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Access to Capital and Entrepreneurial Success: A Systematic Review of Funding Barriers, Investment Gaps, and Venture Outcomes

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ABSTRACT: Funding is a key determinant of the creation, survival and development of entrepreneurial enterprises. But not all entrepreneurs have equal opportunities in obtaining adequate financial resources, which may lead to funding barriers and investment gaps. This systematic review investigates the impact of various types of capital on entrepreneurs' success, focusing on credit, VC, angel investment and other sources of entrepreneurial financing. The review draws from secondary academic sources from Google Scholar, and integrates the current knowledge of the literature under five themes: access to finance and venture outcomes; funding barriers and credit constraints; inequalities in entrepreneurial finance; alternative investment mechanisms; financing, innovation and business growth. Financial resources can facilitate working capital, innovation, employment, market expansion, and business survival, as can restricted access limit investment and growth opportunities. It also points to the variation in financing environments among entrepreneurial segments, such as gender differences. The results indicate that there are many factors related to the affordability, timeliness, size and match of capital with business needs, that influence the success of entrepreneurs. The review ends with the conclusion that considering entrepreneurial success is not only a matter of access to capital, but also the overall context in which capital is obtained and used.

KEYWORDS: Entrepreneurial Finance; Access to Capital; Venture Growth

I. INTRODUCTION

Availability of finance is a key constraint on the establishment, development and growth of enterprises. Small and new businesses might have different needs for capital at various points in the development of their business and can access various forms of capital, such as bank loans, venture capital, angel investment or personal savings and informal financial networks supply. But not all entrepreneurs have access to these sources. Financial institutions might take into account the information available and/or the risk of a business, as well as the credit history when deciding on lending, which can pose a challenge for businesses that lack adequate financial resources. Small and medium-sized enterprises (SMEs) are feeling the impact of tighter financial conditions, and the median financing interest rate for SMEs rose by 1.1 percentage points in 2022, the largest year-over-year increase since the OECD began publishing its Scoreboard on financing interest rates for SMEs in 2007 (Abbasi et al., 2021).

