of literature, evidenced by an academic journal, annual conferences, or bibliographies. Entrepreneurial finance has some of these elements. Two professional associations have been established in the field. The ENTFIN Association was formally established in 2018 by seven leading researchers in the field and have been holding annual meetings since 2016.

There is no doctoral degree program in entrepreneurial finance, but there are certificate programs in venture capital. Entrepreneurial finance has three established academic journals. *Venture Capital: An International Journal of Entrepreneurial Finance*, founded in 1999, is Scopus and Web of Science-indexed, and ranked 2 (on a scale from 4* to 1) in the 2021 Academic Journal Guide (AJG) and ranked B (on a scale of A* to C) in the 2019 Australian Business Deans Council (ABDC) Journal Quality List. *The Journal of Private Equity*, founded in 1997, publishes some academic studies on venture capital and is ranked C on the ABDC list. *The Journal of Entrepreneurial Finance*, established in 1991, is not indexed by either Scopus or Web of Science and is not ranked on either the

AJG or ABDC lists. The Academy of Entrepreneurial Finance has been organizing academic conferences since 1989 and is now associated with the Academy of Behavioral Finance and Economics. The Emerging Trends in Entrepreneurial Finance conference has been organized twice since 2017. The Institute for Small Business and Entrepreneurship has a special interest group dedicated to entrepreneurial finance.

In determining the extent of an academic field, Plaschka and Welsch (1990) put forward some guiding questions. Table I.3 provides a brief assessment along the dimensions suggested by these questions.

Table I.3: Assessing the boundaries of entrepreneurial finance as a field.

Dimension	Assessment
Boundaries	Clearly defined
Major forces	Entrepreneurship, finance
More sophisticated research designs, methods, and analyses	Yes
Shift to larger samples and datasets	Yes
Moving from exploratory to causal research	Yes

Various forces work to contribute to an academic field's institutional infrastructure (Aldrich, 2012). These include social networking mechanisms, publication opportunities, collective training and mentoring, major foundations and smaller funding sources, new mechanisms to recognize and reward individual scholarship, and globalizing trends. Some of these forces can be observed in entrepreneurial finance, such as social networking, publication opportunities, and globalizing trends. Others, such as collective training and mentoring, funding sources, mechanisms to reward scholarship, are less visible.

What are the field's proudest accomplishments?

Entrepreneurial finance's proudest accomplishment has been to define carefully the causes and processes of venture capital, which has been described as the single greatest contributor to economic efficiency (Arrow, 1995). We have a good understanding of 1) how investors evaluate prospective deals, 2) why some new ventures are funded while others are not, 3) how VCs and entrepreneurs interrelate, 4) how VCs mitigate risk, 5) the effects of VC intermediation on their portfolio companies, 6) how VC certification impacts firms, 7) how market factors shape VC organizational-level decisions and outcomes, and 8) the country-level outcomes associated with VC (Drover et al., 2017). We also understand that only a very narrow range of technological innovations are amenable to VC investment, and that a relatively small number of VCs shape the capital funding radical technological change (Lerner and Nanda, 2020). And we have identified the principal theoretical perspectives that will help us to better understand the VC phenomenon, including agency theory, resource-based theory, institutional theory, and transaction cost economics (Bellavitis et al., 2017).

What are the basic assumptions? What are valid criticisms of these assumptions?

In entrepreneurial finance the principal existing assumptions reflect the ongoing struggle between the effectual and causal worldviews (Sarasvathy, 2001), with the entrepreneurship part of the field generally informed, directly or indirectly, by effectuation and the finance part of the field by causation. Initially, the field was largely driven by assumptions reflecting the uncertainty associated with financing innovation. However, as entrepreneurial finance practice has become institutionalized, the assumptions have become increasingly causal. One valid criticism of these assumptions relates to when effectual versus causal worldviews should be utilized.

What are the main puzzles, challenges, and controversies in the field?

The main theoretical puzzle in entrepreneurial finance is derived from the main puzzle in entrepreneurship: despite our increasing knowledge, why does entrepreneurship remain so uncertain? How can we reduce that uncertainty? Should we? So for entrepreneurial finance, that puzzle translates to this: how to finance startups in ways that go beyond just a few gazelles or home runs? Or are those wins enough for entrepreneurial finance to have served its purpose?

Writing from an American perspective, Nicholas (2019) identified five challenges facing VC: 1) the systematic achievement of out-sized investment returns, 2) the limitations of the limited partnership organizational structure, 3) the sustainability of Silicon Valley's dominance in VC investing, 4) the influence of government on the industry in the future, and 5) the industry's truly awful diversity record. Globally, the key challenge is to marshal entrepreneurial finance using institutionally appropriate mechanisms to continue poverty reduction and, as signaled at the start of the introduction, begin tackling the multiple global existential crises through entrepreneurship and innovation.

The main controversy in the field relates to the criticism of the social utility of tech-enabled startup activity funded by entrepreneurial financing mechanisms, including corporate frauds such as WeWork (Brown and Farrell, 2021) and Theranos (Carreyrou, 2018); a hypergrowth exit mindset (Lam and Seidel, 2020); and the broader criticism of technology firms such as Google and Facebook and their impact on privacy and human agency (Zuboff, 2019). Entrepreneurial finance has served a significant role as a supporting actor in tech-enabled startups.

