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Jan-Urban Sandal

CONSEQUENCES OF EXTERNAL ENTREPRENEURSHIP FUNDING

The business of the entrepreneur is entrepreneurship. It has shown that external entrepreneurship funding, as a pattern, tends to support the wrong people and projects. However, the successful entrepreneur will always overcome all kinds of hindrances, also the inconveniences, disappointments and indignation by what might be perceived as unfair treatment. External entrepreneurship funding indicates that the person is working under someone else and that is not entrepreneurship, entrepreneurship is independent and individual economic business.

Keywords: *external entrepreneurship funding; successful entrepreneur; innovation; entrepreneurial profit; social and business entrepreneurship; integrity, reputation.*

The business of the entrepreneur is entrepreneurship. Successful entrepreneurship is to bring an innovation into use on the market, be it a commodity or a service. The proof that a successful innovation has been launched on the market is the entrepreneurial profit [1]. In both business and social entrepreneurship alike, profit is the signal that constitutes that the idea put forward by the single entrepreneur was right. Once the new commodity or service has been launched on the market and proved to be successful, the revenue from sales will cover the production costs and the entrepreneurial profit. Successful entrepreneurship is self-financing. The dynamic production function is thereby both sustainable and accelerating. Sustainable because the demand on the market will cover the costs of production with sufficient revenue and accelerating because the diffusion of the new technology will ensure new consumers in a continuously higher number of buyers. The scaling of the dynamic production function will take place through the increasing entrepreneurial profit, which is sufficient to supply the increase of production to serve the new markets. The most flexible, secure and cheapest funding for the upscaling of the production for the entrepreneur is the use of entrepreneurial profit. The entrepreneur has full command of the capital spending and on one can dictate the conditions of how to invest. Self-financing represents the ultimate independency of entrepreneurship funding in the escalating production of any business or social enterprise based on innovation.

The start-up process follows the same guidelines for funding of the entrepreneurship as the dynamic production of the established enterprise based on innovation. The entrepreneur might use equity funding, a capital allocated through previous successful entrepreneurship. Equity funding represents economic freedom as well as personal freedom for the entrepreneur and is supposed to be the primary basis for the successful launching of any innovation on the market. The start-up process in not a production. It represents a new combination of the classical input factors in the production function, namely land and labor. The new combinations are the results of the act and the will of the entrepreneur. The willingness and the action, based solely on the personal strength of the individual entrepreneur is what it takes to introduce the innovation on the market. In those cases where the entrepreneur does not have access to equity funding, a loan in the bank might be the last solution. All kind of gifts, loans, economic support etc. from family, friends, and neighbors offered without any kind of conditions are treated as equity funding. A loan in the bank is a risky business for the entrepreneur. At the same time, the loan is relatively expensive compared with the use of equity funding and it represents a diminishing personal and economic freedom for the entrepreneur. Under all circumstances, a loan in the bank will always represent a second best solution and the entrepreneur will avoid it as much as possible. If the bank grants a loan, they will charge fees, registration fees, interests, down payment and so on. All the expenses connected to the bank loan sums up to a huge amount of money, which of course will have to be deducted from the future entrepreneurial profit. In turn, the loan will cause a lower speed of the escalating and diffusion of the enterprise to new markets because a significant part of the future profit will be occupied by down payment and other bank charges. However, is the bank willing to grant a loan? Actually no. The bank can only grant a loan based on sufficient collateral for the loan. However, the entrepreneur is applying for the loan because of lack of equity funding and the bank must decline. In rare cases thou, the bank is willing to grant the loan despite the fact that the entrepreneur does not have access to sufficient collateral for the loan. The bank does not value the potential of the innovation nor the enterprise, because they cannot evaluate the forthcoming result of the act and the will of the entrepreneur or how the commodity or service will be received on the market. They evaluate the reputation and the personal qualification of the individual, and in these cases, only the signature of the entrepreneur as an elite person [2] is enough to withdraw sufficient capital from the bank without any further involvement or directions on behalf of the bank. The bank is the only body that can transform a person’s integrity into monetary value in the circuit system. In this aspect, the loan theoretically appears to be as much of equity funding as external funding despite the fact that the money of cause is withdrawn from a source that is out of control of the entrepreneur.

The successful entrepreneur has the ability to predict the result of the entrepreneurship activity before the innovation has been launched on the market. The process of introducing the innovation on the market is contradictory to the R&D programs taking place in the static part of the economy and which are characterized by trial and error. Trial and error is a cost intensive method and its development cost weights in on the selling price of the new product or service. Innovation, on the other hand, is the result of the capacity of creativity and faculty of thinking by the successful entrepreneur and is carried out based on the will and the act by the entrepreneur. The entrepreneur is investing time and effort and is remunerated by the future entrepreneurial profit. The entrepreneur must cover for the personal costs; economic support and spending during the period of launching the innovation on the market, but the living costs are not a part of the future production or selling price.