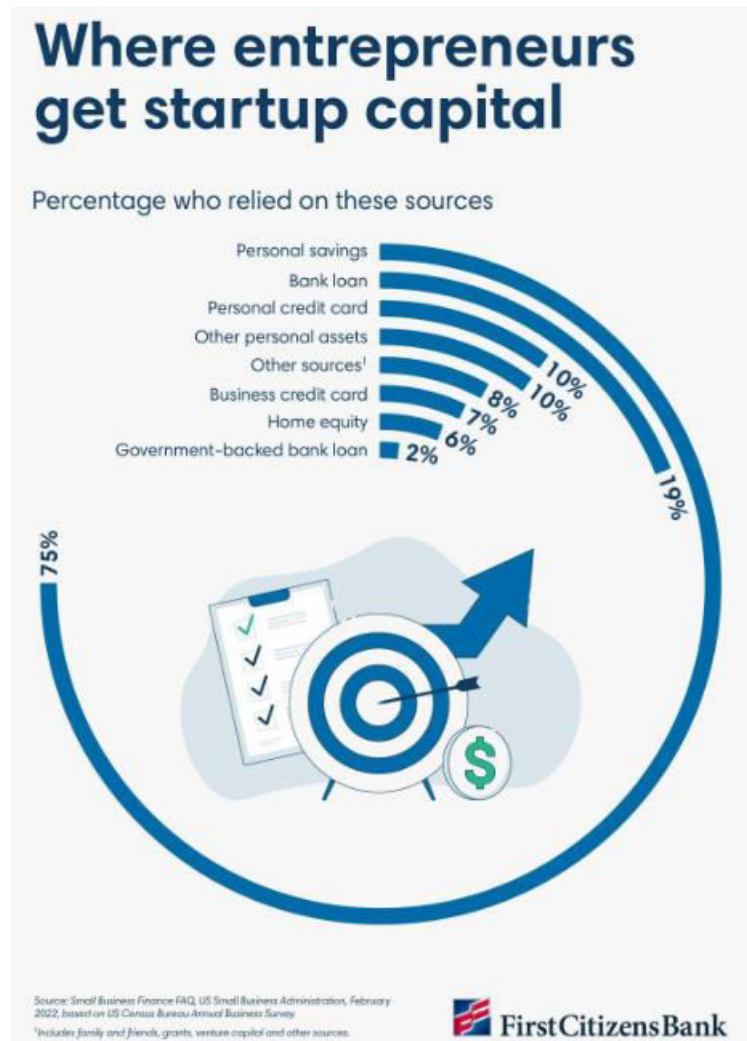


Figure 1: Access to Capital and Entrepreneurial Financing

But there may also be funding disparities between groups of entrepreneurs. Several studies, such as the one conducted by Ahamed et al. (2023) which analyzed 31 studies with over 1.4 million observations, indicate that there is evidence that women entrepreneurs had higher loan rejection rates and higher interest rates than men entrepreneurs, albeit their relationships were not as strong across the contexts. In this context, this systematic review aims to explore the impact of access to capital on entrepreneurial performance. It emphasizes barriers to funding, investment gaps and business outcomes, with a focus on the various sources of entrepreneurship funding, such as credit, venture capital, angel investing, and informal funding (Beck, 2020). Overall, the review will seek to draw together the current knowledge regarding the impact of financing opportunities on business start-up, business survival, and business growth, and highlight inequalities and gaps that need to be explored.

II. RATIONALE AND OBJECTIVE

Rationale

Financial access is a well known requirement for entrepreneurial activity, however financial constraints can place restrictions on entrepreneurs in forming, sustaining and growing their business. The existing studies have identified barriers that are linked with collateral requirements, credit conditions, information asymmetries and inequitable access to external investment. The financing impacts, however, might vary by type of capital, entrepreneur attributes and the stage of business development (Du and Nguyen, 2022). Therefore, it is essential to conduct a review of the existing literature in a systematic manner to gather and sum up the existing evidence and patterns that emerge from the various

types of entrepreneurial financing. The relationship between funding barriers and investment gaps and the creation, survival and growth of ventures will be explored in this review, along with research areas needing further investigation.

Objectives

1. To examine how access to different forms of capital influences entrepreneurial venture creation, survival and growth.
2. To identify the major financial barriers and investment gaps experienced by entrepreneurs, including differences across demographic and business groups.
3. To critically synthesise existing evidence on the relationship between financing opportunities and entrepreneurial outcomes and identify gaps for future research.

III. METHODOLOGY

This study uses secondary research methodology, only academic literature that can be found in Google Scholar. There is no primary data that is collected for the study. Secondary sources are identified through Google scholar search for research relevant to the entrepreneurial finance, access to finance, barriers to financing, gaps to financing, credit constraints, venture capital and angel investment, business survival, innovation and entrepreneurial growth. The literature selected is reviewed to determine commonalities, parallels, and contrasts found in other literature. Special focus is on evidence on the impact of different capital sources on venture initiation, longevity, innovation and growth, and evidence on disparities in access to finance among entrepreneurs of various groups. The information gathered from the academic literature selected is compared and synthesised based on the 5 themes that have been developed in the literature review. The information included in the review only includes information that is relevant to the research objectives, excluding unsupported statements and unverifiable information. Ethical concerns are upheld during the research process. The study does not involve human subjects or personal data as the use only secondary academic literature that is publicly available and was accessed using Google Scholar. The information are not knowingly distorted or misrepresented, and academic sources are accurately represented. The authorship, intellectual property and ownership rights of the work are appropriately acknowledged and referenced. The study also doesn't fabricate, plagiarize and selectively present evidence.

IV. LITERATURE REVIEW

Theme 1: Access to Finance and Entrepreneurial Venture Outcomes

It is a well acknowledged fact that access to finance will be a significant determinant in the initiation, survival and growth of entrepreneurial ventures. New and small businesses typically have less internal cash flow and a short operating history, which means that external financing is especially crucial during the early years of the business (Donovan, 2021). Entrepreneurs can secure the necessary resources to run and grow the business by borrowing money from the banks, by overdrafting their accounts, by equity financing, or by using their own savings and other means of financing. Access to finance, costs and the time of financing can therefore affect the ability of entrepreneurs to develop business opportunities into sustainable enterprises. Money can help entrepreneurs to buy machinery, hire employees, create product, get into new markets, and have enough money for their working capital. If finance is limited, entrepreneurs may have to delay investment or the scope of work. This may be especially relevant for businesses that are rapidly growing as a lack of working capital can make it difficult for the businesses to react to a growing demand. Limited resources could also inhibit companies from investing in innovation, technology, and skills, and this could hinder their competitiveness in the long-term.

