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EXTERNAL FINANCING DURING A COMPANY'S LIFE CYCLE



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The objective of this thesis is to give an insight into a company's external financing tools during its life cycle. There have been wide discussions on the financing situations of businesses all around the world and the tightening economical situation has had a major impact on the financing tools. This study examines the potential financing tools through the company's life cycle. This study reviews the current financing situation of companies in Finland.

The theoretical segment focuses to explain growth, business lifecycle and the external financing tools of a company. The lifecycle of a company is influenced by many factors and the choice of funding has a major role in the lifecycle. The study on external financing tools is based on the available funding possibilities in Finland. The sources used in this part are literature, published research data, online sources and news articles.

The research part of the study was conducted via semi-structured interviews that gave an overall view on the growth of a firm and the external financing methods used during the growth. The research part also consists of news articles and online publications to provide a current outlook on the current external financing environment.

The study focuses on the external funding and does not consider the possible involvement of own equity in funding operations. Also the lifecycle of a company is based on hypothesis that assumes the company experiences growth constantly.

Based on the research, it can be expected that the external financing environment is going through a change in Finland due to the fact that the major funding source, banks, are undergoing a structural change. The case study research indicates that the industry in which the company operates has a major role in the choice of external financing instruments. Additionally the entrepreneur's attitude towards external financing sources must be taken into consideration, as entrepreneurs may be reluctant to take external funding due to its terms and conditions.

KEYWORDS:

External financing, life cycle, growth.

Jani Rautanen

YRITYSRAHOITUS KASVUN ERI VAIHEISSA

Opinnäytetyön päämäärä on antaa syvempi käsitys yrityksen ulkoisen rahoituksen instrumenteista yrityksen eri kasvuvaiheissa. Yritysten ulkoisen rahoituksen tilanne on ollut maailmanlaajuisen keskustelun aiheena johtuen kiristyneestä taloudellisesta tilanteesta, jolla on ollut suuria vaikutuksia. Tämä tutkimus tarkastelee mahdollisia yritysrahoituksen kanavia yrityksen eri kasvun vaiheissa ja arvioi nykyistä yritysrahoitustilannetta Suomessa.

Teoriaosuus keskittyy selittämään yrityksen kasvua, kasvun vaiheita ja yritysrahoituksen ulkoisia lähteitä. Yrityksen kasvuun vaikuttaa monia tekijöitä ja rahoituksen valinnalla on suuri merkitys kasvun eri vaiheissa. Teoria ulkoisen rahoituksen lähteistä perustuu Suomessa mahdollistettuihin rahoituskanaviin. Lähteinä toimivat alan kirjallisuus, julkaistut tutkimustulokset aiheeseen liittyen, sähköiset lähteet ja artikkelit.

Teoriaosuus ulkoisesta rahoituksesta ei ota huomioon mahdollisen sisäisen pääoman vaikutusta rahoituksessa. Lisäksi yrityksen kasvun vaiheet perustuvat hypoteesiin, joka olettaa yrityksen kasvun olevan jatkuvaa.

Tutkimusaineistoa on kerätty haastatteluiden avulla ja näillä saatiin käsitys, miten yritykset ovat kasvaneet ja miten yritysrahoitus on hoidettu kasvun vaiheissa. Tutkimusaineistoa on kerätty myös artikkeleista ja sähköisistä lähteistä, jotta saataisiin mahdollisimman tarkka näkemys nykyisestä rahoitustilanteesta.

Tutkimuksen mukaan voidaan odottaa, että ulkoisen rahoituksen tilanne Suomessa on parhaillaan kokemassa murrosta, johtuen suurten rahoittajien (pankit) kokemasta rakennemuutoksesta. Case tapaukset kertovat, että yrityksen toimialalla on vaikutusta ulkoisen rahoituksen hankintaan. Lisäksi yrittäjän asenne ulkoista rahoitusta kohtaan pitää ottaa huomioon, sillä yrittäjät voivat olla haluttomia vastaanottamaan ulkoista rahoitusta niiden ehtojen takia.

ASIASANAT:

Ulkoinen rahoitus, kasvun vaiheet, kasvu.

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1 INTRODUCTION

After the Lehman Brothers crisis 2008, companies have globally faced major difficulties in financing their operations as the overall economy dove in to recession. This had huge impacts on Finnish economy as well and the damages are still being repaired in Finland (Pöysä 2013). The recession's seriousness hit majorly in the financing industry as it was noticed that their solidity was not meeting the requirements. Hence new benchmarks on bank's capital solidity, stress testing and market liquidity risk were introduced (Vauhkonen 2010). These new standards forced banks to reconsider their business activities, which naturally caused difficulties for entrepreneurs. The stricter credit policy of banks decreased the amount of corporate loans. Commercial loans have traditionally been the biggest loan source for companies (Niemeläinen 2012).

Following the tightened economical situation, the Finnish government had to resort to austerity measures (tax rises and spending cuts) in order to cut the budget deficit. However the Finnish government understood the importance of entrepreneurship in Finland and its effects on national economy (Ministry of Finance 2013).

Consequently the government has introduced new entrepreneurship policies to improve the conditions of entrepreneurs. New corporate tax reliefs are aimed to promote growth and public funding institution will receive funding to promote exporting companies. Additionally a new tax incentive of growth companies is offered for private investors. This incentive is expected to bring more investments to start-up companies (Ministry of Finance 2013).

A large survey on external financing was made 2012 and it indicates that nearly 40% of all company types have received external financing. This indicates that the Finnish business environment is extremely keen on to use external financing and its presence is duly noted. The two biggest reasons for the usage

of external financing were new machinery investments and fortification of working capital (Yritysrahoituskysely 2012).

There has been constant debate on the importance of entrepreneurship in Finland and the availability of financing for the companies. When setting up a business, the financing is the second question what has to be considered (Uusyrityskeskukset 2013). Hence there is a lot of literature regarding the financing methods of a business but the aim of this study is to examine the current status of external financing through the life cycle of a business.

1.1 Thesis objectives and research questions

This study gives an insight into the growth and the model stages of growth. There are numerous models for company's life cycle but the aim of this study is not debate the rightfulness of a certain model but these models give a general view on the growth stages. However one of the stage models is chosen to be followed in this study.

The different external financing methods are investigated from the Finnish funding environment point of view. There will be a general outlook on the instruments but the more specific data is gathered from Finnish sources. The financing methods are followed through the growth of a firm and do not take into consideration the possible exceptions of venture's failure and financing problems.

There is a comprehensive view on the current financing situation of companies and what kind of changes have occurred in the area of financing. The research aims to provide an explanation for the changes and possibly gives a future view on the financing methods.

