International EUropean Journal of Managerial Research
Dergisi (EUJMR)
ISSN: 2602 – 4179 / Güz / Cilt: 5 / Sayı: Özel Sayı 1
Araştırma Makalesi

# THE STRATEGIC MANAGEMENT OF NEW VENTURES' FINANCE: STOCK EXCHANGE REGULATIONS

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**ABSTRACT**

Achieving the goal of obtaining financing through the local capital market is extremely difficult. In addition to official capital flows, access to different foreign savings and interbank transfers for loans to private sectors play an important role in obtaining financial capital through the local capital market. Today, since the majority of businesses in emerging markets are small businesses, financial activities are not sufficiently transparent. Therefore, keeping bank loans as the preferred form of funds over bond issuance is a more reliable choice for financial market regulators.

Entrepreneurs should decide on a financial option best suited for their investment plans and expenditures in the early stages of their new ventures. In this study, it is argued that the most reliable and efficient financial resource can be provided to new enterprises, especially at the initial stage, which requires making the first financial investment decisions, through the stock exchange. Therefore, an anticipated approach that foresees the institutionalization of International Financial Institutions, which regulate the stock exchange and provide credit improvements, and that can develop the capital market, will also encourage entrepreneurship activities in the economy and increase the number of new enterprises.

Bringing together financing through the local capital market in which is one of the most effective forms of capital increase, businesses in need of finance and individual investors with a fund deficit; is the most sufficient method that provides various opportunities to secure financing. The local capital market offers a variety of supportive financials and incentives to an entrepreneur who invests for new businesses, and also offers a large number of investors the opportunity to own shares. Although the capital supply with the local capital market is not yet suitable for all investors; it is a suitable option for entrepreneurs looking for financial resources for their new investments as venture capital or stock market shares.

**Keywords:** Stock Exchange Regulations, Entrepreneurship, Credits, Venture Capital, Stock Exchange Bonds

**JEL Codes:** M10, M13, G11

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Geliş Tarihi/ Received: 10.01.2021
Kabul Tarihi/ Accepted: 29.01.2021

## INTRODUCTION

The ups and downs in the economy and the uncertainties in the stock market are increasing day by day. In addition, new technologies continue to develop rapidly, which can completely override an integrated business model with advanced technology overnight. It is sometimes technological developments that completely eliminate the functionality of business models, and sometimes only the presence of strong competitors in the competitive environment can cause the business model useless for the companies and can give rise to the failure of new ventures. Unfortunately, new ventures often do not have the power to suppress the power over their existing competitors in the market.

Successful entrepreneurs can easily discover new financial opportunities and take advantage of them for their new ventures by rearranging the allocation of existing financial resources without increasing overheads. In the process of reorganizing the financial resources, the numerical analysis of the anticipated internal rate of return should be done well. Because no matter how much the new opportunities promise returns for new ventures, they often fail to meet the existing risk thresholds. At this point, successful entrepreneurs easily integrate the new ventures into new strategies that enable them to take advantage of opportunities by changing the use of financial resources and investing them to the right investment channels and expenses.

In the past years, governments of lots of developing countries have owned the banks either intentionally or indirectly as a conclusion of banking crises (Dell'Ariccia, Detragiache, and Rajan, 2008). Government participation in banks can have a political meaning. It may be election time for governments to forgive debt, and the perception of banking suffers irreplaceable as customers are not encouraged to repay their loans (Laeven and Valencia, 2013). Moreover, banks which government has participated in managerial process could not generally arrange their belongings and funds through access to capital markets, deposits and savings, and seek help from the government (Calomiris and Haber, 2015). This dependency can result in unordinary changes as governments and therefore the change in political way.