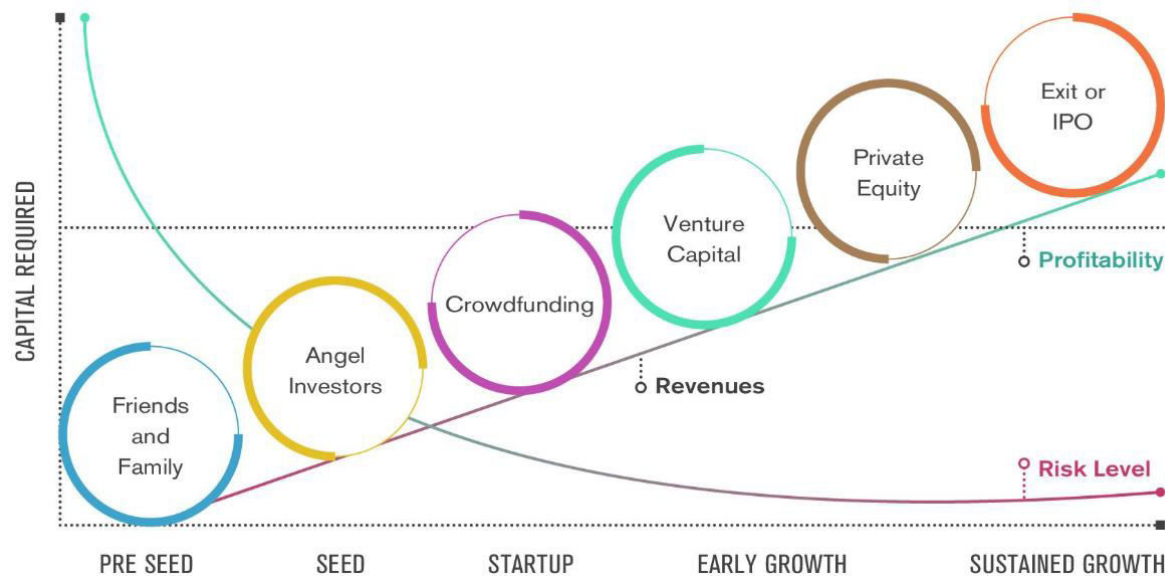


Figure 2: Relationship Between Access to Capital and Venture Development

But, finance does not necessarily guarantee entrepreneurial success. So the success or failure of an investment is determined by the ability of the entrepreneur to leverage available resources, the market, managerial skills, and the demand of the customers and the quality of the business model. Two businesses that are capitalized at the same level can thus have different outcomes (Estrin et al, 2022). It is important to therefore recognize that finance is not a standalone measure of success, but rather a tool to use to achieve success. A finance-entrepreneurial outcome link may also differ depending on the stage of business development. In the early growth stages, start-up companies might need relatively small capital investment to create their product and get them running, while larger companies may need significantly more capital to expand (Frimanslund et al, 2023). As a result, the financing needs vary from creation to survival, growth and scaling. It is important to recognize these disparities in the overall impact of capital on entrepreneurial success.

Theme 2: Funding Barriers, Credit Constraints and Information Asymmetry

A major challenge in entrepreneurial finance is the challenge of getting external capital (Sewaid et al., 2021). Typically, financial institutions consider credit history, ability to pay back loans, business risk, financial records and collateral when assessing borrowers. New business ventures often do not have any credit history, regular income and significant physical assets to support them, which can create a disadvantage. These qualities can lead lenders to regard young businesses as somewhat risky. Collateral is one of the significant obstacles as many business owners may not have adequate property or other assets to qualify for a loan (Haslanger et al, 2023). It can also be relevant for knowledge-intensive and technology-based companies where a significant part of the firm's value could be that of its intellectual property, human capital or future potential. Traditional lender models might then not be as appropriate for firms with intangible capital.