How is the handbook organized?

The Handbook is organized differently than earlier efforts to sum up this field. We start with the fundamental premise that entrepreneurial finance needs to be studied now and going forward from the entrepreneur's perspective. So we begin at THE INDIVIDUAL LEVEL (Part I), examining what we know and want to know about how entrepreneurs finance themselves without looking externally. These forms include founder financing (Jan Warhuus from St. Mary's College of California), bricolage and bootstrapping (Matthew Rutherford, Duygu Phillips, and Jorge Arteaga-Fonseca from Oklahoma State), effectuation (Sussie Morrish from University of Canterbury), and portfolio entrepreneurship (Antonio Malfense Fierro and Peter Rosa from University of Edinburgh).

In Chapter 1 on founder financing, Jan Warhuus discusses what we know about the role of founders' tangible resources in founding new ventures. He shows how these resources are difficult to study using positivist frameworks favored in disciplines such as corporate finance and suggests different paths forward. Chapter 2 by Matthew Rutherford, Duygu Phillips, and Jorge Arteaga-Fonseca looks at the interface between two leading theoretical perspectives on founder financing – bricolage and bootstrapping – and identifies similarities and divergences between these frameworks. Sussie Morrish takes on another theoretical perspective of use in understanding the individual level of entrepreneurial finance – effectuation – in her Chapter 3, showing how this perspective may influence our understanding of entrepreneurial financing decisions. Chapter 4 by Antonio Malfense Fierro and Peter Rosa focuses on portfolio entrepreneurship and how entrepreneurs use this approach to control risk.

Then we move to THE INNER CIRCLE (Part II), looking at those close-in financing forms that entrepreneurs are most likely to turn to when they need more than they currently have. These include informal financing (Franklin Allen from Imperial College London, Meijun Qian from Australian National University, and Jing Xie from Hong Kong Polytechnic University), startup funding within business groups (Jonathan Marks and Aleia Bucci from University of Pretoria), and incubators and accelerators (Tiago Ratinho from IESEG School of Management).

In Chapter 5, Franklin Allen, Meijun Qian, and Jing Xie map out the terrain of informal entrepreneurial financing, showing how this form is a complement (rather than a substitute) for formal entrepreneurial financing. Then Jonathan Marks and Aleia Bucci show us what we know about how business groups in emerging markets create internal capital markets to fund startup ventures. The role of incubators and accelerators in startup financing is elaborated by Tiago Ratinho in Chapter 8, identifying an important gap in our knowledge about the financial aspects of these actors.

Next we consider THE WIDER WORLD (Part III), which are all of the external financing instruments that the field has studied predominantly over the past few decades. These instruments include formal debt (Steven Si and Jet Mboga from Bloomsburg University of Pennsylvania and Wan Liu and Yushan Yan from Zhejiang University), microfinance (Jonathan Kimmitt from Newcastle University), venture capital (Darek Klonowski and Silas Lee from Brandon University), corporate venture capital (Paul Asel from NGP Capital), angel financing (Sofia Avdeitchkova from Oxford Research and Hans Landström from Lund University), government financing (Judit Karsai from the Hungarian Institute of Economics), and family offices (Antonia Schickinger from Bain & Co., Nadine Kammerlander from the WHU – Otto Beisheim School of Management, and Alexandra Bertschi-Michel from the University of Bern). We also briefly consider other instruments in this space – crowdfunding and initial coin offerings – in the Handbook's conclusion.

Chapter 8 by Steven Si, Wan Liu, Yushan Yan, and Jet Mboga complements Chapter 5, noting that formal debt is a double-edged sword with both risks and benefits for startups. Jonathan Kimmitt shows in Chapter 9 how the study of microfinance can provide new insights into entrepreneurial behavior, pointing out future research directions at the micro-, meso-, and macro levels. The important role of venture capital in entrepreneurial finance is developed in Chapter 10 by Darek Klonowski and Silas Lee, who identify several promising directions for future research. Paul Asel, a leading corporate venture capitalist, maps out the intellectual landscape of corporate venture capital in Chapter 11, pointing out how the benefits of this significant phenomenon remain hotly contested. Chapter 12 by Sofia Avdeitchikova and Hans Landström addresses another major source of external startup funding, business angels, calling attention to the changing role of these actors in the new financial landscape. Judit Karsai takes on government financing of startups in Chapter 13, correcting the misperception that this funding source is unimportant in the entrepreneurial financing world. Family offices as a source of startup finance is discussed by Antonia Schickinger, Alexandra Bertschi-Michel, and Nadine Kammerlander in Chapter 14, where the conditions under which these actors are appropriate as entrepreneurial financing sources are elaborated.

Having looked at these three levels of funding, the final section of the Handbook considers EMERGING PERSPECTIVES (Part IV). This is a somewhat edgier and more divergent section than the others, and its contributors have taken license to explore how the field might be shaped by perspectives that have been relatively neglected to date. These perspectives include non-Western worldviews (Minh-Hoang Nguyen and Quan-Hoang Vuoung from Phenikaa University), gender (Janine Swail from University of Auckland), indigenous entrepreneurship (Ana Maria Peredo from University of Ottawa, Bettina Schneider from First Nations University, and Audrey Maria Popa from University of Victoria), disaster and conflict zones (Rebecca Namatovu from Copenhagen Business School), and ethics (Yves Fassin from University of Ghent University).

