Chapter 9

Financing Innovations

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Abstract: Much of the literature on entrepreneurial finance relate to challenges associated with financing innovations and financing constraints that many young fast growing companies face. Therefore, the purpose of this chapter was to determine selected sources of capital available for innovative companies especially startups, at different stages of their development emphasizing their importance for the economy. Based on the literature data spanning 73 research papers, reports and statistical documents, this review sheds new light on advantages and disadvantages of different options for financing innovations and consolidate the knowledge in this field. The findings can provide a practical tool for innovation management because understanding how inventions can be commercialized into an innovative global company through the selection of appropriate sources of financing can be crucial.

Keywords: financing innovations, startups, seed funding, start-up funding, early-stage funding, expansion funding, later-stage funding

Introduction

Much of the literature on finance and innovation relate to the challenges associated with financing research and development as well as financing constraints that many companies face while developing their inventions (Kerr, Nanda, 2014). There are a number of reasons for this situation, however Hall (2010) emphasizes factors such as uncertainty of project outcome and low expected returns from the inability to capture the profits from innovation. Often the two parties, investor and inventor have different

perceptions and asymmetrical information that very often leads to financial market imperfections (Wilson, Silva, 2013). Innovator may know more about the project than financier and it is often impossible to measure inputs into the innovations not knowing what the output might be. In this case, discrepancy may lead to an increase in agency costs (Kerr, Nanda, 2014). Landström (2017) also argues that the agency problems arise because capital provider cannot be sure on how the entrepreneur will use the capital and that his decisions will actually lead to expected growth of company's value.

Research also underline that young companies like startups at early stage require much more capital than those offered by private investors. This phenomena called "equity gap" is the result of high investment risks and relatively large costs of preparing and monitoring a project. Consequently, entrepreneurs with innovative business ideas have difficulties in raising capital and often fail because they lack the adequate capital and financial control (Nesheim, 2000).

Innovation is a complex process in which scientific, organizational, commercializing and financial activities lead to the development of a new venture. Financing provides the resources necessary to develop new ideas but at the same time engages stakeholders who share risks and benefits. Financing innovations also involves the process of presenting inventions, evaluating them in terms of commercialization, select promising companies and complementing them with managerial and technical support. Finally, financing innovations can provide for a more effective allocation of resources and therefore increase capital productivity and economic growth.

The main objective of this paper is to determinate diverse sources of capital available for innovative companies at different stages of their development. Although the majority of the literature in the field of financing focuses on mature companies, the aim of this review is to concentrate on young and small companies like startups. The order and content of the subchapters have been determined in such a way as to make an overview of the available range of mechanisms to raise funds, starting with the traditional ones through the most innovative financing.

Sources of financing for Startups

The entrepreneurial finance literature investigate diverse spectrum of definitions and classifications of various types of financing sources for newly created enterprises. In most cases scholars group different types of finance as equity and debt but also based on entrepreneurial finance investors characteristics, investment goal, investment approach or investment target (Block et al., 2017). Similarly, many new sources of capital like crowdfunding, mezzanine financing, blended finance, syndicated loans or Initial Coin Offering (ICO) have opened new chapters for entrepreneurial finance.

Based on Organization for Economic Cooperation and Development (OECD) report (2014) there is no agreed definition of innovative financing, therefore existing initiatives are classified as "innovative sourcing" aiming to raise funds for innovation or "innovative spending" which optimise traditional funding sources. Innovative financing for young companies is considered as a financing source used in a new context or incorporate

innovative features that goes beyond traditional finance, generate additional development funds by tapping new funding sources or by engaging new partners (OECD, 2010, World Bank, 2010, United Nations, 2012).

Additionally, the company life cycle and stages of financing were included according to PricewaterhouseCoopers MoneyTree survey definitions applied by many authors like Nesheim (2000), Preston (2007), Wilson and Silva (2013) when classifying different funding sources for startups.