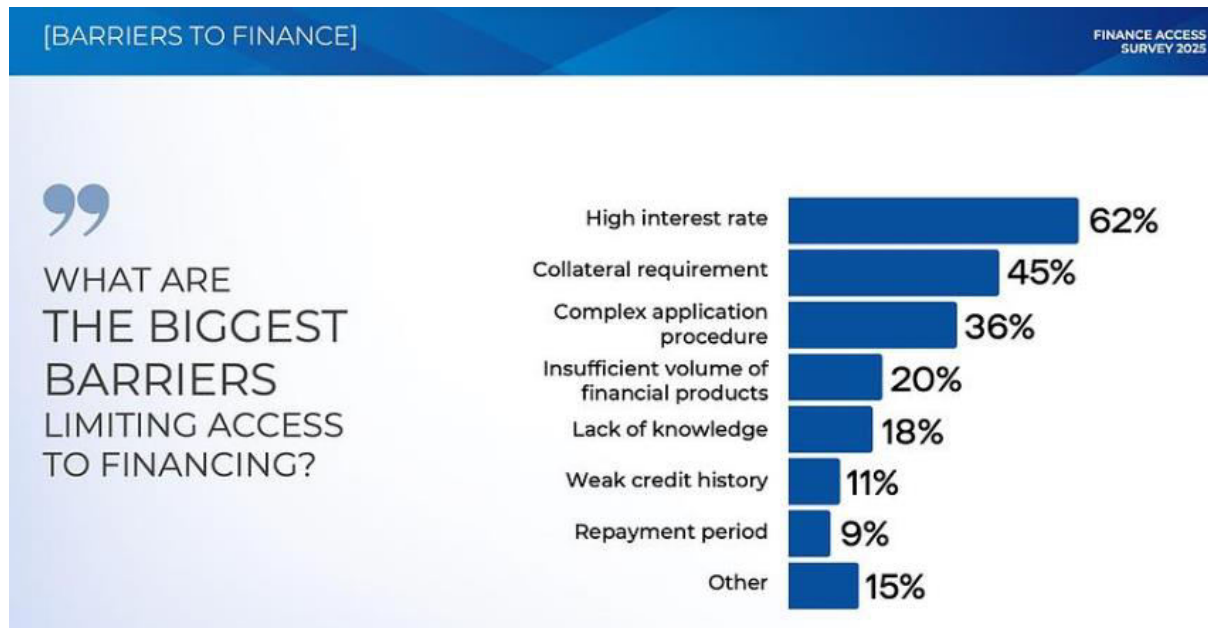


Figure 3: Major Barriers to Entrepreneurial Access to Finance

Information asymmetry is another important factor. The information entrepreneurs have regarding an opportunity is much more than the external financing sources, and the lenders are less capable of determining the chance of a relatively young business being successful (Nguyen and Canh, 2021). This information gap might lead to a more demanding credit process, to a higher interest rate or to less finance available. With this, entrepreneurs can suffer credit rationing even if they have potentially viable business opportunities. There can be another cost constraint, the cost of finance. A rise in interest rates will raise repayments, and can also diminish the amount of capital that can be invested in productive activities. When a business owner has to choose between short-term business needs and long-term investment in technology, HR, or expanding the market, they might focus on the short-term. A business owner who is forced to make a choice between investing in technology, human resources, or market expansion is likely to choose short-term business needs over the latter (Hai et al., 2022). For smaller companies, the administrative requirements and complex application processes can be another barrier to formal finance. Financial constraints may not just be a case of being turned down for a loan. These can range from lack of loan size, high interest rates, collateral requirements, complex applications, and doubt regarding whether an application will be accepted. These barriers may have a combined impact on the entrepreneurial decision making process and shape variations in business growth. It is important to recognize that availability of finance and conditions of finance are both a part of the funding constraint understanding (Hewa-Wellalage et al., 2022).

Theme 3: Gender and Inequalities in Entrepreneurial Finance

Not all entrepreneurs have the same access to entrepreneurial finance (Msomi and Olarewaju, 2021). The issue of gender has been well addressed in research dealing with entrepreneurial funding, since many studies have discovered that the financing situation of women's businesses is often different than that of men. These disparities could be due to various interrelated influences, such as access to collateral, business connections, prior entrepreneurial experience, and sector involvement and views on business risk. Women entrepreneurs might struggle to access finance if they do not have as many assets available for them to leverage or if their industry of operation does not traditionally attract as much external investment (Kleinert and Mochkabadi, 2022). Some variations in business size and age may also affect the business financing results, as smaller firms and those that are younger will likely have fewer financial records or resources. Thus, the gender gap in financing must not be all blamed on one thing.



