

Entrepreneurial Finance

A Global Perspective

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Entrepreneurial Finance

I dedicate this book to three exceptional friends and scholars:

M. Lynne Markus

David Drew

James Logan

—Gary Gibbons

I dedicate this book to my great supporters:

My wife, Tina

My daughters, Kary, Katy, and Kelly

My son-in-law, Rich

My grandchildren, Rachel, Andrew, and Sara

—Robert D. Hisrich

I dedicate this book to entrepreneurs worldwide who have dedicated their lives to build meaningful companies; and

To all future entrepreneurs who do not yet realize the potential and impact their dreams can have on the world; and

Finally, I dedicate this book to all business mentors who voluntarily give their time to help the younger generation achieve success.

—Carlos M. DaSilva

Preface

This book was conceived from the entrepreneurial perspective. Finance is a subject often neglected by the entrepreneur. According to the U.S. Small Business Administration, finance or, to be accurate, ignorance of finance is the root cause of 74% of small business failures. We believe that knowledge of finance is as essential to the manager's toolkit as the ability to sell, lead, and innovate. We also believe that finance should be made accessible to the entrepreneur from a pedagogical point of view. This book provides the entrepreneur the opportunity to develop the essential skills and conveys the necessary knowledge for him or her to be functional in the discipline, at least as far as his or her own business is concerned.

At the beginning of each chapter, there is a short case. In some chapters, the information in the case is used to provide expanded explanations and examples. In other chapters, the case is meant to illustrate a common circumstance encountered by entrepreneurs that illustrates the entrepreneur's need to understand the material that follows. All of the cases are real cases, although some have had company names or the names of the principals changed. Regardless, the subject matter described in the cases is real, and in our opinion, the problems faced in the cases are common to most entrepreneurs and occur regularly in entrepreneurial settings.

The field of finance is large and rapidly evolving. We have endeavored to relate information that is immediately usable and current, although not information that is subject to great controversy or rethinking. In some areas, such as understanding financial documents, ratio analysis, and cash flow management, the state of the art is settled. In other areas, such as cost of capital, capital budgeting, and valuation, much new thinking is permeating the field. In these cases, classical perspectives are provided on the techniques that are appropriate to the subject area. By making note of both the pros and cons of different methods or points of analysis, we have attempted to draw the reader's attention to some areas where new thinking is being actively put

forth and debated. Also, the book provides references to some of the best sources from which the reader may find further information on the subject at hand. Finally, in the references, we have included some of the most current and interesting sources of thought on the subjects we have addressed.

In our view, finance is one of the most interesting and useful of the social science paradigms, but it is only a tool. One cannot use it blindly and without the application of skill and judgment. The entrepreneur should use his or her knowledge of finance as he or she would any other tool. By itself, finance does not provide “the answer”; one cannot use it to calculate “the solution,” but it can be used to frame the problem and suggest a proper course of action. Nothing, and certainly not the discipline of finance, can replace the entrepreneur’s drive, ability to convince others of the worth of his or her vision, or ability to tolerate the uncertainty that the entrepreneur faces in the pursuit of his or her dream.

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About the Authors

Gary Gibbons has extensive professional experience in portfolio management, securities valuation, financial modeling, and financial planning and evaluation of entrepreneurial firms. His corporate and investment clients include the Bank of Bermuda, the Agyros Foundation, Imperial Mortgage, Kaiser Steel Resources, the New Kaiser VEBA, the Kaiser Steel Benefit Trust, and many other institutions and small firms. Additionally, he has served as an expert witness or expert consultant in numerous legal proceedings; he has provided opinions that have been used in support of specific civil, tax, or regulatory positions. He has worked on both civil and criminal litigation and in court, arbitration, or mediation proceedings. Dr. Gibbons has served on the board of directors of both public and private companies. When serving on these various boards, he has generally acted in the capacity of the chief financial officer or the chair of the finance committee. Dr. Gibbons earned his PhD in business administration—with emphasis in strategy and finance—at Claremont Graduate School, Peter F. Drucker Graduate School of Management. He is the Academic Director of the Thunderbird Private Equity Center at Thunderbird School of Global Management.

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Carlos M. DaSilva has widespread experience in entrepreneurship and the startup ecosystem. He is the Director of the Founder Institute, Portugal, the world's largest early stage startup accelerator, with over 1,000 graduate companies across six continents. Dr. DaSilva is responsible for the mentoring of dozens of technology entrepreneurs every year. He is frequently invited to lecture on topics related to entrepreneurship, as well as participate in the jury of various startup competitions. Dr. DaSilva held the positions of visiting scholar at the Thunderbird School of Global Management and at the University of Southern California in Los Angeles. He is a professor of entrepreneurship at the School of Business Administration in Fribourg, Switzerland, and lectures on topics related to entrepreneurial finance and business model innovation. Prior to obtaining his PhD in technology management at the University of Ljubljana, he worked for several years as a strategy manager at an Eastern European startup venture that was recently acquired by a large multinational group.

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Chapter 1

The Entrepreneurial Challenge

A Global Perspective

Learning Objectives

- To understand the importance of entrepreneurial finance
- To introduce the different types of entrepreneurs
- To expose the challenges associated with being an entrepreneur
- To identify the traits of global entrepreneurs
- To understand what is different about entrepreneurial finance

Case: CEON Solutions Pvt. Ltd.

Abhay Panjiyar, a young engineer in his second year of engineering school, had an idea while he was creating an effective administration process for Bhopal, an India-based education nongovernmental