Minh-Hoang Nguyen and Quan-Hoang Vuong take on a scoping review of entrepreneurial financing studies set in developing countries in Chapter 15, calling attention to the ideological homogeneity in the field of entrepreneurial finance. Chapter 16 by Janine Swail begins to redress the imbalance in the literature around gender. Rebalance is also the topic of Chapter 17 on indigenous entrepreneurial finance by Ana Maria Peredo, Bettina Schneider and Audrey Maria Popa, who use Canadian data to explore how the broader field might benefit from this perspective and practice. Chapter 18 by Rebecca Namatovu looks at the difficult-to-research activity of entrepreneurial financing in post-conflict and disaster zones, asking how the broader field can benefit from the extreme uncertainty faced by actors in these settings. Ethics and its underappreciated role in entrepreneurial finance is elaborated by Yves Fassin in Chapter 19.

At its best, entrepreneurial finance provides a bridge from a past in which capital has been accumulated to a future that is more productive and liveable. At its worst, entrepreneurial finance focuses exclusively on short-term returns on invested capital to a small group of already-wealthy investors, and makes the future more nasty and unequal. Our expanding knowledge of this important economic and social phenomenon can help us to avoid dystopian futures like the one faced by Mu Tha at the beginning of this introduction.

Can entrepreneurial finance help bring all of us a better future? The readers of this Handbook may help to answer that question in the affirmative. On behalf of the contributors, I wish each of you fair winds on your intellectual journey.

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Part I: **The individual level**

The contributions in Part I consider the most under-researched part of the field: the individual level. Most startups around the world and over time are financed primarily from their founders' resources. What those resources may be and how they are gathered are the subject of this part's four chapters.

In Chapter 1 Jan Warhuus takes on the role of founders' financial resources in the startup process. He finds that our knowledge about this important topic is constrained somewhat by the theoretical frameworks from corporate finance and data collection challenges in part imposed by editors and reviewers.

In Chapter 2 Matthew Rutherford, Duygu Phillips, and Jorge Arteaga-Fonseca examine two leading theoretical perspectives of relevance to the individual level of entrepreneurial finance: bricolage and bootstrapping. They suggest that the nexus of these perspectives may be a useful focus for future research.

Chapter 3 by Sussie Morrish looks at another individual level theoretical perspective – effectuation – and considers how it may influence a startup's financing decisions.

Finally, in Chapter 4 Antonio Malfense Fierro and Peter Rosa discuss how entrepreneurs construct portfolios of businesses to manage risk.

Taken together, these four chapters help to rebalance the entrepreneurial finance field.

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Jan P. Warhuus

1 The role of founders' tangible resources in founding new ventures

Abstract: This chapter explores our knowledge and lack thereof about the role of founders' resources in new venture emergence. We focus on early-stages entrepreneurship because it is here that the founders' resources play the most important role as the venture typically does not yet have assets of interest to investors. We know that is the situation for most founders and because of the raw number of founders, their resource commitment is likely to be sizable and thus important. However, we know little about the actual size or the role these resources play in the process or in acquiring outside resources and financing. This lack of knowledge is in part because early-stage new ventures do not lend themselves well to corporate finance frameworks and partly because the micro-foundational actions of interest are hard to investigate based on the positivist stance that the field of finance and its reviewers and editors typically favor.

Keywords: founders' resources, insider financing, early-stage entrepreneurship, micro-foundational actions, context

Introduction

Driving over the San Francisco Bay Bridge towards Oakland on her way home from work at a leading medical trials center, Chanel, age 33, had tears in her eyes – tears of anger, frustration, and disappointment. That same afternoon she had cheerfully gone to her boss' office with an idea for a medical trial that could potentially lead to a cure of one of the cancers they were working on combatting; only to be lectured on that "we are part of the pharmaceutical industry" and, as such, "not really interested in cures." Rather, her boss wanted to focus on treatments that required the purchase of drugs. Three years earlier, Chanel had been diagnosed with Crohn's disease. In the period since, she had experienced the limitations of pharmaceuticals and the benefits of supplementary alternatives. Combining traditional treatments with detoxing body and mind through yoga, meditation, dieting, breath work, and

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other tools had been her only narrow path to remission. In the process, not only had she earned an MBA and become a certified yoga teacher and wellness coach; she had also been telling her story to her family, friends, and her broad and active network within the volunteering community in Oakland and helping those of them interested in healing alternatives. She knew, firsthand, that aiming for the singular approach of providing pharmaceuticals to people was rarely the right solution to complex illness and trauma.

Over dinner that night at their house in the Laural district of Oakland, Chanel shared her frustration with her boyfriend and their two friends and roommates. After a while, her two roommates, Kimi and Jacob, looked at each other, smiled and Jacob said "do you want to, or shall I?" to Kimi. Kimi replied "Let me give it a go" and turned to Chanel: "This is not the first time. You clearly do not see yourself in that line of work forever. Why don't you take the yoga and wellness clients that you already have on the side and team up with Jill and Char? They need a place for their breathwork and meditation clients as well. You could get a studio together. There is nothing affordable like that in Oakland for the 99%. I saw this great place today down on 33rd Avenue next to my chiropractor, it's for rent. You can totally do it!" Now it was Chanel's turn to smile. She could see that she had subconsciously been begging her friends to tell her just that for quite some time.