## 1. LITERATURE

Pioneers such as Badan Kredit Desa village banks (Ahmad, 2011) and Bank Dagang Bali in Indonesia (Suriada, 2008), Grameen Bank in Bangladesh (Schreiner, 2003) and various NGOs (Nelson, 2006), credit unions and cooperatives in such governments have initiated ways to improve access in various countries by credit for poor service through micro-credit (Ahmed, Chowdhury and Bhuiya, 2001). In the 1970s, these institutions demonstrated that micro-credit can be offered with a high recovery rate by developing suitable loan methodologies for low-income customers, mostly in urban side and usually in rural places (Harper, 2002). Institutions provided loans to poor entrepreneurs to invest in micro and small businesses (Khavul, Chavez and Bruton, 2013); thus, the production and accumulation of assets, increased household incomes and the welfare of families, as well as the social and economic situation of women were improved (Hussain, Mahmood and Scott, 2019).

By the 1980s, large numbers of institutions were providing microloans in many developing countries (Hulme and Arun, 2009). However, a credit-based business model has limited the radius of action in terms of financing, financial sustainability and access to lending institutions (Taupitz, 2018). The importance of indigenous resources and the savings potential of the poor and poor is one of the best reinventions in the 1980s (Erturk and Solari, 2007). Micro-credit has been extended to micro finance, which includes both loans and savings, payment transfer systems like PayPal, insurance and other financial devices targeting low-income customers (Pels and Sheth, 2017). This has become the basis for the still strong growth of microfinance institutions (MFIs) such as Bank Rakyat in Indonesia, Grameen bank in Bangladesh and Bancosol in Bolivia (Schreiner, 1997).

By the end of the 2000s, lots of financial markets in emerging countries and specifically in developing economies have improved significantly (Rousseau and Sylla, 2005). Financial sector reform has come up with increased market determinants such as higher investment efficiency, interest rates, high level of banking competition, and a wider financial product offering (Fischer, 2014). However, many of these changes have had a positive impact only on urban markets and rural financial markets remained generally undeveloped, shallow and uncompetitive (Conning and Udry, 2007). This dichotomy in the development of the financial sector has resulted in a restricted growth and countryside dynamism, and political concerns have arisen regarding distribution of income and well- balanced economic growth (Alfaro, Chanda, Kalemli-Ozcan and Sayek, 2004).

Often, there are some entrepreneurs who develop strategies that skillfully respond to sudden financial changes in economies and financial regulations and develop successful strategies in terms of financial investments of their ventures. While these entrepreneurs make their ventures more adaptable to financial concerns and more profitable, they can take action quickly and proactively in internal financial processes when a sudden financial crisis occurs, owing to the destructive strategies they have developed against uncertainties and negativities.

Regarding financial concerns such as seeking a new financial fund or deciding whether a new financial investment is a profitable or not or achieving the goal of obtaining financing through the local capital market are extremely difficult for new ventures so that for new born entrepreneurs.

Successful entrepreneurs should plan a strategic framework for decisions on obtaining financial sources and focus on whether the upcoming financial strategies on their newly developed new ventures fit the reality in economy and existing markets or not. Moreover, these entrepreneurs should remove the authorization system by innovating in the financial budgeting process. Within the scope of the new strategic framework they have scheduled, they should determine with the new financial strategies they will develop for stock exchange, which type of projects their ventures should finance, as well as which

financial alternatives like stock exchange regulations should be used to evaluate the financial decisions of existing or potential investments.

## 2. CONCEPTUAL FRAMEWORK

Even in the best of times in economies, many new ventures fail to find financial resources, finance their investment projects and expenses and take advantage of new financial opportunities. In this case, these new ventures have employment problems, while in times of crisis it may be almost impossible for all businesses to achieve. The strategic financial stance of a new venture essentially depends on how it distributes its financial resources, so in order to truly benefit from its entrepreneurial facilities, the basic financial processes in the start-up a new venture should be planned in a certain manner. Although some managers in public enterprises have high R&D expenses, they make their investment preferences into innovative projects and so invest in financial investments that offer low prices and have regulated payback process. Because, although there is a high risk of hindering the achievement of balance sheet targets for new ventures, these ventures might invest more likely to investments that can activate their own profitable entreprenurial activities.

Financial regulations have been required to ensure transparent and efficient markets (Post, 2005). Property rights and credible financial enforcement systems; in other words, the pillars of the institutional order of legal rules must exist especially when property rights are violated (Platteau, 2000). It might be that most of the financial regulations hinder industrial dynamics, innovation and productivity growth. In such a situation, by improving financial regulations that the functioning of the economy in question could improve, thus increasing productivity and creating more growth and prosperity (Kim, 2004).