Seed, Start-Up and Early-stage funding

The majority of empirical work on financing innovative startups considers choosing right source of capital so entrepreneurs can research whether an idea, product or service is technically feasible and suitable for the market. Early-stage technology-based ventures' main challenge is to attract external investors who generally prefer to see operational business rather than the invention before investing capital. In the literature on early-stage capitalization process, much attention is paid to the importance of the experience and knowledge of the management team, the attributes of the technology and the characteristics of the market in which they operate (Gompers et al., 2010). It is rare however, that all of these three factors can be combined. Due to the dynamic environment in which startups operate and the fact, that investors can accept the risk in one or two dimensions (for example not fully developed technology but on a highly growing market) much of entrepreneurial finance research rely on exploring how various configurations of these factors affect early-stage financing (Kaplan et al. 2009, Townsend, Busenitz, 2015). According to Wilson and Silva (2013) there are three financing instruments at seed and early-stage financing cycle: 1) equity instruments (bootstrapping, crowdfunding, business angels), 2) grants, loans and guarantees and 3) tax incentives.

Bootstrapping

Launching a startup with modest funds, relying on money from the entrepreneurial team, family and friends is often called bootstrap financing. Entrepreneurs at early stage depend heavily on this insider financing because they need to build their experience and know-how as they go. At the same time bootstrap entrepreneurs focus on reducing costs to improve cash flow through advance payment from customers or delaying payment to suppliers, minimizing investments or account receivables. Very often they jointly use resources like office space, equipment (Windborg, Landström, 2000), credit cards or other methods like working capital management.

However, contemporary knowledge on this seed financing argue that it is a very important source of capital for a new venture. Robb and Morelix (2016) showed that 63.9% of all sources of startup capital are coming from personal and family savings, while in Asia this share is even higher and will be 73.2%. Most European funders indicates

their own savings (69.1%) followed by support from friends and family (25.1%) as main sources of financing (Kollmann et al. 2015).

The goal of bootstrapping is to maintain ownership, flexibility and independence by reducing external dependencies. This source of finance gives companies that start small to probe the market and adjust their business model, learn from their customers and keep their cost curve below revenue curve once the new venture starts growing (Byers et al., 2015). Waleczek et al. (2017) argue, that owner-finance bootstrapping is a strategic choice rather than a necessity and is independent from the environmental or financial conditions of the new firm. However, some entrepreneurship scholars maintain, that bootstrapping might hinder future investments and that the time spent on implementing marginal savings neglects other more strategic tasks in the firm (Vannacker et al., 2011).

Crowdfunding

Crowdfunding is defined as online money raising from a large number of people. Typically, crowdfunding platform users provide small amounts enabling the project to be realized or a starting venture to develop seed capital as an alternative to traditional venture capital investment (Schwienbacher, Larralde, 2010). In recent years, crowdfunding financing gained a lot of attention due to its spread in creative, social, sports, artistic projects, up to the opportunity of purchasing company shares (equity crowdfunding) or co-acquiring a property (real estate crowdfunding). Crowdfunding gives entrepreneurs the opportunity to test their products or business idea, build a network of clients or active users and promote the company by social media. Usually, those providing funds receive monetary or non-monetary compensation, while platform operator acts as intermediary and receives a fee for transaction.

According to Dietrich and Amrein (2017), crowdfunding can be divided into different segments like “reward-based crowdfunding” often referred to “crowdsupporting” where non-monetary reward receive users support a given campaign. In this case, the compensation takes form of the product or services but funding can also be provided without any measurable consideration in which the focus is on social or altruistic motives (crowddonating). This way, for the seven years in a row Kickstarter funded films were nominated for Oscar winning films like latest “Joe’s Violin” nominated for Best Documentary Shorts in 2017 or Oscar nominated animation “Loving Vincent”. Sites like Sellaband allow musicians to raise capital to finance the recording and production of an album (Agrawal et al., 2015), while Crowdpac can also be used to raise funds for political campaigns. Pages such as Justgiving or Virgin Money Giving were set up by people who raised money for charity by running the London marathon (Smith et al., 2014).

In more advanced form, crowdfunding is often considered as a practice of Financial Technology (FinTech), especially when consideration is of a monetary nature. Among this form “crowdinvesting” provides funds for a stake in the business, like AngelList, which currently allows only accredited investors (Agrawal et al., 2015) or for interest income that is called “crowdlending”. An important part of this financing forms is “invoice trading” that include the disposal of unsettled invoices. Dietrich and Amrein (2017)

point out that such a form of financing can be supported by several investors or only one counterparty.