"If you are in, I'm signing the lease!" she texted Jill and Char after the three of them had toured the space on 33rd Ave. and met a very enthusiastic chiropractor earlier the same Saturday morning. She instantly got more happy emojis back from both than anyone would ever need. After three low-key years focused on recovery and school, combined with a very well-paid job, she had about $40k in the bank, and Chanel was thinking that with the space already booked by the three of them about 30–40%, the risk was limited to the remaining capacity, and she could always cover part of that with her savings. She figured that she would need about $5k for equipment and materials – they could paint it themselves, but the space needed some TLC to work out right – and probably the same for a website with a reservation system. Even if it would take a bit of time for business to pick up and more practitioners to join them, with her current living situation and existing clients, she would be able to make the one-year lease payments, cover the startup costs, and live within the means of her savings. "What better way to spend the money?" she thought. "If it doesn't work out, I can always go back and get a six-figure pharma-job" she said out loud to herself as she took a deep breath and opened the DocuSign lease agreement.

Today, four years later, 33&Rising is a striving wellness center for the 99% with about 20 participating practitioners, a large and growing loyal following and a business model that has allowed the venture to establish itself and to grow without external financing.

The subject of this chapter is important because practically all entrepreneurs are likely to use their own personal financial and other tangible resources in the attempt to start their new venture (Gartner et al., 2012). In addition to the immediate effect of injecting funds and other resources into the startup, the ability and willingness of founders to commit resources to their startups has been shown to affect new ventures' trajectories in a number of other short- and long-term ways, including survival, growth, and the ability to get buy-in from stakeholders such as potential team members and outside financiers (Ang, 1991; Bhidé, 2000; Frid et al., 2015; Hechavarría et al., 2016).

This chapter will focus on the early stages of new venture emergence, because it is during these stages that other sources are not typically readily available and thus it is here that founder resources play the most important role (Winborg & Landström, 2001). As the firm establishes itself and grows, informal and formal sources of external financing become more readily available and both the founder's ability to match the needs of the firm and the importance of their own resources are reduced. It is important to specify the situation and context of early-stage founders because both are remarkably different from that of established businesses (Ang, 1991; Bellavitis et al., 2017; Waleczek et al., 2018; Weigand, 2016). There are many ways to define the emergence of a new venture and little practical or theoretical agreement on how best to define such events (Reynolds, 2017). In this chapter, I borrow from the U.S. Panel Study of Entrepreneurial Dynamics II (PSEDII) in defining when someone becomes an entrepreneur. Through this lens, a person is an entrepreneur if they: 1) consider themselves to be creating a new business, 2) have been active in firm creation over the past 12 months, and 3) are expected to own at least part of the new firm (Reynolds & Curtin, 2008, 2011). In the same manner, I am inspired by the Global Entrepreneurship Monitor (GEM) in defining the difference between an entrepreneur and an established business owner-manager as three and a half years after the startup becomes operational by paying wages to owners for at least six out of the last 12 months and breaking even for at least three months in a row (GEM, 2021; Kelley et al., 2016; Reynolds & Curtin, 2008). We acknowledge that the founder of the firm remains the founder forever, a founder-manager remains the founder-manger until they step down, and many ventures remain entrepreneurial and transformative past the startup phase. However, in this chapter, we will mainly focus on research on the nature and effects of founders' resource commitments during the nascent (pre-operational) and startup phases (first three and a half years after becoming operational). Finally, we differentiate founder's resources from other resources by simply considering whether the resources are controlled and owned by founder(s) prior to committing them to the startup. All other resources are considered external – below I will discuss this definition further and we will see why this is not quite as simple as it may seem.

This chapter proceeds as follows. In the first section of the literature review, we discuss the challenges in defining founder(s) resources and the importance of these resources to the economic vitality of entrepreneurship. We then discuss how the nascent-and-startup phase is unique in comparison with later stages of venturing and the corporate financial frameworks we typically use to describe and understand established companies' finances. I proceed by accounting for the typical need for founder resources and how it may impact the nascent-and-startup phase; followed by an account of what we know about the impact of founders' resource commitments on firm survival, success, and growth. Based on the literature review, we then discuss research gaps and future research directions and conclude by highlighting the most important elements of the chapter.

Literature review

Challenges in defining insider financing and the importance of founder resources: What do we know?

By the definitions outlined in the introduction, all founders commit resources towards the startup; at a minimum with intangible assets such as providing access to their network, volunteering time, and in a social and intellectual capacity. In this chapter, we will mainly focus on resources in the form of cash (including money from founding team members and/or their ability to go without pay) and other tangible assets, such as office space, production and storage facilities, materials, and vehicles. While these delimitations may sound straight forward, there are at least three grey areas of overlap with other chapters in this book: First, in the use of the entrepreneurs' private assets as collateral for external debt financing; with the definition of bootstrapping and how entrepreneurs use it; and, third, the use of bricolage and social cooptation.