In addition to official capital flows, access to different foreign savings and interbank transfers for loans to private sectors play an important role in obtaining financial capital through the local capital market. Today, since the majority of businesses in emerging markets are small businesses, financial activities are not sufficiently transparent. Therefore, keeping bank loans as the preferred form of funds over bond issuance is a more reliable choice for financial market regulators. This study argues that the best financial approach to new ventures that require especially initial investment is stock exchange.

Entrepreneurs should decide which financial option should best fit their investment plans and their spending at the beginning stages of their new ventures. This study argues that the best financial alternative for new ventures is stock exchange. Thus, the capital market should be developed accordingly that envisages the further institutionalization of International Financial Institutions that regulate the stock exchange and provide credit improvements.

## 3. DISCUSSION

Financial overregulation has been come up with the effect of entrepreneurship and the size of start-ups, thus reducing the likelihood of firms being successful due to the small market concentration

(Kritikos, 2014). Expanding the global demand of entry regulation and technology shocks that start up with the new business opportunities (Francis and Ramey, 2005) could delay the introduction of new types of goods in the industries and therefore prevent development and growth both (Valliere and Peterson, 2009). On the other hand, the findings of a study argue that the threats of entry have affirmative influences on the innovative attitudes of enterprises that closely follow technological developments (Aghion, Blundell, Griffith, Howitt and Prantl, 2009).

In particular, high level of start-up costs are a deterrent to new startups entrance to new markets (Darnihamedani, Block, Hessels and Simonyan, 2018). Some of these start-up costs are because of the high taxes (Antunes and Cavalcanti, 2007). A complex regulatory tax structure can hinder entrepreneurship (Minniti, 2008). In spite of the fact that the evidence is not clear and unambiguous, most of the studies argue that factor market regulation negatively influences the rivalry in existing markets and entrepreneurship facilities (Nijkamp, 2003). For instance, Egan (2014), Bach and Newman (2007) have stated in their significant researches that slow down the financial regulation of the economy or fairly well-regulated labor market which has a significant negative impact on entrepreneurship. Similarly, the studies on the determinants of foreign direct investment show that well-regulated labor markets have negative effects on entrepreneurship (Moran, 2011; Minović, Stevanović and Aleksić, 2020). In addition, productivity decreases as labor market regulations become more severe (Holmlund, 2014). In such a market, it has been observed that rapidly growing existing enterprises tend to negatively impact the number of new entrants (Jones, 2018).

The scope of regulations has surprising has indirect effects on the entrepreneurship rate (Van Stel, Storey and Thurik, 2007). As illustrated in one study of Wennekers (Van Wennekers, Thurik and Reynolds, 2005), the positive effect of skills such as education related regulations on opportunity-based entrepreneurship has decreased significantly in more developed economies. In addition, as a result of the well- developed financial regulations, the tendency of marginal groups to take initiative has decreased significantly (Levy, Szejnwald Brown and De Jong, 2010).

Financially overregulated economies can hinder innovative destruction and increase productivity, higher productivity, and growth (Mitchell, 2005). The challenges for the government or policy maker have to strike the right balance between two of these forces. Besides the direct effects, the financial regulation can influence entry by shaping factors in the entire business environment (Porter, 1989). Some proxy variables could demonstrate this argument very well.

One broad benchmark available for many countries is the Doing Business Index (Broome, Homolar and Kranke, 2018). This index describes the quality of financial regulations for a wide range of regulatory places related to the business environment in a country and can provide insight into the different factors affecting dynamics of firms (Adler-Milstein, Ronchi, Cohen, Winn and Jha, 2014).

The largest measure of all rankings in quality of the business environment have been used to set a benchmark for quickly adjusting the capital stocks of firms for change in output in 44 countries (Fombrun, Van Riel and Van Riel, 2004; Svirydzenka, 2016). This is actually a measure of the dynamics of an economy and has the ability to adjust firms' production capacities according to changes in supply and demand factors, and apprehends a broad measure of how an economy is dynamically efficiently transferring resources from sectors to sectors with good investment opportunities (Teece, 2014). In fact, this method measures the elasticity of capital stock like total assets relative to output such as sales (Wacker, 2016).