Research questions are following:

1. What are the external financial instruments of a company during its life cycle?

2. What is the current external financing environment for companies in Finland?

1.2 Thesis background and structure

The reason for investigating the external financing markets was own interest towards this market due to current work placement. Bank world has really given me an insight into the area of financing and the personal aim of this thesis is to increase my know-how on the financing methods.

The study begins with the explanation of growth and the stage models of growth. These two parts lay the foundation for the main issue dealt in this study – external financing methods. This chapter consists of available financing tools of a company and follows the growth model chosen in chapter 2. The financial methods are each individually explained and given detailed information. Chapter 4 presents the research design and in the following chapter the research results. At the final chapter the whole study is brought together in the conclusion part.

1.3 Research design

The thesis consists of the theoretical part and the empirical part. Theory section is based on articles, books and online material. The sources are really diverse but due to the newness of some financial instruments online material was resorted in this case so that relevant information could be presented. Additionally statistical results were largely gathered from online sources in order to keep the thesis' information up-to-the-minute.

The empirical part consists of two research methods – quantitative and qualitative research. These two methods give an insight into the whole financing situation of companies and their aim is to support one another. The quantitative research used in this study is based on statistics gathered from various

prestigious resources and supported by the qualitative research, which consists of interviews conducted in daily press articles. The statistics and interviews observed in this thesis are selected by their up-to-the-minute information. Additionally case studies give an insight into four companies' external financing during its growth process. The interviews were semi-structured and four entrepreneurs were interviewed in October 2013.

2 GROWTH

“In society growth is regarded as necessary to retain and increase economic and social wealth. From a business firm perspective, the meaning of growth is more explicit, albeit still ambiguous because of the many measures that are used to define growth” (Ericsson 2007). So what is growth for businesses? Ericsson indicates that growth can be defined by different measurements (sales, financial performance, increase in size etc.). There are numerous measurements for calculating growth since one method would not be enough due to the many-sided nature of growth (Delmar et al. 2003). Economists around the world state that growth is important but the study on growth embarked as late as the late 1960s (Barro & Sala-i-Martin).

Growth can be considered as the final product since it is constantly exposed to changes and the result of organizational activities. That is why growth and development should not be separated from their context and both matters go hand in hand (Ericsson 2007). Growth can form in many ways and many theories have been announced to find a reason for growth. Endogenous growth theory stresses the importance of internal factors – on the contrary exogenous growth highlights the external factors (Arestis et al. 2006). Classical growth model highlights the relation between income distribution, consumption and manufacturing growth (Salvadori 2003) and Keynesian theory, which encourages cooperation between public and private sector.

In this study growth will be linked to the each model stage of business life cycle. The status of growth is crucial in business since when a certain level of growth is exceeded, it can move on to another stage. In addition the growth will also determine the need for financing on which this study focuses. The aim of this study is not compare each model stage and growth. Instead this study assumes that constant growth pushes the company through its life cycle from the beginning to the end. At the end of this paper where the analysis is on current economical situation and financing possibilities, growth will be investigated with a different perspective.

2.1 Business life cycle

As the company experiences growth, it can elevate in a hierarchical level, which has been investigated by many authors. Muhos et al. (2008) have identified 4 different types of growth models; lifecycle and hierarchical models, evolutionary models, stage models and metamorphosis models. To be able to place an organization in this stage model, the whole lifespan of an organization must be researched since every business is unique (Churchill & Lewis 1983). The earliest models of growth stage have been linear since every company is expected to go through the same stages (Muhos et al 2008). However nowadays the stage models are more detailed – they can be designed to fit specific needs of a branch.

The business life cycle stages give an insight into the process of organizational growth and opens up the whole process of setting up a business. This chapter's aim is to show the possible stage models, which have been under investigation during the past decades.

Churchill & Lewis 1983	1. Existence 2. Survival	3. Success 4. Take-off	5. Resource
Scott & Bruce 1987	1. Inception 2. Survival	3. Success 4. Expansion	5. Maturity
Buss 2001	1. Seed or R&D 2. Start-up 3. Early or shipping stage	4. Later or accelerated stage 5. Sustained growth stage	6. Maturity
Autio et al. 2007	1. Start-up	2. Expansion	3. Maturity 4. Diversification
Muhos et al. 2008	1. Conception and development 2. Commercialization	3. Growth	4. Maturity
Heinonen 2009	Start-up stage	Growth Stage	Maturity

Figure 1. Collection of growth models and the chosen growth model of this study (Author's research).

This study is built on a model stage by Heinonen (2009). The stage model is chosen due to the fact that it is universal and can be applied in many cases. Although it doesn't give an insight into the complex world of corporate life cycle, it gives the basic guidelines, which are later on reflected to the funding situation.

2.2 Start-up stage

The beginning of a business venture is an enormous task, which demands a lot from an entrepreneur. For example, the owner must find the target customers, deliver the service to the customer with small expenses and have the funds to maintain these operations (Churchill & Lewis 1938). This whole package is extremely reliant on the entrepreneurship – what kind of personal characteristics the venture starter has, previous work history and motivation can be listed as few factors affecting entrepreneurship (Autio et al 2007).

However, one can have all the major characteristics to start up a new business, but the external environment might not be suitable for a new business to blossom. The World Bank (n.d.) has listed Finland as the 11th out of 185 countries where business is easy to set up. This survey takes external factors such as taxation, credit policy, red tape, and infrastructure into consideration. These elements have high impact on the business set up since without a proper external environment, creating a new business can be harder.

During the start-up phase the company generates profit but it doesn't cover up all the expenses. This phase is known as "Death valley" (Laaksonen & Sipilä 2006). During this phase the company undergoes a survival stage, which determines whether the venture has the potential attributes for growth. The manager must be able to place in order the whole business; every part of the organization must operate as a whole. (Jones 2010). To summarize start-up stage is heavily reliant on the entrepreneur's skills and know-how. Without functioning management, start-up's road can end in Death Valley.

2.3 Growth stage

The growth phase is typically associated with success of the company, new resources, and building new management team and expanding

(Nieman & Pretorius 2004). At this stage the company has evolved into more complex organization, which has undertaken many activities. The company's main operations must generate profit in this phase since the company is constantly looking ways to expand its operations to other areas (Churchill & Lewis 1983).

The growth can pose both negative and positive consequences for the company (Parker 2006). The management's style must adapt to the new situation; owner must be able to delegate tasks and control the company as a whole. Professional management skills are needed so that the company can make right decisions (Opetushallitus 2013). The company's management is put to the test amidst growth stage since the accelerated growth demands rigorous supervision in order to avoid the loss of control (DeThomas & Derammelaere 2008, Opetushallitus 2013). During the high growth phase the possibility of bankruptcy is present if the company's main operations are about to fail (Laaksonen & Sipilä 2006).