The rapidly growing interest in this online form of financing results mainly from statistics from Kickstarter, the leading crowdfunding platform in the United States, which has raised USD 3.75 billion in pledge to fund over 146,000 projects (Kickstarter, 2018). University of Cambridge Annual European Alternative Finance Industry Survey report (2018) showed, that the total European online alternative finance market grew by 41% to reach € 7671 million in 2016. Excluding leading United Kingdom, the European market grew 101% from € 1019 million to € 2063 million in 2016. China still hosts the largest crowdfunding market registering USD 102,2 billion in 2015 and 243,48 billion in 2016 (University of Cambridge Asia Pacific Alternative Finance Industry Report 2017). Despite over billions spent by crowdfunding backers, by signing in 2012 the JOBS Act (Jumpstart Our Business Startups Act), US Congress encourage this source of capital for new ventures.

Nevertheless, Mollick (2014) examining the dynamics of crowdfunding found that projects generally succeed by small margins, while social capital and preparedness are associated with an increased chance for a success. Harun et al. (2017) also suggest that numerous fundraising initiatives have failed because of campaigns information asymmetry for potential backers. Due to the novelty of this capital source new research opportunities in this area are opening up especially regarding factors that affect the success of the campaign like the role of family and friends in supporting projects or the effect of social influence (Kuppuswamy, 2018).

Grants and tax incentives

Some new ventures are eligible for government grants at early-stage development, especially based on cutting-edge research, including research conducted at universities. The role of this funding has been widely discussed by scholars because government play a crucial role as a determinant of innovation capacity. To ensure optimal allocation of resources for innovation, most industrialized countries support private research and development through subsidies or tax incentives. The aim of these politics is to stimulate investments in innovation especially in highly capital intensive areas like eco-innovations (Szulczewska-Remi, Foltynowicz, 2016).

In many regions such as the European Union, innovation financial support policy has become a key strategic element to create jobs and encourage economic growth. Therefore, European Union actions aimed at bringing innovative ideas into life through the largest EU Research and Innovation programme ever Horizon 2020 (H2020) with the budget of 80 billion Euro and the European Structural and Investment Fund (ESIF) of 110 billion Euro. Parts of H2020 is related to space research, raw materials, and innovation in small and medium-sized enterprises (SMEs), Key Enabling Technologies like industrial biotechnology and nanotechnology, as well as five other priorities areas of the EU's industrial policy like advanced manufacturing, green vehicles, sustainable construction, bio-economy and bio-based products and smart grids (European Commission, 2018).

Most of governmental substitutes for innovation are designed to support company's competitiveness and firm's innovative capabilities. Autant-Bernrd et al. (2013) showed upon empirical results in Europe the role of regional innovation policies in supporting the institutions which generate knowledge. According to Bronzini and Piselli (2016) such programs have significant impact on the number of patent applications especially in smaller firms. They may encourage firms to take more ambitious projects, start R&D collaboration and improve R&D management. Though, Wang (2018) argue that degrees of government intervention vary from directive support by "actively advising industrial policy" and selected areas of industry to "facilitative intervention" by creating positive environment for companies and enhancing conditions for competitive enterprises. He illustrates effective government intervention in Singapore on enhancing innovation especially by big players as compared to less active Hong Kong industry innovation that is mainly created by small local firms as examples. Byers at al. (2015) discuss American grants available to support very early-stage and small-scale business like the Small Business Innovation Research (SBIR) program or Small Business Technology Transfer (STTR) that effectively support startups' research activities.

Criscuolo et al. (2012) provided some insights into the Regional Selective Assistance programme in the Great Britain showing that government grants to smaller firms in economically disadvantaged areas of Great Britain can increase employment, but they have no impact on productivity. Guan and Yan (2015) argue, that in China all financial initiatives of government were unrelated to the companies' patents. Moreover, Direct Earmarks during China's economic transition in the 1990s affected patents in these enterprises negatively and only tax credits and special loans have helped the Chinese firms to achieve economic success in the last decades.

Fiscal incentives to stimulate business research and development has emerged in popularity in all OECD countries. They allow companies to reduce its tax burden (or other forms of mandatory contributions like social security) depending on the size of R&D. Based on Köhler at al. (2012) research government funding through R&D tax incentives can reach a similar magnitude as direct R&D funding. The main advantage of R&D tax incentives in a government's portfolio of policy instruments is the lack of demarcation for particular areas of the economy, which are treated as preferential in financing, lower selectivity in terms of firms and industries as well as the ease of prediction from the point of view of the company's long-term financial planning. However, this policy creates significant uncertainty of a country budget, complicates tax system and allows firm to deduct the tax payment even if certain research would have been carried out anyway (Köhler at al., 2012).