Jorgenson, Gollop and Fraumeni, (2016) argue that inputs such as land, labor, and capital are critical to business investment, productivity, and economic growth. Therefore, economies require developed and versatile financial markets that provide the necessary resources for private sector investments (Justman and Teubal, 1991). The foremost of these resources are sound bank loans, well-regulated securities stock exchange bonds and venture capitals (Mullineux and Murinde, 2001). In order to fulfill all these functions, the banking sector must be reliable, transparent, open and clear, and the financial markets are necessary to protect investors and other actors of the economy and the banking sector must comply with the financial regulations (Lentner, Szegedi and Tatay, 2015).

Economically, Klingebiel and Adner, 2015) have distinguished alternative uses and decision-making mechanisms as supply of financial capital, innovation, resource allocation. The determinants of the development of financial markets could be the size of the government, the degree of administrative complexity, the level of bureaucracy, the tax environment, the intellectual property rights regime, the enforcement of property rights in general, the level of trust, crime, ethnic composition of the population, availability of financial capital, etc. (Acemoglu and Verdier, 2000).

In many financial markets, the first financial institutions to issue bonds are banks (Hoevenaars, Molenaar, Schotman, and Steenkamp, 2008). In some markets, the types of funds are diversified into bonds or the other secured financial devices that are more closely linked to banks' core loans (Gornall and Strebulaev, 2018). Public lending could be suitable for many sectors, as it has become familiar with the investor-based market and market instruments (Lhabitant, 2009). Since public services have stable and predictable cash flows; it can generally meet the long-term capital investment needs. It is crucial that efforts focus on improving the investor focus in line with public services. Some countries may appeal to international investors, but that is not enough to make the country attractive to foreign investors (Hallward-Driemeier, 2003). By making macro stability and capital market instruments attractive and ensuring the transparency of financial services; they must ensure that investors are protected (Hailu, 2010).

Most research shows that; for many countries, the most reliable and stable investor base is local (Plantier, 2015). It is critical for the development of local sustainable capital markets that individuals

develop their local investment pool of assets through retirement, insurance and savings instruments (French, Leyshon and Wainwright, 2011). Pension reform, the current improvement of the insurance sector, and an incline in household savings are part of a whole capital market and financial development program (Samwick, 2000).

**CONCLUSION**

To conclude, an access not to official flows but foreign savings and interbank transfers for debt to private sectors play an important role in obtaining financing through the local capital market. Achieving these goals is very difficult. So today, due to the small size and relatively transparency of developing and emerging market firms, bank loans generally sustain the preferred form of funds over bond issuance. An approach to financial market development is likely to include new forms of financial regulation to shape securities and a participatory approach to assist International Financial Institutions in structuring and credit improvements (Saunders and Allen, 2010).

Bringing together financing through the local capital market in which is one of the most effective forms of capital increase, businesses in need of finance and individual investors with a fund deficit; is the most sufficient method that provides various opportunities to secure financing. The local capital market offers a variety of supportive financials and incentives to an entrepreneur who invests for new businesses, and also offers a large number of investors the opportunity to own shares. Although the capital supply with the local capital market is not yet suitable for all investors; it is a suitable option for entrepreneurs looking for financial resources for their new investments as venture capital or stock market shares.

Stock exchange regulations are not the only alternative to overcome the financial problems of new ventures but they are the most effective and reliable ones. When faced with a downturn in economy, successful entrepreneurs must first decide to reduce the workload by increasing margins and returning cash to its shareholders. Although most entrepreneurs do not usually choose this option, this is a very legitimate choice for new ventures compared to other options that should actually be implemented during a financial crisis. The illegitimate thing is, as most of new ventures do today: "Stubbornly taking advantages of stock exchange regulations by using the same old methods as financial institutions and overcome the difficulties of economic conditions and continue investing.

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