2.4 Maturity stage

Company has evolved into its last phase where it has reached its potential growth limits and must maintain its position at the markets with new innovations that will boost its competitive edge (Churchill & Lewis 1983). The company's progression is still going on; however the possibility of decline or inexistent growth can happen. Acquisitions or mergers are an option that the company may consider in order to gain more growth. These changes may radically change the management style of a company (Buss 2001).

Organizations may fail due to the fact it is unable to adapt to new situations. The decline can be affected by internal (poor managerial skills, policies etc.) or external (competition, market situation etc.) factors. Usually this vulnerability of business decline is dependent on the age and

size of the firm – older and bigger companies are more adaptable to these changes and can cope with them (Weisel 2002).

If the organization fails to revamp its image, it can exit the market and quit the business.

2.5 Criticism on life cycle stages

Although these stages address the growth of a new venture, their implications can be debated. They are built on the assumptions that there is a linear growth in every venture and do not deal with the problematic disturbances that can occur. The life cycle stages mainly follow the formal structural changes of a company and do not consider the informal changes. The importance of informal structures such as teams and networking are not included into the stages of business life cycle although they contribute to the business growth (Davidsson et al. 2010).

The company's growth can be extremely rapid that it may skip stages as it develops. On the other hand the firm may ignore the whole growth of the business and stabilize the business in an early stage. The company's management has a huge impact on the choices the company makes and hence the life cycle stages must be wisely applied. Additionally the line between each stage is blurry and can be rather hard to identify when a company moves beyond some stage (Storey, 1994).

Every company has its own unique characteristics, which make it even difficult to label companies. The industry plays a crucial role in the growth of the firm – IT business is known for its rapid growth while heavy industry experiences a more stable growth (Levie, Lichtenstein 2008).

3 EXTERNAL FINANCING TOOLS

The financial lifecycle of a business is a complicated matter – it is very dependent on many internal and external factors. However the basic assumption is that a business starts with a limited amount of working capital (usually owner's own investments in the company) and begins the venture with personal contribution. Having started the venture, he notices that extra money is needed to cover up expenses and decided to look for external capital resources (Knüpfer & Puttonen 2004). In this situation it can be business angel, bank or public institution. He resorts to their knowledge and financial aid and makes the business booming.

The company has managed to reach the growth phase and the major functional operations are maintaining the growth. However the company is not yet satisfied and thinks of ways of expanding but new investments requires more capital. The entrepreneur looks for venture capital, which would bring added capital inside the company and would open new doors for networking (Puustinen 2004). After having done all the major investments, the company is running profitably but looks for way expand the business. The company decides to reach for a bigger audience by launching an initial public offering. Then enterprises stocks are now being traded public, which brings new capital (Espinasse 2011).

At the maturity stage company's own products generate profits and financial needs are secured to a certain level. However the company can issue bonds, which means that the company loans money from the public. Company bonds are less risky than its stocks. Bonds are typically categorized in high-yield bonds and investment grade bonds (Arnold 2008).

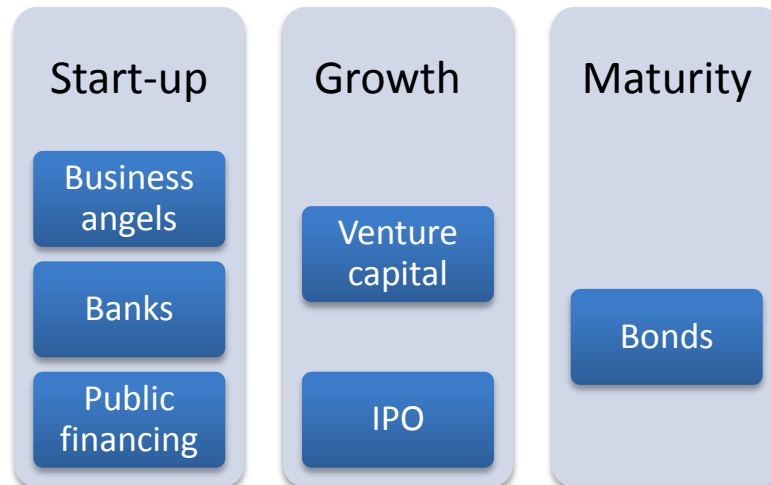


Figure 2. Selected external funding instruments during a business life cycle (Author's research).

The figure above gives an insight into the external financing instruments used in different phases of a company. These instruments are later on examined in each paragraph and given more specific definition.

3.1 Business angels and professional investors

They are wealthy individuals, which invest in start-up business alone or with a group of business angels. Business angel money is personal money, which the person invests. The angel investment in the company can also be their own know-how, which the company can exploit. They usually invest 20.000-100.000€ and they do not expect a quick return for the investment. Business angels usually get a percentage of the company's shares for the investment made. These investments are considered highly risky due to the early stage of business venture (FiBAN 2013).

There are three categories for private investors – business angels, professional investors and venture capitalists. One common factor for business angels and professional investors is that the connection with the entrepreneur is very tight and they want to share their knowledge (Lainema 2011). Business angels differ from professional investors in the sense that they do not expect a high profit from the company as the professional investors. Professional investors are looking for maximal profit for the investment. Professional investors are more

reliant on the success of the company and hence more involved in the decision-making inside the company. Venture capitalists are more focused on gaining maximal profit from their investments and do not provide intellectual capital to the company.

From the entrepreneur's point of view private investors are a good choice – usually private investors are influential people whose connections can be beneficial. Business angels' knowledge is irreplaceable for a start-up business and the business agreements can be negotiated to be more flexible. Angels are known to be more willing to support all kinds of industries and the funding they give is not costly in terms of fees.