Labor is payed for by salary, while entrepreneurship is remunerated by entrepreneurial profit. Salary is always a part of the production price and is looked upon as a hindrance for development. The entrepreneurial profit, on the contrary, is the result of successful entrepreneurship.

External entrepreneurship funding engages in different ways in undertaking the process of entrepreneurship. Actually, the main objective of external entrepreneurship funding is covering for the salary or direct economic support for the entrepreneur during the interim period from start-up until successful launching of the innovation on the market. In those cases where the entrepreneur does not have the ability to provide self-funding or the bank is not willing to grant a loan, external entrepreneurship funding is bridging the gap. There are many players ready to provide external entrepreneurship funding. There are even more reasons why they are willing to do so. Politicians and governments, private businesses and individuals, value based and belief organizations, foreign NGOs, to mention some players, are usually keen providers of external entrepreneurship funding. The alibies of the politicians and governments are usually the arguments that unemployed people can create their own jobs through entrepreneurship and innovation, and even create jobs for other unemployed people and thereby also, if possible stimulate weaker groups and disadvantage individuals [3]. Furthermore, when economic down swings and political crises arise, external entrepreneurship funding has shown to be a popular political activity to satisfy the crowds, at least for a short while. It works as a shortcut, a political quick fix, and it is easy to communicate among staff and in society. External entrepreneurship funding is a rather cheap political solution. However, it is difficult to evaluate the outcomes, and whom is to blame when the results are missing. Politicians and governments love external entrepreneurship funding, and the reasons are the numbers being counted and the statistics; how much money spent, how many individuals engaged, how many enterprises registered, how many weeks and month the projects have been running and so on and so forth. Any individual is under the specific circumstances welcome, and sometimes even forced by governments, to receive and engage in governmental external entrepreneurship funding whatever idea or activity they propose as long as the activity does not threaten the political agenda or the establishment`s position. Governmental external entrepreneurship funding is also being used as a weapon of political competition, both nationally and among states. Private businesses and individuals involve in external entrepreneurship funding for different reasons, where pure economic speculations and cleaning up of the business or family name are the main motivating factors. Who does not want to be an angel (at least not the business version), especially if you can afford it. It is more intrusive when companies and individuals involve themselves with funding of social entrepreneurship. The motivation is usually a need for heroism and built upon a huge misconception, the belief that the social entrepreneur, and or the benefactors represent a higher ethical value than the rest of the population. They do not. Economic speculation usually takes the form of partnership, driven by the hope that the future result will give a return on invested capital. Partnership between private enterprises, individuals or governments can never give an entrepreneurial profit, because it is a non-innovative activity. Dividends or shares of the profit strongly justify that there are more than one individual owner of the entrepreneurial profit. That is a proof that exclude the activity in full from being entrepreneurial. Value based and belief organizations involve themselves in external entrepreneurship funding to justify their ethical and pragmatically ideologies. These kind of involvements are usually contradictory to the basic values or religious fundaments on which the organizations or churches are granted. Business life does not know or recognize any supernatural or mysterious dimensions in the conduct of pure business. Foreign NGOs typically involve in external entrepreneurship funding to intervene in social, political and economic national, regional and international affairs on behalf of foreign long-term structures to overrule the established patterns of independency. Another strong prerequisite of foreign NGOs external entrepreneurship funding is the claim that the entrepreneur is not allowed to make a profit as long as the funding is ongoing. It might seem fair enough, but one should keep in mind that the entrepreneurial profit is the proof that an innovation has taken place on the market.

It has shown that external entrepreneurship funding, as a pattern tends to support the wrong people and projects [4]. The business of entrepreneurship takes place in the open market, without intervention or direction, be it politically, socially or economically, and opportunities to innovate are always present in the market economy. Market competition is a natural process of selection of successful entrepreneurs, and that process is perfect without external entrepreneurship funding. One could easily suspect that funding the wrong person would make hindrances for the wright person. It does not, the successful entrepreneur will always overcome all kinds of hindrances, also the inconveniences, disappointments and indignation by what might be perceived as unfair treatment.

To conclude, one might stress the fact that external entrepreneurship funding contains a long line of consequences that represents unwanted economic, social and political behavior from a huge number of players in the social, political and economic fields. External entrepreneurship funding indicates that the person is working under someone else and that is not entrepreneurship; entrepreneurship is independent and individual economic business.

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