The use of private assets as collateral is complicated because making an investment and acquiring financing are not separated in the early startup phases. For example, an entrepreneur with a net worth of $250k may be willing to invest $50k in their startup, but $225k of their net worth is tied up in a house, two cars, and a recreational vehicle (RV) and only $25k is currently available as "cash" in a savings account. If the entrepreneur sells the RV to free up an additional $25k and invests it along with the savings in the startup, that is clearly internally sourced financing. If the entrepreneur uses a personal credit card to come up with the additional $25k, then we enter a grey area. Since the charge only amounts to 10% of the entrepreneur's net worth, no external party is involved in the decision making, and the funds could have been sourced in other ways, many scholars would consider the use of a credit card internal funds; but the funds do flow to the emerging business from the private banking arm of a financial institution. A third equally grey option would be for the entrepreneur to take out a $25k second mortgage on their house, and most scholars and practitioners would probably classify this option the same way they would classify the credit card option. A fourth option may be to reach out to a relative for a loan – which does not involve any "outsiders," but resources not controlled by the entrepreneur. Finally, the entrepreneur may approach the commercial arm of a financial institution with a request for a $25k business loan for the startup and since the bank is actively deciding to fund the startup, this is clearly a case of external debt financing. However, that clarity erodes quickly (because of the lack of separation of investment and financing) if, for example, the entrepreneur personally co-signs for the business loan, or their house or vehicle is used as collateral, which is quite common (Frid et al., 2016). In all these cases the entrepreneur is personally liable, and from their perspective, it would make sense that they simply regard these scenarios as strategic alternatives to selling the RV – a resource fully owned and controlled by the entrepreneur beforehand.

We can leverage the discussion and scenarios in the previous paragraph to discuss founder resources vis-à-vis bootstrapping. According to Winborg and Landström (2001, p. 235–236), bootstrapping consists of "methods for meeting the need for resources without relying on long-term external finance from debt holders and/or new owners". By this definition, founder resource commitment is one type of bootstrapping, and the authors find empirical support for this as one of five distinct types of bootstrapping. Leaning on the implicit delimitation that bootstrapping is not giving up ownership or putting debt positions on the books of the new venture, Harrison et al. (2004, p. 307) define bootstrapping "as access to resources not owned or controlled by the entrepreneur" and Block et al. (2021, Abstract) talk about "measures that entrepreneurial ventures undertake to preserve liquidity." By these two definitions, the use of founders' resources is not bootstrapping. Winborg and Landström (2001) is one of the most cited papers on bootstrapping and thus their definition has been brought forward by other researchers. However, upon closer examination, many would probably question the inclusion of founders' resources in bootstrapping. Bhide (1992, p. 110) talks about bootstrapping as "having the wits and hustle to do without" external funding. Lahm and Little (2005, p. 61) describe bootstrapping as "the transformation of human capital into financial capital" through a "highly creative process" and Waleczek et al. (2018, p. 535; my emphasis) see bootstrapping research as concerned with how entrepreneurs "acquire *new* resources creatively at minimal costs." Committing existing resources already under the control of the entrepreneur is hardly hustling, transformational, creative, or new. The situation gets even more complicated when we dig further into the Winborg and Landström definition and find that, in their definition of founder resources, they include resources from "relatives"; that is, resources actually not owned and controlled by the entrepreneur.

On another interesting dimension, Harrison et al. (2004, p. 308) divide bootstrapping into two types of "creative ways of acquiring finance" and "minimising or eliminating the need for finance by securing resources at little or no cost." With both types we see that the entrepreneur's intellectual and social capital are in play to be creative and to make the cost of resources go away. However, it is especially the latter type that does not involve traditional financing that is of interest in this chapter. There are at least two ways to make the need for, or cost of, resources go away, namely: a) making do with and repurposing what you've already got, and b) gaining access (not ownership!) (as emphasized by Stevenson & Gumpert (1985)) to resources when they are needed. Making do with and repurposing what you got has been termed "bricolage." Bricolage, conceptualized in the 1960s to aid in understanding certain human behaviors, made its way into the management literature in the 1990s, and was succinctly and firmly adopted by the field of entrepreneurship by Baker and Nelson (2005). Bricolage can be defined as the act of "making do by applying combinations of the resources at hand to new problems and opportunities" (Baker and Nelson, 2005, p. 333). Five types of bricolage can be observed in the entrepreneurial process, including seeing artifacts as resources where others overlook or undervalue them (Baker & Nelson, 2005; Clough et al., 2019). Here, many acts of upcycling serve as illustrative examples (Wegener, 2016). This type of bricolage overlaps with social recourse cooptation – an unappreciated concept with strong explanatory power, first presented in a seminal paper by Starr and MacMillan back in 1990, in which entrepreneurs use social contracting and social assets (such as friendships, trust, and reciprocity) that exist *independently* of the venture (Rawhouser et al., 2017) in coopting underutilized resources.