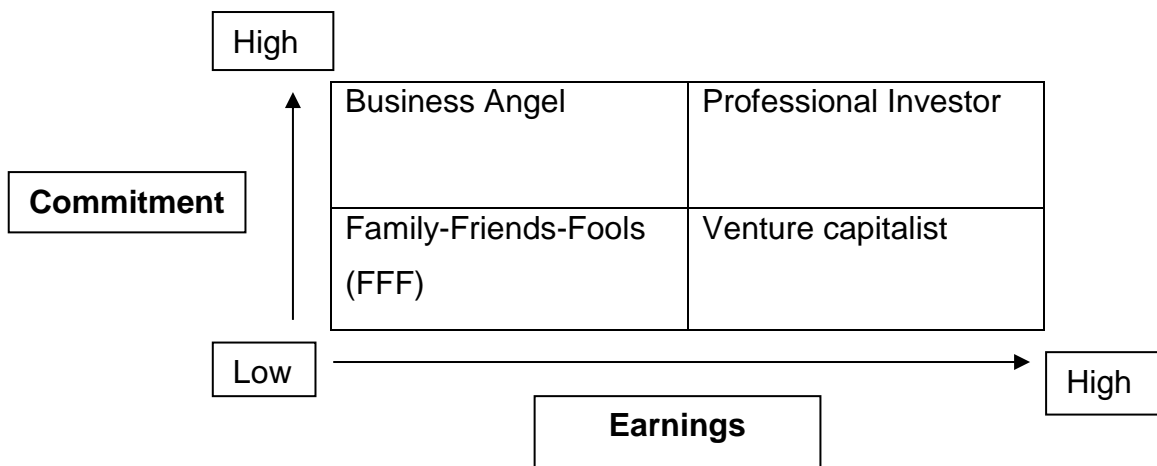


Figure 3. Comparison between individual investors (Lainema 2011).

However business angels tend to invest only once in the company and do not make extra investments. There can be misunderstandings between an entrepreneur and a private investor, which can result in disagreements. The private investor's reputation may not be enough for additional funding as compared to venture capitalists.

3.1.1 Business angels in Finland

There are only few research made on this subject but however these findings are well corresponding with the definition of a business angel. Finnish business

angels have both wealth and know-how to contribute. Lahti (2008) and Vilenius (2012) state that Finnish investors have previous entrepreneurial skills and wealth that is not cashed out from a venture. Lahti's research indicates that the commitment of a business angel varies hugely in Finland but to conclude, many are taking the passive role. This passive role is partially caused by the fact that many investors are involved in many investments and do not have the necessary time to be employed in every venture. However although investors consider themselves passive, some of them want to be part of the board of the company, but leave the operational matters to the entrepreneur.

Business angels in Finland are more cautious when making investment decisions. Investors are more aware of the risks that are involved in investing start-up businesses. Hence many of the funding proposals were let down since the venture was not ready to take on another step or it did not match the investor's perspective. This phenomenon has created a greater market for syndication – a group of investors can now together invest with lowered risk and higher diversification. Finnish business angels do not hesitate to use external experts' opinion when they are making investment opinions because there are limited resources regarding the company's performance and financial information. However there are still investors who rely on their intuition when making business decision (Lahti 2008).

Lappalainen (2013 *Talouselämät*) estimates that there are approximately 1000 private investors in Finland and 450 out of them are registered. According to Finnish Business Angels Network (FiBAN) estimation during year 2012 Finnish business angels would invest over 50 million euros in potential growth companies. Many of the investment were made through the private investor's investment fund or syndication with other private investors.

3.2 Commercial banks

Bank loans contribute the biggest part to corporate finance at the early stage of a business and for the most companies bank loans are the only source of outside financing. Loans are meant for funding new investments and the payback period can be over 10 years. The company will pay a certain amount of interest for the loan depending on the market interest rate chosen. The agreement's terms are negotiable but are heavily influenced by the loan amount, time, securities and business idea (Sutinen & Viklund 2005, Nevitt & Fabozzi 2000). There are numerous factors on which banks are focusing when considering granting a business loan (Keskuskauppakamari 2011):

- Management competence
- Balance sheet
- Business idea
- Industry
- Competitors
- Risks

The whole process can be called as rating. The bank clerk goes through all the financial information and picks up the most important financial ratios (Ake-Litmanen 2013). After having valued all the information the company gets rating and the loan can be granted (Keskuskauppakamari 2011).

A functioning relationship between a bank and a corporation is crucial when considering other financing possibilities where the securities are coming from another investment institution. To secure the loan, banks demand securities (Yrityksen rahoitusopas 1997). Banks are keen on taking properties since they can be easily sold and their value remains same. Additionally securities can be the business owner's personal wealth, which is pledged to the lender in case the borrower fails to meet its obligations (Joensuun Seudun Kehittämissyhtiö Oy, 2013). Start-up business owner usually needs to pledge his personal wealth for the company loan.

The annual growth of commercial loans to households (in blue) and to companies (in yellow) in percentages.

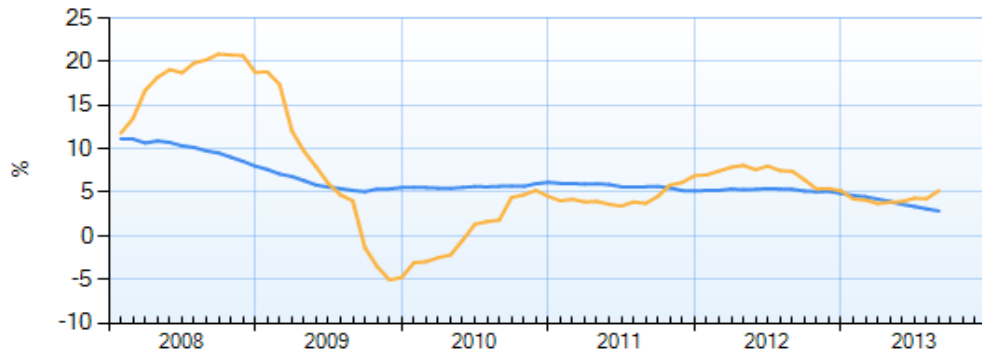


Figure 4. Annual growth of Finnish banks' loans to companies (Suomen Pankki 2013).

For more flexible credit, companies can use bank overdraft accounts, which are designed for sudden need of cash. When opening a bank overdraft account, an overdraft limit is set to suit the company's needs. The company pays limit provision for the whole limit and daily interest for the used credit (Sutinen & Viklund 2005).

3.2.1 Finance house

There is vast amount of finance houses operating in Finland – many of them are part of a larger banking group. Finance houses are a good option for start-up business since they have flexible credit policy and it does not heavily stress the company's turnover. A finance house operates in a way that it gives financing for a purchase and the purchase usually is considered a security. Finance houses offer financial instruments as leasing, hire-purchase financing and factoring (Finanssialan keskusliitto 2013).

There are two forms of leasing – operating and finance leases. In operating leasing the supplier makes a renting contract with the user and the user pays rent for the use of the machinery. Operating leasing is a good choice for a start-up company since it does not tie company's working capital and the paid rents

are tax deductible. In finance leasing a company pays in installments the machinery and the finance house gets the payments. The finance house is the owner of the machinery (Leppiniemi 2009).

