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BOOK REVIEW:

"IL FINANZIAMENTO DELLE START-UP INNOVATIVE (THE FINANCING OF INNOVATIVE START-UPS)", BY LORIS L.M. NADOTTI, MANUELA GALLO, DUCCIO MARTELLI, VALERIA VANNONI, ISEDI, MILANO, 2023

Tonino Pencarelli
University of Urbino
tonino.pencarelli@uniurb.it

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Abstract

The book addresses a crucial issue for the survival and development of innovative start-ups, especially in Italy, where the financial system can still be defined as bank-centric and where therefore the financing of new entrepreneurial initiatives is not simple. This is both due to the necessary attention to risk that traditional intermediaries adopt when granting loans, and due to the incomplete success of new entities and tools to meet the needs of new businesses. The book offers a complete overview of the offer of financing tools for innovative start-ups, also suggesting possible approaches for new businesses aimed at effectively requesting funds.

Review

The volume I am recommending to the readers of the Journal Piccola Impresa/Small Business was written by Loris Nadotti, Manuela Gallo, and Duccio Martelli from the University of Perugia, and Valeria Vannoni from the University of Urbino, scholars who focus on the economy of financial intermediaries and address one of the critical issues of innovative start-ups: how to finance themselves. The work is divided into five chapters, each containing an extensive bibliography for further exploration of the topics discussed.

The first chapter is dedicated to outlining the development path of a new company, starting from research activities to the generation of a business idea. It specifies the meaning of an innovative start-up, an academic start-up, and a spin-off, highlighting the strengths and weaknesses of the various models. The chapter introduces the issue of innovation financing, framing it in the context of financial markets and the role played by their degree of allocative and informative efficiency. The financial gap problems, and especially the equity gap that innovative start-ups face, depend on frequent deficiencies in financial culture among fund applicants and the scarcity of tangible resources to secure funding, as well as the low risk propensity that often characterizes traditional financial intermediaries, particularly in the contexts of national bank-based financial systems. The chapter also emphasizes the fragility of the Italian venture capital market, where private equity and venture capital operators struggle to develop due to difficulties in divesting equity investments. The chapter outlines the current regulatory requirements in Italy that allow innovative start-ups to access financial incentives for starting new businesses and that investors can exploit to invest in the equity capital of start-ups.

The second chapter addresses a crucial and preparatory aspect for a nascent company to obtain financial resources: how to write a business plan and communicate the entrepreneurial project to potential financiers. Particular attention is given to the necessity of making reliable forecasts and using an effective format to describe the value proposition, target markets, potential competitive factors, organizational context, expected economic and financial dynamics, and possible risk variables. Besides the business plan, the utility of using the business model canvas to better describe the entrepreneurial idea, the methods of value creation, and distribution associated with the start-up is also mentioned. Finally, pitching, a brief presentation of the entrepreneurial project to potential financiers, is discussed, highlighting the three key principles of effective public speaking: ethos (credibility), pathos (emotional tension), and logos (appropriate language).