The importance of founder resources is hard to overstate because founders make many of these resource investments very early on in the entrepreneurial process under true "Knightian uncertainty" (Knight, 1921; Sarasvathy, 2008) before the venture represents value to formal or informal investors (Bhidé, 1992). We can use data from Aldrich and Ruef (2018) to illustrate the power of these normal and everyday investments in new venture emergence. The 12,100,000 people who were involved *as owners* in 2005 in 7,000,000 startup attempts resulted in approximately 500,000 new ventures that started hiring within a year, they *all* made investments under uncertain, unpredictable circumstances to make these hires happen. All this against a backdrop where there is no actual market for entrepreneurs (Klein, 2008; Sarasvathy, 2004) and yet young firms (zero to five years) contribute nearly all net new job creation in the U.S. economy (Kauffman Foundation, 2015). An appreciation for the commitment of those founder resources cannot be overemphasized.

Corporate finance and early-stage entrepreneurial finance

Entrepreneurial finance is different from corporate finance on several dimensions, including risk profiles, expectations and information asymmetries (including entrepreneurs not knowing what financial options may be available to them (Seghers et al., 2012)), and the way adverse selection plays out. Pecking order theory (Myers, 1984) serves as an excellent example of how early-stage entrepreneurs escape the "logic" of corporate finance. Pecking order theory suggests that firms first use internal financing, then external financing with debt followed by equity (Barclay & Smith, 2020; Myers, 1984). Based on information asymmetry, tax codes, and transaction costs this selection order makes theoretical, practical, and intuitive sense. However, some studies question whether it applies to entrepreneurs (Blaseg et al., 2021). Some find that the pecking order theory may be altered or extended by at least the entrepreneur's industry, age, and experience (Minola & Cassia, 2013) and wealth (Barclay & Smith, 2020; Frid, 2014). Other studies have found the pecking order theory to apply at least to operational SMEs (Sogorb-Mira, 2005). We recently found that the theory may not apply to wealthy founders of early-stage nascent startups (Warhuus et al., 2021); in that entrepreneurs with wealth actually tend to ask for and acquire external financing earlier in the process than entrepreneurs with less wealth, who otherwise, everything-else-equal should have a greater needs. Finally, the advent of crowdfunding and private and public incubator resources (see chapter 7) over the past couple of decades further blur the pecking order for early-stage ventures.

Aside from pecking order theory there are several other ways in which early-stage entrepreneurs escape the logic of corporate finance and these are mainly related to friction stemming from the nature of early-stage startups. Where, for example, high levels of uncertainty makes it impossible to calculate rates of return and compare investment across different investment targets, especially combined with high portions of human/intangible assets and with historically extremely skewed returns on investments. These topics are covered in other chapters in this book. However, one topic regarding founder's resources and very early-stage entrepreneurial finance that is especially at odds with corporate finance theory, and thus of particular importance to this chapter, is the lack of separation of investment and financing discussed in the *RV* example above about how to free up $25k of net worth to invest in a startup. Based on the Fisher-Separation Theorem (Fisher, 1930) and Modigliani-Miller's Theorem (Modigliani & Miller, 1958, 1963), modern financial paradigms are based on a separation between investment and finance decisions, which does not exist in early-stage entrepreneurial financing (Weigand, 2016). The separation does not exist, because the entrepreneur cannot bring about the new venture instantaneously (Gartner, 1985) and thus the separation of the person from the new organization is a slow process (Dimov, 2020). Therefore, applying a corporate finance framework to early-stage startups ignores this issue, which in turn has consequences for how we interpret the data we generate in our research. This should also have ramifications for future research, which I discuss in the Future Research section below.

Financing requirements during nascent and startup phases and the prevalence of founder financing

In popular media and in the classroom, we often meet the belief that entrepreneurs marshal resources as one of their first acts – only a fool would venture out on a project that one does not have the means to see through, right? However, the literature does not support this. In a recent study of a representative sample of 1,214 nascent (pre-operational) entrepreneurs, only 12 had external financing ready from day one and 72% did not even attempt to attract external financing during their nascent phase – a level supported by other studies (Miao et al., 2017). The 20% who asked for external financing and obtained it were, on average, about two-thirds of the way through their journey as nascent entrepreneurs (in terms of number of actions tracked and time spent in the pre-operational nascent phase) before seeking and obtaining external funding (Warhuus et al., 2021). Even exceptionally successful ventures often start with founder's resources. In a study interviewing 100 of the *Inc* 500 entrepreneurs, Bhidé (2000) found that the majority of initial funding for these companies came from the founder's personal savings and only 6% originated from venture capital and angel investors, combined. Further, Welter et al. (2017) examined the Inc. 5,000 from 2010 to 2013 and found that most of these highly successful firms did not even operate in industries associated with venture capital.