Figure 4: Gender Inequalities in Entrepreneurial Finance

The funding gap may have significant implications for business development. If entrepreneurs can't secure enough funds, they could choose to work on a smaller scale, postpone growth or cut back on their employee, technology and product investments. When women entrepreneurs are faced with higher systematic access barriers to financing, this can promote disparities in business growth and entrepreneurial outcomes. Access to finance may also be affected by informal networks. Entrepreneurs who have good professional and social networks have the potential to access information regarding funding opportunities, investors and financial institutions more easily (Kumari, 2021). Access to these networks may therefore be unequal and thus also lead to financing differences between groups. Social expectations and institutional frameworks can also influence entrepreneurs' access and utilization of financial resources. However, the difference in entrepreneurship between men and women should not be understood within the framework of discrimination. Funding outcomes can be influenced by entrepreneurial characteristics, sector, firm age, size of the business, ownership of collateral, and location and regional context. The literature thus highlights the complexity of the gender and entrepreneurial finance nexus. The bigger problem is unequal access to capital can lead to unequal entrepreneurial opportunities. Individual entrepreneurs who are able to obtain financial resources at reasonable prices might have more resources available to experiment, grow and cope with temporary financial setbacks, while others who do not have these opportunities might have fewer resources to build their businesses (Lodefalk and Andersson, 2023). It is therefore crucial to look into inequalities in entrepreneurial finance to understand the difference in the outcomes of businesses.

Theme 4: Venture Capital, Angel Finance and High-Growth Entrepreneurship

While bank loans are an important source of entrepreneurial financing, equity financing has emerged as a more relevant source of financing for innovative, high-growth firms (Frimanslund et al., 2022). Venture capital and business angel investment are alternative sources of funding for businesses instead of conventional loans, especially when the income of the business is not guaranteed and it may lack collateral or have a significant future business growth. Venture capital is a type of investment in which capitalists provide capital to an enterprise in return for a stake in the enterprise. Especially for tech start-ups and innovative companies that need a lot of investment to produce huge revenue in the future (Malepati et al., 2022). Venture capital can provide resources for research and development, product development, recruitment, marketing and international expansion.