Under a hire purchase contract the buyer receives the goods but is entitled to pay the whole selling price to the seller. The seller has the ownership of the goods until the whole selling price is paid. The buyer pays installments to the seller and if fails to do so, the seller is entitled to claim back the purchase.

Financing method	Leasing	Hire-purchase
Financing object	Equipment	Equipment
Security	Claim of financing	Claim of financing
Loan equity	No	No
Payment free month	No	No
Interest	Euribor+customer-based marginal	Euribor+customer-based marginal
Payback period	24-60 months	24-60 months
Self-financing rate	0-30% depending on customer	20-30% or trade-in
Installment plan	1 or 3 months	1 or 3 months
ELY-support	Max. 3 year	Receivable
Limitation	Must be bought from a store – needs to be insured	Must be bought from a store – needs to be insured
Flexibility	Flexible	Inflexible

Figure 5. Comparison between leasing and hire-purchase (Joensuun Seudun Kehittämisyhtiö Oy 2013).

“Factoring is a financial intermediary that purchases receivables from company” states Investopedia 2013. In theory a financing house buys goods in the favor of another company, which then pays back the bill with interests. Factoring is beneficial for start-up companies who have little working capital but needs to do bigger purchases with fast pace. However factoring may be more expensive than bank debt. The lender bears the risk that the debtor might not be able to pay back the loans (Reuvid 2007).

3.3 Public financing

Government policy for supporting companies has seen major changes during the past decades and the importance of operating aid for companies is now being realized since entrepreneurship is one of the basic factors for economic growth (Hyytinen & Rouvinen 2005). The public intervention has been noticed to be effective and almost one third of Finnish SMEs have received public financing. There are many institutions, which provide funding for companies, and their objectives may differ from one another. Additionally the funding can be dependent on the industry the company is working in (Hyytinen & Väänänen 2002) Here is a list of Finnish public funding resources which are later on examined in this paper. (Keksintösäätiö 2013)

- ELY-Keskus
- Tekes
- Vigo
- Finnvera

3.3.1 ELY-Centre

ELY-Centre is directly working under the Finnish government and their aim is to develop and support the entrepreneurship, well-being and regional viability in different regions of Finland. ELY-Centre has a strong role in Finnish society and it provides many services to companies – not only from financing point of view

but also in managerial, labor and innovational point of view. The services are more aimed to SMEs.

Funding from ELY-Centre cannot be taken for granted – every financing venture is carefully considered and there are prerequisites, which are demanded from a company. Before granting demanding, they conduct a research on the company's profile and its financing needs. Financing is granted for long-term project, which are considered to have an impact on the company's growth, technology, internationalization, productivity or business know-how (ELY-Centre 2013)

ELY-Centre has different methods of funding companies:

- Start-up money
 - When one decides to take on a venture, and is employed full-time by the venture, he can apply for this aid. This aid's intention is to guarantee the salary during business start-up phase and it can last maximum 18 months. Start-up money consists two parts – basic and additional aid. Basic aid is 32,46 and additional aid changes in situations. (TE-palvelut 2013)
- Development aid
 - Aid designed for intangible and tangible investments. Aid can be granted only 50% of the whole sum, for 24 months and it is granted as 'de minimis'-aid ("public aid, which is less than 200k€ and does not distort the competition" Rakennerahastot 2013). The investment aid must be applied before the project has begun and must be paid back.
- Preparation funding
 - Designed to support promising project's financing requirements during preparation process. Granted maximum of 70% of the project estimated expenses or max. 15.000,00€. Not granted if other public financing is involved and not for bigger companies.
- Energy aid

- Aid to promote investment and development project on environmental friendliness. The primary purpose of energy aid is to minimize financial risks of harnessing new technology and promotes the project's economical profitability. Over 5 million euros aid decisions and projects containing new technology are handled in Ministry of Employment and the Economy (Ministry of Employment and the Economy 2013).

3.3.2 Tekes

The Finnish Funding Agency for Technology and Innovation, Tekes, provides funding, know-how and networking possibilities for companies, research organizations and public service providers. The biggest group target is SMEs who are looking for international growth. Funding goes particularly to projects which benefits would not be fulfilled without Tekes funding. Especially interesting in Tekes's case makes the fact that there is a competition between companies and they need to convince their business idea to experts in order to get capital.

Tekes only finances a part of the expenses and the part is determined by the project characteristics. Tekes funding is either financial assistance or a loan. Financial assistance is usually 35-50% and the loan amount is top 70%. There are no securities needed in the loan. The loan is typically paid back after the project expenses but can be paid up front (Holopainen T. 2013; Tekes 2013).

There are 4 major types of investment target groups which Tekes supports (Tekes 2013):

- R&D
 - Funding is aimed to improve the R&D in a company and can be focused on product, service, production methods, business plan

and know-how. Funding is based on the attractiveness of the innovation – there are more chances to get funding if the innovation is groundbreaking. Additionally the growth of the firm can be a crucial factor. Financing can be both assistance and loan and the amount is determined by the project and the size of the company.

- Organizational development
 - To apply for this funding, company must be focused on improving the company's productivity, innovative thinking and learning. This is aimed for all kinds of companies and funding is mostly aimed for hiring external experts and the expenses of key personnel in the project. Support for the project can be at most 50%, however maximum of 100k (de minimis).
- International growth
 - This finance method is designed to help new companies to exploit new target markets abroad. An important prerequisite is the fact that company has the capacity to maintain international business. Small under 6 year old companies can get financial assistance of 75% of the whole expenses and a loan of 50k (de minimis). Additional 50k can be granted for a project if needed. If project comprises over 50% of R&D, financial assistance is only 50% of total expenses. Other growth companies, which aim for international markets, can get financial assistance of max. 50% of total expenses and a loan worth of 100k (de minimis).
- Young innovative businesses
 - Funding designed for comprehensive development of young innovative companies, promoting promising small companies growth and internationalization. Prerequisites are that company is under 6 years old, employing less than 50 people and turnover max. 1 million euros and organizational culture is innovative. Funding can be maximum million euros and is usually granted in

periods which demands commitment from the company to follow the stage model of growth set by Tekes.

3.3.3 Vigo

Vigo is a new player in the Finnish business-financing environment. At the beginning of year 2009 Ministry of Employment and the Economy started business accelerator program called Vigo. This program is coordinated by Tekes with the help of external consultant. The aim of this program is to gather professional business experts and their companies to coach start-up companies on the road of growth and make them more attractive for venture capital (Puttonen & Kähönen 2010).