Capital intensity of industries varies greatly and is linked to lead-time. For example, you can start a consulting/service sector business "tomorrow" with very little capital investment and practically no lead time between resource commitment and billing of customers. In contrast, a startup in agriculture requires much larger initial investments in land and equipment and, for multi-year crops, significant lead time between resource commitment and billing of customers (for example, asparagus has a three-year time to yield, while almond trees need seven years). For these reasons, average numbers can be deceiving. However, Seghers *et al.* (2012, p. 69) reported that in their Belgium-based sample "[a]lmost half of the ventures (44.7 percent) were founded with less than €20,000 start-up capital" and, in the U.S. in 2018, 53% of the Inc. 5,000 companies were founded with less than $20,000 (Inc. Magazine, 2018). This certainly illustrates that starting even highflying ventures, in certain industries, is feasible within the personal savings of a successful employee, especially someone working in a high-paying industry, like Chanel in the opening case. The reality that many ventures can get off the ground with less than $20,000 in initial capital has held surprisingly stable over the last 20 years is interesting. One plausible explanation for why this number has withstood inflation over time may be that starting a business has become significantly less resource intensive in general. Many components do not any longer require hiring a professional or the purchase of expensive equipment. Rather, taxes, human resources, customer relationship management, and accounting systems, and Internet presence, can be purchased on a pay-as-you-go basis as cloud-based offerings. Another plausible contributing factor may be that the nature of the companies entrepreneurs start has changed and that entrepreneurs start more resource-light companies in information and services industries today than they did 20+ years ago. As one illustration, Zacharakis *et al.* (2017) draw on GEM reports to suggested that the *average* amount required to start a business in the US is $63,000, while Zacharakis *et al.* (2020), still using GEM data, suggest that the *median* is now $18,000. Aside from the industry and lead-time issues, an often overlooked point in discussions about the need for resources to launch a business is the fact that you rarely need the same amount of resources to *try* to launch a venture as you do to actually launch an operational business. In another study, based on the same national (U.S.) representative sample of 1,214 nascent (pre-operational, still trying) entrepreneurs as mentioned above, Gartner et al. (2012) found that these *nascent* entrepreneurs invested a median of $5,500 in their start-up *attempts*.

Effects from founders' resource commitments

There are reasons to believe that the paths to become operational, grow, and achieve success are so plentiful that no single action is required to achieve these objectives (Arenius et al., 2017). However, as we have seen, there are also reasons to believe that the entrepreneur's willingness to commit resources toward their ventures ranks very high on the list of actions taken by early-stage founders. As Bird and Schjoedt (2009) remind us, thoughts, passion, motivation, and intelligence will not create entrepreneurial value without action. These actions have to come from the entrepreneur, or nothing is founded, and these actions require allocation of resources, initially from the entrepreneurs' themselves in by far the most cases, and certainly in everyday, low-budget launch attempts of the 99% (Welter et al., 2017). We will now briefly discuss what effect such commitments can have on the emergence of the new venture.

Of great relevance to this chapter and this book is that founder resource commitments impact their ability to attract and acquire further external resources. As mentioned above, entrepreneurs who do acquire external funding first invest in taking about two-thirds of the tracked actions and spend about two-thirds of their time in the nascent phase before acquiring outside resources. There is also some support for a "mini" or "embedded" pecking order, where nascent entrepreneurs tend to initiate resource-light actions before funding and resource-heavy actions after funding (Warhuus et al., 2021). However, there are notable exceptions to this order. We suggest that this may be because the willingness of entrepreneurs with high levels of wealth to commit their own resources increases over time, especially when they regard an external funding event more as a *when* than an *if*. This all indicates that the entrepreneur must commit quite some time and resources to take these actions and, through them, gain the level of legitimacy needed to attract external funding.

In this situation, one question immediately comes to mind: What about entrepreneurs with low wealth? Frid *et al.* (2016, p. 531) found that "low-wealth business founders . . . are less likely to get external funds, and they receive lower amounts when they do," which means that entrepreneurs with low wealth are more likely to experience resource constraints during business formation and to have to rely on their existing resources. From a social constructionist vantage point, that situation means that what may look like an opportunity to an individual with wealth may not look at all like an opportunity for an individual with low wealth. Potential entrepreneurs with lower wealth may gravitate toward industries and types of business that are less capital intensive and/or where options for bricolage and social cooptation are more prevalent. There is a silver lining here that may counter this trend, as Frid *et al.* (2015) found that the amount the entrepreneur needs to invest to acquire external funding is not an absolute amount, but a matter of "skin-in-the-game" relative to individual annual income. Investing what amounts to 80% of one year's income, instead of 40%, significantly increases the chance of acquiring external financing, wealthy or not. This finding is important because the entrepreneur's relative resource commitment, rather than their wealth, can lead to commitment from other stakeholders, and these financial commitments have been shown to correlate with survival, performance, and growth (Frid et al., 2016; Gartner et al., 2012; Hechavarria et al., 2016; Reynolds, 2016).

Many studies have found, and many experts have argued, that resorting to internal funding can hinder the development of the emerging or young firm and thus impact performance and growth. Hustling and being creative to marshal enough resources internally can take time and attention away from product and market development efforts, stifling growth and threatening survival. We will not discuss or advance this intuitively obvious correlation but warn that one should not take this as a sign of any simple causation. We do not know if that is because capital injections strengthen the firm, or if it is because weaker start-ups do not self-identify as investment targets (Eckhardt et al., 2006), or if it is because financiers are able to pick winners. More important to this chapter and less frequently advanced in the literature is the opposite argument, that *not* resorting to internal funding can be a distraction and hinder the development of the emerging firm (Bhidé, 1992) as " . . . many entrepreneurs waste a lot of valuable time by prematurely seeking seed capital from business angels and even from formal venture capitalists – searches that come up empty-handed almost every time" (Bygrave, Hay, Ng, & Reynolds, 2003, p. 113). Timing is everything, they say, also in the entrepreneur's judgement about when to and when not to rely on internal resources to fund their startups.