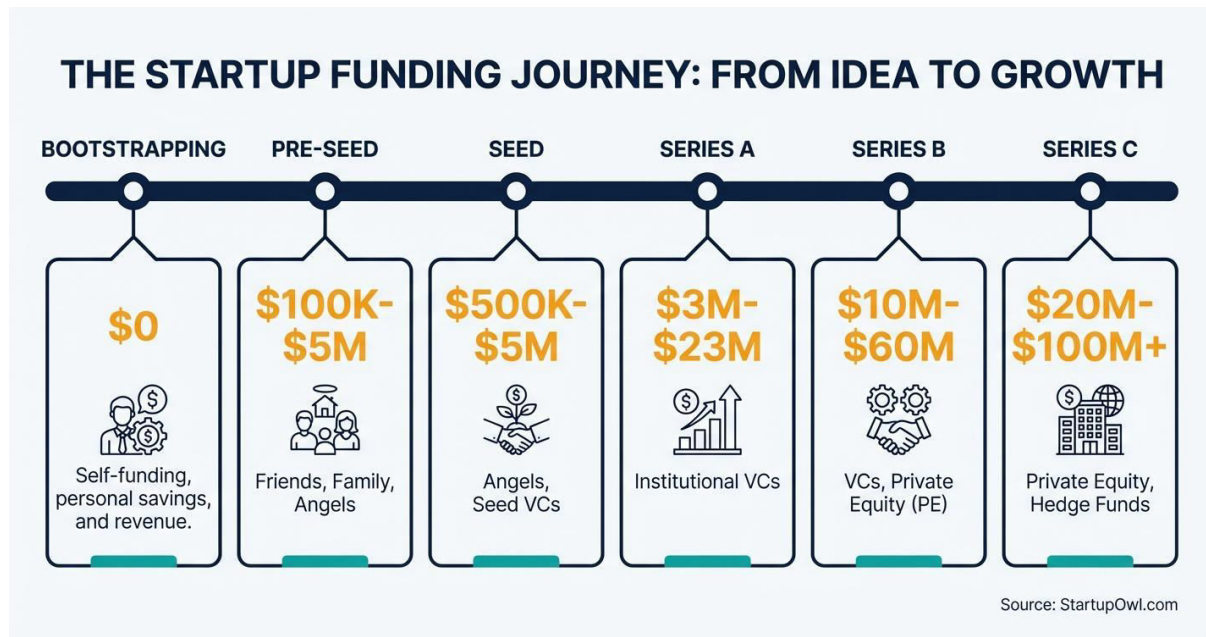


Figure 5: Sources of Finance Across the Entrepreneurial Growth Cycle

But not all entrepreneurs have the same opportunity to access venture capital. Investors focus on specific sectors and areas, which could make it hard for entrepreneurs outside the investment circles to access funding. Investors can also invest in companies with high growth prospects and businesses that can be scaled up. Thus, the ideal target for VC investment might not be a business that is commercially viable, but that requires steady or moderate growth. Another important source of entrepreneurial capital is from business angels. Besides being able to offer financial capital, angel investors can offer industry knowledge, mentoring, professional contacts and strategic advice (Malmström et al., 2024). The following resources may be useful for entrepreneurs to make better business decisions and to secure other sources of finance. Thus, the effect of angel investment can be manifested in the financial and non-financial aspect on entrepreneurs. Equity investment is also different to debt as, typically, the entrepreneur will not have a fixed payment schedule like a standard loan to repay the investment. But equity financing comes with a downside: it means sharing ownership and decision-making powers with investors. Entrepreneurs will thus have to weigh the benefits of extra resources against the potential for altered control and ownership. The findings indicate that the type of finance is related to the type of entrepreneurs' demands. For companies with consistent income and adequate collateral, bank financing could be considered; for those with high growth potential and not a lot of assets, equity investment may be more suited. (Manzoor et al., 2021) When studying the link between capital and business success, it is crucial to grasp these differences.

Theme 5: Financing, Innovation, Growth and the Entrepreneurial Success Gap

Ultimate reason why entrepreneurial finance is important is its possible impact on business results. There are various ways of measuring success, such as business survival, revenue growth, profitability, employment creation, innovation, market expansion and securing additional investments (Chang et al., 2021). These outcomes can be achieved with financial access, which enables entrepreneurs to access productive resources prior to the availability of adequate internal resources. Financial resources are critical to innovation as new product and service development, as well as new product and service technologies, frequently must be invested in before returns can be achieved. If the companies have limited monetary resources, they might give more attention to their operational expenses and decrease on research, technology or product development (Na and Erogul, 2021). This can make it difficult for them to be responsive to customer needs and market competitiveness.