Companies acting as an accelerator have experience on rapid growth and venture capital activity, established company, possibility to make investments and managerial experience. Vigo accelerator program offers know-how, networking, financing, credibility, risk sharing and quality. (Vigo 2013). Each company can take 10 target companies as client and accelerating happens in 2 years. The whole program lasts 3 +3 years and after three years the program is possible to end. Accelerator choose their own companies which they start to coach. Usually these are innovative corporations, which have potential for internationalization (Puttonen & Kähönen 2010, Vigo 2013).

At the beginning of the program, the company gathers with the help of the accelerator seed financing which can be public or private. The company can apply for funding from Tekes or Finnvera, which evaluates whether the company is worth funding. During the accelerator program, the company can achieve over 2 million euros worth of funding. Tikkanen (2013) writes that the financing cooperation between public and private sector should be reinforced which would naturally increase the activity in the private funding sector.

3.3.4 Finnvera

Finnvera is state-owned risk financier, which provides funding for starting up a business, growth, internationalization and exporting. Funding tools are loans, venture capital investments, guarantees, export credit, export guarantees and interest equalization services. Finnvera provides its funding instruments in collaboration with other funding providers. There are annually over 3000 start-up companies, which receive funding from Finnvera and the major part of the companies are SMEs (Finnvera 2013, Holopainen 2013 & Puustinen 2004).

Finnvera's range of financial tools varies from the situation of the company. Whether the company is starting or already thinking about expanding to global markets – Finnvera can offer a comprehensive selection of potential financial instruments for every growth stage of a company.

Start-up business	Development and growth	Internationalization	Export
- Microloans and guarantees - Venture capital investments	- Loans - Guarantees	- Loans - Guarantees - Venture capital investments - Export credit and export guarantees	- Export credit guarantees - Export credit financing - Interest equalization services

Figure 6. Finnvera funding in different stages of company growth (Finnvera Online Annual Report 2012).

Loans

- Entrepreneur loan
 - Loan is an entrepreneur's personal loan and it can be granted for company's owner or stakeholder. The maximum loan is 100k and

it demand self-financing share of 20%. An entrepreneur loan can be used to increase share capital of a limited company, finance investments in a partnership or a limited of partnership and to buy shares of a prominent enterprise.

- Microloan
 - Finance is designed for investments in machinery and equipment purchases, for working capital, expansion and development projects. Microloan can be given in small amounts and the maximum amount of loan is 35k. Loan period is 5 years tops and interest rate is 6 month Euribor and a margin. Prerequisites are that the company employs maximum of 5 personnel and there are industry restrictions.
- Internationalization loan
 - Loan aimed to fund abroad business operations. The main purpose of loan aims to support production, assembly, maintenance and service of subsidiary company. The loan can be also used to gain holdings or increase capital in a subsidiary. Maximum loan time is 10 years and the interest is 6 month Euribor and a margin. Security fee is annually charged and securities are case-sensitive. When granting financial aid, Finnvera considers the risks of the chosen country and the industry. Internationalization loan is for companies employing fewer than 250 people and which have turnover less than 50million euros.
- Investment and Working capital loan
 - A financial tool to support capital resources and working capital. Almost every business is eligible for this funding regardless of few expectations. During years 2007-2013 European Regional Development Fund provides interest support for the loan. Loan is aimed for companies employing less than 250 employees and turnover less than 50 million euros. Loan is only a part of a bigger investment loan and the loan period is usually 3-15 years. Interest

can be fixed or composed to a reference rate and guarantees are negotiable.

Guarantees

Finnvera provides absolute collateral for companies so that they can receive credit from lenders. The state of Finland is responsible for Finnvera's guarantees. There are 6 types of guarantees with each one designed for a specific purpose or for a specific industry (Finnvera 2013).

	Targeted for	Guarantees portion of loan	Guarantee fee	Guarantee period
Ship guarantee	Maritime industry	Case sensitive	Case sensitive	Case sensitive
Finnvera guarantee	Especially SMEs	Normally 50%	Annual fee	Case sensitive
Internationalization guarantee	SMEs' subsidiary abroad	-	Annual fee	Maximum 10 years
Micro guarantee	SMEs	Maximum 60%	1,75 per annum	-
Export guarantee	Exporting companies	Maximum 80%	Annual fee	-
Environmental guarantee	Funding of environmental projects	80%	Annual fee	Maximum 10 years

Figure 7. Guarantees provided by Finnvera (Finnvera 2013).

Export credit guarantees

These guarantees are created to protect the buyer or the borrower from commercial and political risks. Commercial risk can occur when trading partner cannot fulfill its duties or breaches the contract. Political risks are monetary policy; sudden changes in export and import laws or wars (Nordea 2013).

To minimize the risks Finnvera has a variety of safety methods to protect companies from uneventful risks.

- Credit risk guarantee protects the exporter from credit losses in export trade
- Export receivables guarantee is designed to shield the exporter in short-term exports
- Buyer credit guarantee is a security for the lender against credit losses
- Letter of Credit guarantee protects banks' from commercial and political risks
- Bank risk guarantee secures a domestic importer's bank from commercial and political risk caused by buyer's bank.
- Investment guarantee insures a Finnish investor from a foreign investment's political risks.
- Bond guarantee is insurance for the exporter and for the bank (bond-issuer).
- Finance guarantee guards lender from risks involving the payback of credit.
- Raw material guarantee is an import credit used in importation of raw materials (Finnvera 2013).

3.4 Venture capital

Financial capital, which is aimed for high risk growth firms. The capital invested in the company is originally from a financial institution, which pools investments, or from wealthy individuals operating alone or in a group and this capital does

not require guarantees. As venture capitalists invest, they usually receive a share of the company and are part of the venture. They do not only bring money into the company but also share their business knowledge and entrepreneurial skills. Venture capital investors share the same risk with the entrepreneur and hence are very involved in the business. They expect high profit on their investment.

Finnish venture capital (VC) activity has increased rapidly since the 90's (FCVA 2013). Although the current economical situation is very risky, a total of 467€ million were raised into venture capitalist corporations' funds during year 2012 and they made 339 investments worth of 486€ million. A study made by Alén (2012) shows that venture capital has huge benefits on companies.

- Growth companies experienced a massive change in revenue from 1,2€ millions to 2,8€ millions, amount of employees almost doubled and balance grew 4% faster on average.
- VC increased the internationalization of target companies in terms of increased export and foreign board members.
- Companies, which received VC, have board members who have more experience on management.

However the author of this study still questions these results due to the lack of previous researches on Finnish VC impacts on the market.

Finland has experienced a rapid growth in venture capital providers. Many private institutions have started to invest in growth companies such as insurance companies, banks and investment banks. In this study are two public venture capital investors introduced – Sitra and Vera.