The subsequent chapter is the most substantial as it illustrates the main financing tools available to start-ups to meet their financial needs at various stages of the entrepreneurial initiative's life cycle. The roles of business angels, venture capital operators, and private equity are highlighted. The potential role of closed-end mutual funds, which can play an important role in providing stable risk capital to start-ups, is also mentioned. Among the financial need coverage tools, space is dedicated to those for financing working capital, including short-term loans, bank advances, and commercial credit mobilization tools such as factoring, which is given particular depth. The chapter also discusses traditional fixed capital financing forms like self-financing, loans, and leasing, in both financial and operational leasing forms. The option of direct access to the capital market through stock exchange listing is also recalled, highlighting the role of stock exchange listing and the Italian Telematic Stock Market and Euronext Growth Milan. In Italy, access to this stock market segment for small and medium enterprises is particularly facilitated in terms of requirements, costs, and listing times, to encourage smaller companies to cover financial needs also by directly resorting to the market. Finally, the chapter also recalls Law no. 232/2016, which created Individual Savings Plans in Italy to direct household savings towards financial instruments of Italian and European industrial and commercial companies rooted in the Italian territory, providing tax incentives to savers. In essence, the chapter is a compendium of financing tools, described in good detail, that anyone wishing to create a new business should read to acquire the basic financial knowledge necessary to meet the funding needs associated with the entrepreneurial idea's development over time. Further insights into how to finance a start-up are contained in the fourth chapter, dedicated to innovative financial instruments, at least in the Italian market. In particular, financial bills, subordinated participatory bonds, and minibonds are illustrated, delineating in parallel the characteristics of Borsa Italiana's ExtraMOT PRO, the secondary market for debt securities where investors can trade and liquidate investments. Another innovative financing tool, alternative to traditional financial instruments, is crowdfunding, an online collective financing form where companies requesting funds directly appeal to the crowd for loans (lending crowdfunding) or equity capital (equity crowdfunding), or donations (donation crowdfunding, reward crowdfunding). An innovative form of crowdfunding is the Initial Coin Offering, through which the necessary funds for financing a business project are raised. Financial resources are collected following the issuance of digital coins or tokens by the fund requester, who will receive cash or cryptocurrencies (such as Bitcoin) based on the entrepreneurial project's appeal, described in an information document called a "white paper." Italian regulations have regulated the methods of raising equity capital through online portals by small and medium enterprises and innovative start-ups, also regulating the conduct of crowdfunding platform managers in collecting public savings. Another form of internet-based financing is invoice trading, allowing companies to sell commercial invoices via the internet in exchange for an advance of money, the amount of which will be set by the outcome of an online invoice auction. The auction's start is subject to due diligence activities aimed at verifying the commercial position's regularity and the credit assignment's correctness. Companies that resort to this tool are typically small and medium-sized enterprises with difficulties accessing bank credit that need to speed up collections as much as possible for liquidity needs. The chapter also dedicates ample space to describing business incubators and the role they play in providing support services for creating and developing new entrepreneurial initiatives. Besides logistical, consulting, and network creation support services, incubators are valuable in facilitating access to financing, which represents one of the crucial resources for the success of new businesses. In the innovation ecosystem, venture builders play an important role, defined by the authors as "start-up factories" whose main purpose is to quickly and efficiently create high-value businesses.

In the fifth and final chapter, the book addresses the financing issues of socially oriented start-ups, those companies that arise to create products and innovation processes where the social dimension prevails over the economic one, making access to financing even more difficult. In Italy, legal regulations have introduced the socially oriented innovative start-up for which incentives are provided to reward the dual positive aspect of this type of business: innovation and the vocation to create solutions to improve collective well-being. Alongside the growing attention to socially oriented enterprises, a new capital supply segment aimed specifically at providing financing for social impact projects (impact investing) is emerging in the European context. Socially oriented entrepreneurial projects must be appropriately evaluated with specific control tools, both ex ante and ex post, to highlight the new company's ability to generate valuable social outcomes in various intervention sectors, such as healthcare, education and training, cultural heritage management and enhancement, environmental protection, and social tourism. In conclusion, reading this book allows one to gain greater awareness of the financial problems that innovative start-ups face, but also to have a comprehensive understanding of the main available solutions to address these needs. The book is written clearly and instructively, allowing even non-specialist readers to delve into not-so-simple technical aspects. For this reason, it is recommended that students, researchers, and those interested in starting an innovative start-up read this book. The innovative start-up represents a potential path for people with a strong entrepreneurial vocation and a vehicle for innovation in the Italian entrepreneurial system, which has long been tied to traditional sectors that have enabled economic development and well-being for Italians in the past; now it needs a revival and entry into high-value-added sectors thanks to greater knowledge and innovation content in the business model.