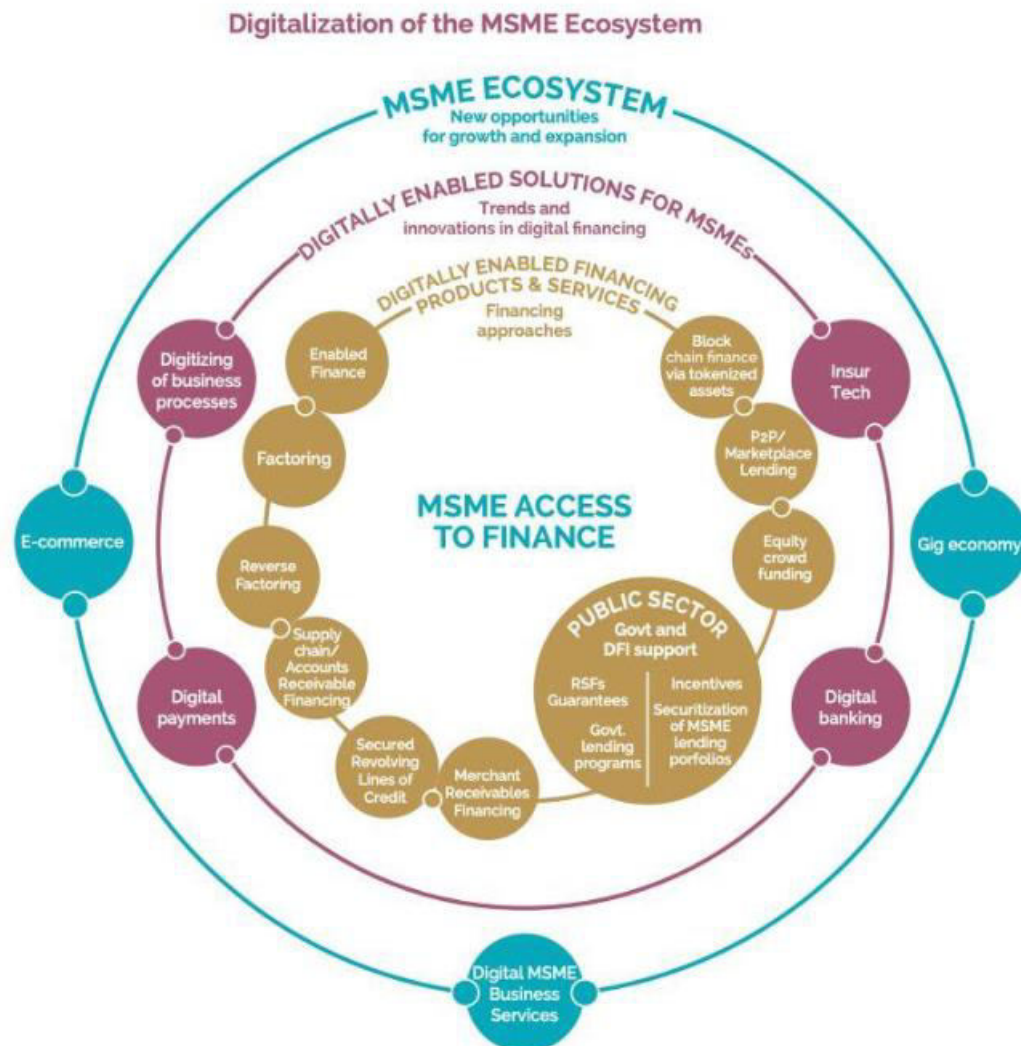


Figure 6: Financing, Innovation and Entrepreneurial Growth

Another area where finance has an impact on business is on employment and market expansion. Companies with extra funds can hire more workers, expand their manufacturing capacity and venture into new geographical or customer markets. On the other hand, businesses that don't have enough capital will stay small even if there are opportunities within the market. This can give an opportunity to create a gap for entrepreneurial success between well funded and poorly funded firms. There is, however, no consistent link between funding and performance. Financial is only one element of entrepreneurial success. The use of financial resources can create positive outcomes (Nicolas, 2022) depending on managerial knowledge, entrepreneurial experience, market conditions, technological capabilities and strategic decision-making. Even if you have a lot of money, you can only get limited benefits if you allocate it in an unwise manner. The type and timing of finance are also important. Short-term financing can be useful for a business to deal with short-term cash-flow issues, whereas long-term investment might be better suited for expansion and innovation (Vazirani and Bhattacharjee, 2021). Likewise, debt can also generate a repayment burden while equity grants more flexibility but at the same time lowers the entrepreneurs' stake. It is, therefore, necessary that entrepreneurs have access to financing which matches their business situation. The combined message of the literature is that access to capital may affect entrepreneurial creation, survival, innovation and growth, and that access to capital and finance under certain conditions may have a different impact on such processes than under other conditions. Funding constraints may limit the opportunities, and unequal access may help explain disparities among entrepreneurial groups (Serwaah and Shneor, 2021). Previous studies also show that it is important to study various financing mechanisms in aggregate and not as a single category entrepreneurial finance. A systematic investigation of these relationships can then help clarify the relationship between funding barriers and investment gaps and venture outcomes.

V. CONCLUSION

One of the key factors in influencing entrepreneurial opportunities and venture outcomes is access to capital. An analysis of the literature reveals that finance can play a role in business development, business survival, technology innovation and growth of the business by supplying means to the entrepreneurs for working capital, technology, employees, product development and market expansion. But finance is not available for all entrepreneurs. Small and new businesses may face certain constraints on their ability to access appropriate funding due to credit requirements, collateral constraints, information asymmetry, borrowing costs or administrative barriers. The review also points out disparities between financing methods. For established businesses that have a history of financial performance, bank financing is crucial, and for innovative and high-growth businesses, venture capital and angel investment can be important sources of funding. These types of investments can also deliver knowledge, network and strategic assistance in addition to financial backing. Moreover, inequalities in finance, such as gender gaps in finance, may affect access to finance and affect the results of the entrepreneurs. In general, entrepreneurial success requires availability of capital, not just its availability, but its quality, cost, timeliness, availability and appropriateness for the enterprise. Financial resources also need to be combined with effective management, market opportunities and appropriate business capabilities. Further studies are thus needed to explore how the various financing difficulties and investment opportunities are linked to the various stages of entrepreneurial development, and how better access to suitable financing arrangements can help to facilitate more inclusive and sustainable venture development.

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