Finally, if we use Gartner *et al.'s* (2012) finding (that entrepreneurs invested $5,500) in concert with the Aldrich and Ruef (2018) finding (that 12,100,000 people a year attempt to start a business), by simple multiplication we can start to get a sense of the combined effect of founders' mundane, everyday resource commitments:

12,100,000 times $5,500 equals roughly $66,5 billion – more than double the size of the yearly US angel investments.

Future research

From the early part of the Introduction of this chapter, I've raised the issue of definitions. Defining "founders," "resources," and "entrepreneurship" remain challenging and affect coherent knowledge development in many areas of entrepreneurship research, including finance. For example, whether we define entrepreneurship as risk taking, opportunity pursuit, or organizing impacts future research.

We then saw those definition issues spill over into understanding founders' resources vis-à-vis bootstrapping, where those resources do not fit the description of the concept of bootstrapping yet are included in some widely adopted definitions. So we can perhaps place funders' resources at the edge of bootstrapping (depending on how the resources are applied and what definition we use) but a more accurate description may be that it is in the grey area around something fuzzy; as Miao et al. (2017, p. 1) remind us "[h]owever, after nearly three decades since the seminal publication of Van Auken and Carter (1989) we know far too little about bootstrapping and its antecedents and outcomes. To make matters worse, the extant empirical literature is exceedingly confusing." Here is a clear call for a better understanding of founder's resources versus bootstrapping and, as I will argue further below, this research probably needs to be informed by what it feels like to the entrepreneur (Welter et al., 2016). For example, in the case of a loan from a relative discussed in the *RV* example above, some entrepreneurs may regard that loan founders' resources (if it comes from, for example, a parent or spouse) or as bootstrapping (if it originates from a more distant relative with a more transactional perspective on making the loan). From the *RV* example we have also seen that our knowledge about loans based on some sort of collateral/personal liability versus founder resources comes up short and calls for further research. Again, this research probably needs to be driven less by objective, one-reality definitions and more by subjective, multi-reality experiences by entrepreneurs and the resource holders, as I elaborate upon in the next paragraph.

Entrepreneurial finance research has very much fallen victim to the tendency of much scientific research to value what can be measured, rather than figuring out how to measure what we value. As Welter and colleagues (2017, p. 315) eloquently express it, "we systematically devalue entrepreneurship as a whole, by failing to see the pleasures and benefits of entrepreneurship unless they can be accounted for in wealth accumulation and job creation." Yet, within early-stage entrepreneurial finance, Sahlman (1994) argued for a broader scope and Bhide (2000, p. 39) noted that "most start-ups, however, don't have the assets that an objective investor would consider valuable." Despite that, to this day, the easier-to-observe-and-investigate (but also very rare and the exception-to-the-rule) venture capital events and angel network investments are receiving by far the most attention from researchers and editors alike (Aldrich & Ruef, 2018; Welter et al., 2017); and to such an extent where other normal and everyday sources of resources have quite consistently been labeled an "alternative" part of the new venture's resource environment (Churchill & Thorne, 1989; Cumming et al., 2019; Seghers et al., 2012; Wardrop et al., 2015). And yet "[t]his big-money model has little in common with the traditional low-budget start-up" (Bhidé, 1992, p. 109). So, I want to join the early 1980s and 1990s pioneers' in this field and the more recent 2017/2018 distinguished contributions' calls for future research to challenge the scope of the field and the labels we use (Welter et al., 2016) – in a world where everything but the exception (angel and VC financing) is labeled "alternative," it is hard for even the most critical and seasoned person to think straight.

This issue is further exacerbated by the fact that financial research typically comes from a positivist tradition. From this ontological and epistemological vantage point, because entrepreneurs have to venture out and "pursue opportunities without regard to the resources they currently control" (Stevenson, 1983, p. 23) they are consequently objectively resource constrained and there is an objective funding gap out there (see also Lam, 2010). Because these "facts" "objectively" exist in a positivist world, we need an outside force to help resolve the situation, and thus entrepreneurial finance has had a strong bias of focusing on the supply side and has regarded the demand side as static, objectively true, and given. This double whammy of strong bias toward the measurable and strong positivistic supply-side bias, means that today we know quite a bit about the extreme exceptions (for example, gazelles, VCs, and IPOs) but much less about the resource mobilization of everyday entrepreneurs who are driving the vitality of our economy and creating nearly all new jobs. This relentless bias in research input and output is so strong that it is easily observable in public policies and entrepreneurship education and textbooks (Aldrich & Ruef, 2018; Bhatia & Levina, 2020; Lahm & Little, 2005; Lam, 2010). So, as we broaden the scope, I call for a future focus on the demand side of the equation, including founder's resources. And for that to include a better understanding of founder's use of social cooptation strategies and addressing such questions as "What role do 'helpers' make in the emergence of a new venture?" and "When should 'helpers' contributions be considered or not be considered a founder resource?"

The double whammy of the past has consequences for current and future researchers (and their output) on the demand side of early-stage entrepreneurship finance, where founders' resource commitments are most important. There are probably many ripple effects of these biases, but I will limit this discussion to three main points concerning ontological stance, methodology, and research outlets. Baker and Nelson (2005) drew on Penrose (1959) to bring forward her point that inputs do not define outputs of a firm "because of differences in their ability