Overall, government substitutes for companies might have both positive and negative impact on small companies. This however, mainly depends on understanding market needs and adjusting forms of support to such needs. The main advantages of this source of capital are no payback requirement and not giving up equity in the venture. They also give a chance for highly capital-intensive industries, especially young companies like startups, to develop their inventions and mobilise private financing to support the development of these companies in later stages.

Business Angels

The term angel investor originally comes from Broadway, where it was used when describing the people that provided financing for theatrical productions. Today, business angels are individuals, mainly former entrepreneurs who take the risk of new venture and provide capital, knowledge, experience, business skills and networks as new company grows. According to Politis (2008) there are four different value added roles performed by business angels: sounding board/strategic role; supervision role; resource acquisition role; and mentoring role. Angel investors help to define business strategy, evaluate product-market activities, monitor financial performance, coach the entrepreneur, provide financial, legal and marketing know-how. Mason and Harrison (1994) describes business angels as individuals, who invests money in an unquoted business in which there is no family connection. In their later works, they also point out that angels invest locally and in minimum venture capital transaction deals (Mason, Harrison, 2008). Preston (2007) shows that angels typically have a sense of social responsibility and enjoy community involvement, have desire to pass on knowledge, take a role in the entrepreneurial process and are able to tolerate the loss of the whole investment. What is more important, business angels invest their own money with smaller amounts at a time.

Business angels can be distinguished based on their previous investment experience (novices versus experienced), involvement in the new venture management (active versus passive) or by the number of angels (individual versus group investors like syndicates or through a fund (angel fund or public-private partnership)) (United Nations, 2012). One of the most recognized global accredited angel investor network is Keiretsu Forum operating in North America, Europe and Asia who has invested more than USD 750 million in over 1,000 fundings since inception, and backed over 170 companies in 2016 alone (Keiretsu Kapital, 2018).

As per the data, angels are the primary source of outside capital for very young companies and represent the seed and start-up capital in entrepreneurial ventures. Based on the European Trade Association for Business Angles, Seed Funds and Early Stage Market Players (EBAN) (2017), angel investment remains the main financier for European start-ups with 6.7 billion Euros investment in 2016 (growth of 8.2% from 2015), which is only part of the US angel investment (USD 21.3 billion) according to the Center for Venture Research at the University of New Hampshire (2017).

Business angels typically invest between € 25,000 and € 250,000, and up to € 12 million for syndicated angels and angels investing via co-investment funds (EBAN, 2017). For comparison, in China most investments range between UCD 163,425 and USD 817,126 (Wang et al., 2016). In terms of industry, technological (like FinTech, BioTech and MedTech) and ICT sectors play a dominant role in Europe (39% and 36% respectively) followed by healthcare (13%), media (7%), web/e-commerce (6%) and transport/logistics (3%) (EBAN 2017). In the US 20% of investments go to healthcare services/medical devices and equipment, 14% to retail services, 10% to biotech, 8% to industrial/energy and 5% to IT services. Later, in China the technology, media, and telecom

(TMT) sector is dominant (57.1%), followed by energy conservation and environmental protection (34.3%) and biological medicine (20%) (Wang et al. 2016).

The value of business angels for the local economies and entrepreneurship is also supported by national policy initiatives like the National Innovation and Science Agenda in Australia aiming to grow the angel and microfinancing sector. This is followed by regulations introduced by some countries like laws that enable access to crowdsourced equity funding schemes in Australia, Financial Conduct Authority in United Kingdom, Financial Markets Conduct Act in New Zealand or the JOBS Act in the United States (White, Dumay, 2017).

There are some evidence showing that business angels create the informal venture capital market and that angel investors fill the “equity gap” between the money that young companies can raise from internal sources like family members and friends, and the investment venture capitalists may provide (World Bank, 2012). Van Osnabrugge and Robinson (2000) argue, that angels are the largest sources of risk financing, because they offer 80% of seed and startup capital for new high-tech companies. Due to the essence of both sources of financing innovations key differences between them are summarized in Table 1.