3.4.1 Sitra

The Finnish Innovation Fund, Sitra, is publicly owned fund, which promotes Finland's stable development, economical growth and competitiveness. Sitra's main mission is to maintain natural sustainability while obtaining growth in economy. At first Sitra was designed to follow a certain program but during the past years Sitra has replaced the program with a vision which is reflected in the projects funded by Sitra (Sitra 2013).

Main strategic visions are:

1. Encouragement of taking care of each other's well being
2. Creating prerequisites for a sustainable society by affecting life choices and the use natural resources
3. Promotion of environmental, social and healthy (Sitra 2013).

Sitra makes market-based investments and through investments the organization gains profit and also spreads its social impact. Current investments are based on the strategic visions. When selecting a company to invest, Sitra evaluates the management competencies, competitive technology/service/product and the profits. The first investment is about 300.000-1.000.000 euros and its aim is to gain 10-30% of ownership.

Investments are mainly made in corporate stocks but also in convertible bonds. In special cases Sitra grants loans. The investments are made for long time and during that time Sitra acts as an active owner of the company. The investments can be considered socially responsible and the exit from the company is made with careful consideration. Sitra does not grant subsidies to companies.

Sitra's funding methods consists of fund investment, company funding and project funding.

- Fund investment

- Investments are made in both domestic and foreign funds. With the help of fund investments Sitra looks for new operational models and examples, which promote Finland and are linked to Sitra's strategic visions. In 2012 fund investments were worth of over half million euros.
- Project funding
 - Funding for researches, experiments and strategic process, which are linked to Sitra's visions.
- Corporate funding
 - Sitra makes direct investments in growth companies, which promote and respect Sitra's strategic visions.

3.4.2 Vera

Finnvera's venture capital investment company, Vera promotes SME's growth through investments in funds and through the development of their operations. Vera operates under Finnvera and the Ministry of Trade and Industry's goals, which are promoting growth in different region of Finland. The operating model of Vera is a bit different – it acts as a fund of funds, which means that it makes investments in regional funds.

The investments are not expected to generate massive profits but to maintain at least its real value. Funding works as complementary and the target group is early-staged technology or innovative service companies, which have possibilities to go abroad. (Finnvera 2013, Luukkonen T. 2006)

3.5 Initial public offering

At the growth stage initial public offering (IPO) offers a company the possibility to raise money in markets by placing their stocks to open exchange. By going public a company exposes itself to the market; whether it is positive or negative is up to the markets. Listing can be a way of making the company more recognizable and world-renowned. There are many factors, which a company

needs to consider when listing. The current economic and operating industry's situation must be carefully evaluated so that the IPO is successful (PWC 2003).

However, every company cannot list in to the stock market. There are requirements, which need to be met so that the listing can proceed (Espinasse 2011).

	Blue chip-companies	Medium-sized companies	Growth companies
Stock	Requisites for a proper price development. Demand and supply meets.	Requisites for a proper price development. Demand and supply meets.	Requisites for a proper price development. Demand and supply meets.
Ownership	Public owns at least 25% of shares and 10% of the whole voting amount. 500 owners have at least a lot unit.	Public owns at least 15% of listed shares.	Public owns at least 10-15% of listed shares and a plan of expansion in 3 years.
Share capital and own equity	Share capital 2€ million and own equity 4€ million	-	-
Market value	35€ millions	4€ million	2€ million
Financial status	Proper profitability, solvency and dividend payment	Proper profitability, liquidity coverage ratio	Proper profitability and estimation on future growth

Operating history during listing time	At least 3 checked financial statements	At least 2 checked financial statements	At least 1 checked financial statement. If operating history less than 2 years, listing through share issue. If less than 3 years, bigger owners' lock-up.
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Figure 8. List of prerequisites for listing (PWC 2003).

As mentioned earlier, timing is everything for an IPO. Market conditions should be evaluated before listing, since going public at the wrong time can distort the selling price and the company may be forced to sell its stock at lower price than desired. The company's performance is a crucial factor for many investors – a poor performing company may be regarded as an undesirable investment. The company's industry affects the listing since if the industry in which the listing company operates is performing poorly investors may avoid investing due to higher risks.

By going public the company is exposed to unlimited capital markets and gives the company media exposure (Taulli 2013). The company can increase its equity by offering different share capital to increase the capital base. In addition a good performing company's market value exceeds its book value, which increases the wealth of the owners.

The negative side on listing is that it costs due to the legislation issues. The constant demand from shareholders stresses the company's board to make better performance and the company is under heavy pressure to perform profitably. Additionally there is the possibility that the company will experience a take-over due to open trade of shares. Acquisitions and mergers are the potential risks that might happen after having listed a company but these can work the other way around as well. Strategic coalitions are usually born through acquisitions and mergers (De Micco 2012).

3.6 Bonds

“A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate” (Investopedia 2013). There are different kinds of bonds issued but the main principle stays the same. During the maturity stage companies usually issue bonds to gain bigger amount of capital from the public. Technically a bond and a commercial loan can be seen as complementary but their characteristics differ them from one another (Europaeus 2013).

Bonds are internationally considered to be an easy method to raise long-term capital. However in Finnish corporate environment bond issuance is considered to be difficult and expensive (Europaeus 2013). Corporate bonds have lower interest rate than bank loans and they are open for every investor internationally. Additionally the interest which company pays to its debt holders is tax-deductible (Claessens & Laeven 2006, Arnold 2008).

During year 2012, Finnish corporate section issued bonds worth of 9,8€ billion. This significant rise was caused by the higher costs of commercial loans (Bank of Finland, 2013).

4 RESEARCH DESIGN

The goal of this research is to gain more comprehensive understanding of a company's external financing situations and reflect it to the current situation in economy. The evaluation of existent data is extremely important since the information must be up-to-date. The analytical and descriptive frameworks are chosen to use in this study so that the situation can be understood and what are factors for that situation (Kothari 2004).

Research strategy includes collecting information from various public and private institutions. The statistics are observed in view of theory and conclusions are made with the help of theory. The information is mostly based on articles and websites.

To bring a more detailed and existing real life information, four case studies are presented in this study and their results. The companies are anonymous in this study. The selected companies were based on their industry nature – two of the

companies are highly involved in technological innovation which require massive amount of know-how. One of the companies provides basic services and the last one offers innovative machinery solutions. The reason for selecting companies in different branches is to get more information on different external financing choices that the company undergoes.

4.1 Research methods and analysis

According to Burns and Burns (2008) the use of both quantitative and qualitative methods can bring advantages to a study since they complement each other in the form of knowledge. Hence this study is using both methods so that the output of this study can be as comprehensive as possible.