Table 1. Key differences between Business Angels and Venture Capital

Key features	Business Angels	Venture Capital
Source of funds	Individuals that invest their own money	Investors who act as limited partners invest others' money
Responsibility	Personal financial responsibility	Limited personal financial responsibility but responsibility to management and shareholders
Investment experience and capacity	Considerable investment experience and investment capacity	Some investment experience and limited investment capacity
Investment stage	Early stage, focus on younger companies	Mostly later stage, larger number of smaller investments
Exit strategy	Less important	Very important
Length of holding period	3–5 years	3–8 years
Ventures' ownership	Create little dilution for the venture	Require larger percentage ownership of the venture
Long-term perspective	Can lack long-term perspective	Enhance venture's reputation and credibility
Control upon investment	Advisory role to the funder and management team	Representation on supervisory boards and chapter voting rights at the general meetings
Rate of return	Modest return	High return on investment

Source: Own study based on Preston (2007), Avdeitchikova et al. (2008), Metrick and Yasuda (2010), Byers et al. (2015).

Initial coin offering (ICO)

Initial coin offerings (ICO), also called token or crowd sales is one of newest fundraising opportunities. In a typical ICO startups might collect capital on a per-to-peer platform in a form of main cryptocurrencies like bitcoins from a number of backers by pre selling “tokens” in order to: 1) give cash flow rights to future earnings; 2) to give access to the project’s future product or service; 3) to function as voting ballots for governance over project development/operation; or 4) to function as internal currencies within the project to be developed (Li, Mann, 2018). Despite the possibilities offered by this form of financing (ICO raised over USD 4 billion across over 2000 deals in 2015–2017) exceeding venture capital investments in blockchain technology (Sockin, Xiong, 2018), it raises a lot of controversy, especially in relation to its real economic value.

Expansion and Later-stage funding

Bank finance in innovation

Economists had a long held the view that innovation activities are not likely to be supported by banks and debt (Hall, Lerner, 2010). Conversely there are more and more scientific evidence showing that bank debt is a very important source of external financing for many companies.

Firstly, bank loans eliminate the problem of asymmetrical information between the financing party and the entrepreneur, simply because banks transfer all of the investment risk to the borrower. Therefore, in the event of innovation failure, the loan agreement forces the repayment of the incurred liabilities. Second, banks secure this type of loans with intangible assets such as intellectual property (IP) that potentially become sources of cash flows and therefore serve as an benefit of getting a loan (Mateos-Garcia, 2014). Mann (2014) produces that patents are often used as collateral in such instances. Moreover, he showed that 16% of patents granted by the US Patent and Trademark Office (USPTO) has been pledged as collateral. Robb and Robinson (2014) confirm, that external bank financing is an important source of startup capital, even for companies who don’t have any tangible or intangible assets as collateral.

According to Robb and Morelix (2016) entrepreneurs rely on business loans from banks as a second after personal and family savings source of startup capital. In Europe 17.9 percent of young companies use credits and 10.3 percent personal credit cards. Compared to Asia, 18.7 percent of entrepreneurs practice business loans from bank and as much as 17.6 percent personal credit cards.

Mezzanine financing

Mezzanine financing is accessible for companies that have positive cash flows and need additional funds for further growth through expansion, but sometimes management or leverage buyout, acquisition or initial public offering (IPO). Very often mezzanine refers to a hybrid financing between debt and equity capital because that gives

the lending investor the right to purchase companies shares (in the form of attached warrants or a conversion feature) whilst the borrower need to pay interest (in the form of cash interest or payable in kind interest (PIK)). Due to the fact, that equity is the most expensive source of capital that can be diluted during every series of financing e.g. when using external capital like venture capital, mezzanine financing seems to be a promising direction for ventures looking for development capital.

According to Silbernagel and Vaitkunas (2012) mezzanine finance fill the gap between company's debt and equity and that this gap exist because: "1) accounts receivable, inventories and fixed assets are being discounted at greater rates than in the past for fear that their values will not be realized in the future; 2) balance sheets now contain significant intangible assets, and, 3) as a result of defaults and regulatory pressure, banks have placed ceilings on the amount of total debt a company can obtain".

Bean (2008) indicates that mezzanine financing gives a chance for "larger percentage of the purchase price that can be borrowed to spread equity over more properties, resulting in cash flow flexibility and the potential for higher expected rates of return on equity" and it is treated like equity on a company's balance sheet. On the other hands, companies might lose some of its independence by being forced by financing institution to follow its strategy as a consequence of its place on the board of directors.

Interestingly, the importance of mezzanine financing is understood by the European Commission who encourage small and medium enterprises (SMEs) to use this source for capital by providing loan guarantees to banks within Innovation Framework Programme (CIP) operated by European Investment Fund (EIF).

Venture Capital

From all possible sources for financing innovations in startups, venture capital has been the most devoted in terms of publications' number. Major attention is given to the importance of VC as many academics designate their role in overcoming the "valley of death", which represents time when highly potential companies face the shortage of financial resources and the lack of business development knowledge (Metzger, 2016). Many authors also confirm, that venture capital play a crucial role in eliminating asymmetric information problem because due diligence allow them to screen and monitor companies performance (European Investment Fund 2018).

European Private Equity and Venture Capital Association (EVCA) defines venture capital (VC) as "a subset of private equity investments made for the launch, early development, or expansion of a business" (EVCA, 1999). According to American approach, VC is "a cluster of private equity dedicated to finance new venture" (Caselli, Negri 2018). Although by definition, VC favors enterprises at various stages of development, many scholars emphasize the importance of VC funding in expansion and later-stage and claim, that the VC role is more to help the commercialization of innovation rather than to foster its creation (Faria, Barbosa, 2014, Wilson, 2015). Similarly, European Investment Bank (2001) produce, that European VC funds prefer later stage financings, with seed and start-up stages collecting only a small percentage of funds invested.

Bygrave (1999), who investigated Internal Rate of Return (IRR) at different VC investment stages discovered expected IRR to be higher than 60% and higher than 50% at seed and early stage respectively, which seems difficult to meet at this stage of the company development and that might lead many entrepreneurs to look for some other sources of capital. Hirukawa and Ueda (2011) suggest that in the United States patenting activities slow down once firms obtain VC funding. Reiterating this is Engel and Keilbach (2007) as well as Caselli et al. (2009) who produce that companies experience low patenting activities but high sales growth after VC investments.

Venture capital usually invest for a period of 3 to 7 years in securities (shares) of nonlisted companies, that have high potential to grow because VC raise funds from institutional investors and therefore invest large amount into firms. The aim of such funding is to develop new products and technologies, increase companies' working capital, strengthen the company's balance sheet, IPO, share buy backs, mergers or trade sale of the company (Szulczewska-Remi, 2014). The VC primary goal is to increase the market value of the company and satisfactory rate of return (usually 35–40% depending on company's development stage, sector, geographical region etc.). For these reasons, VC takes an active role in company's management and acts as a source for guidance and consultation, business experience, mentoring, legal, financial, tax consultancy and networking.

Despite many general characteristics of VC investments described above, there is long-standing difference in performance between European and US venture capital funds. According to latest statistics of Invest Europe (2018), venture capital fundraising reached € 7.7 billion, only slightly below 2016's record year, when € 8.2 billion was raised. At the same year, annual funding of VC companies based in the US increased 17% over 2016 with total over USD 70 billion (PricewaterhouseCoopers MoneyTree, 2018). Arundale (2017) suggest, that this disparity is as high-growth entrepreneurial companies are supported by public-private or government funding (e.g. EU adopted European Venture Capital Fund).

Conclusions

There is a general agreement on the role of financial support in fostering innovations. The fast-growing literature in this field provide insight to understating the main challenges associated with selecting appropriate sources of financing for new, dynamically growing companies like startups. Therefore the aim of this study was to discuss their importance for the local economy while emphasizing advantages and disadvantages, as summarised in Table 2. To achieve these objectives, this chapter analysed 73 research papers, reports and statistical documents.

Attempts at consolidating literature on financing innovations can provide practical tools for innovation management as understanding how inventions can be commercialized into an innovative global company through the selection of appropriate sources of financing is crucial.

Table 2. Funding options for financing innovations available to startups

Source of funding	Advantages	Disadvantages
Bootstrapping	No dilution or increased risk	Slow startup grow
Crowdfunding	Diversity of funded projects, valuable form of marketing and promotion on social media	Failed projects risk their reputation
Government grants	Funds for very risky technologies	Slow, very limited funding, restrictive
Angel Investors	Early stage investments, mentoring and networking	Small investments, dilution
Initial Coin Offering	Alternative for traditional fund-raising with potential to grow	Controversy about its real economic value
Bank loan	No dilution	Increase risk for company owner
Mezzanine	Lower cost of capital as compared to equity cost	Lost some of company's independence and flexibility
Venture Capital	Value added help	Dilution of ownership/control

Source: Authors' own collaboration.

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