The quantitative information of this study is in the form of statistics, which additionally show the historical changes. The credibility of the information must be taken into account since the statistics do not cover up all the contributors and there can be exceptions.

The qualitative data will be gathered from books, articles and interviews from media articles. Due to the demand of up-to-date information, the amount of this information is limited which causes naturally distortion in the data. Burns and Burns (2008) also state that it can be rather hard to apply scientific principles into a different context although they provide complex understanding. In addition the qualitative data is gathered by semi-structured interviews. The usage of semi-structured was chosen to be used due to its open nature; the interview style has more flexibility but still follows a certain pattern. Thus the interviewee has the opportunity to share own experiences more verbally, which would not be possible if the interview would be completely structured (King & Horrocks 2010).

Before conducting the interviews, economical and operational information was gathered from the companies. The interviews were held in an office and were recorded for later hearing. Two of the interviewees are the founder's of the

company and the rest are controllers of the company. The interviews were semi structured and the interviewees had the opportunity to give broader views on the company. The interviews lasted 15-20minutes.

The interviews were directly transcribed to text. However the transcription process used a selective method which was valuable since the gathered information was extremely vast. The information was summarized so that it could be more easily interpreted. The biggest drawback during the transcription process was to understand the jargon of the speaker as in some cases the English terms caused a bit of confusion although the interviews were conducted in Finnish.

4.2 Credibility and validity of research findings

The research findings on the more current trends of external financing can be debated since there is no current quantitative data to give more credibility to the research. However they provide a decent guideline for providing a solution for the research problem and they match with the theoretic part. The research findings based on articles can be questioned since a part of them are based on estimations and the authors' own perspective view on issues can have an affect on the outcome. In addition the shortage of information regarding Finnish external financing environment can be seen as a drawback for the study.

The four different case studies and the up-to-date information give an insight into the whole funding during business life cycle at the moment. The respondent group was chosen due to their different industry in which they operate and hence the results give variations on the business life and external funding. The results received from case studies implicit that the results couldn't be generalized to each company. Additionally interviewing a big company, which has used many external financing instruments, could have strengthened the credibility of this research.

The case studies presented side by side with the latest information give more credibility to the research. Additionally the information was more focused on the

Finnish business environment. The research results can be interpreted to be reliable in their own context but the results cannot be generalized.

5 RESEARCH RESULTS

5.1 Business angels

Business angels have not been noted appropriately in the Finnish financing environment and precise information on their actions has not been reported until the FiBAN was founded 2011. However the importance of angel funding has been understood and Tikkanen (2013) writes that the changing Finnish business environment will bring more angel funding to the market. FiBAN and Finnvera conducted a study on business angels and their activities during 2013, which gave an insight into the business. The amount of angel funding was higher than expected and business angels are more increasingly joining their forces when making business investments (FiBAN 2013).

The significant impact of growth companies had been comprehended when Finnish external funding situation was criticized by Jungner, Männistö and Siilasmaa (2011). A public intervention, which would promote private investments, would be needed so that growth companies could receive financing with ease. Consequently government proposed an incentive for investors, which would promote angel funding for start-up companies.

The tax incentive would naturally be rewarding for start-up companies. As the hindrances for investments in start-up companies are lowered, start-up companies are far more likely to receive funding from private investors. The cheapness of angel funding is an extremely important factor for many firms and as Lamppi (2013) states that although the investments are not made in billions, the small amount has contributed to growth of many start-up companies. Ahosniemi (2013) also stresses the importance of private investors in funding, as the bank loans are increasingly hard to get during these times.

Additionally the business angels' know-how can have a bigger meaning for the entrepreneur. Vilenius (2012) writes that other entrepreneurs value the know-how of a business angel while others consider capital to be more important. However Vilenius states that based on her research any conclusions cannot be made but the different point of views create understanding between business angels and entrepreneurs.

5.2 Banks and finance houses

Bank loans are traditionally contributing to the major part of business financing. A recent questionnaire indicates that over 60% of all companies consider bank loans the most important source of financing although the margin of new loans have experienced a sudden rise due to the bank capital requirements (Rahoituskysely 2012). However the amount of loans to companies have risen constantly after year 2009.

Although Finnish entrepreneurs receive credit with smaller costs than their counterparts in other parts of Europe, the credit policy of banks have new features that demand even better performances from companies. Although big companies receive loans with ease, SMEs are finding it difficult to access the loan markets (Vänskä 2013). During 2009 over 80% of all loans for SMEs were granted while during 2011 less than 80% were accepted (Isotalus 2013).

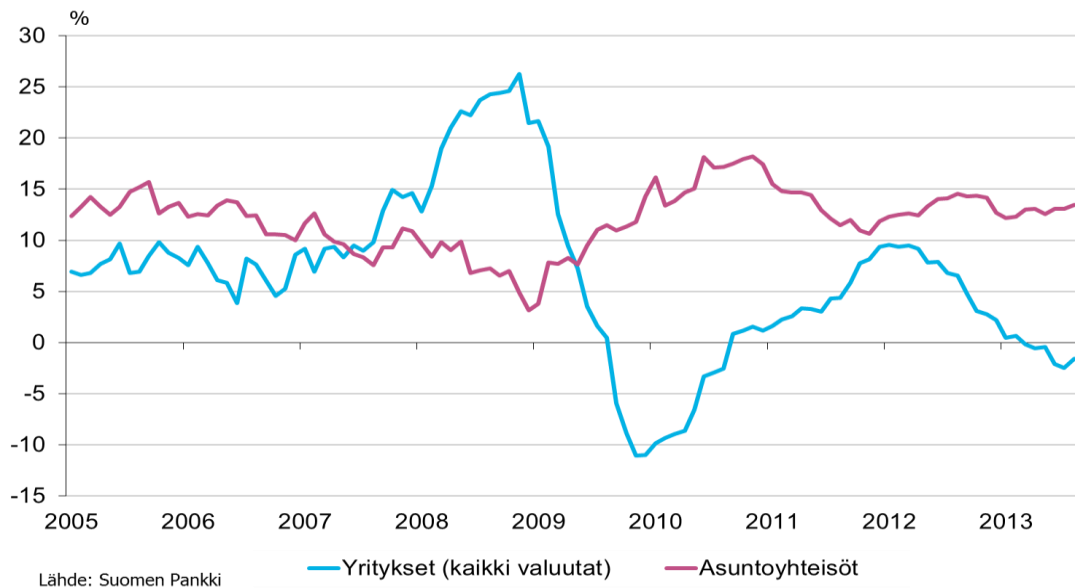


Figure 9. Annual growth of corporate loans granted by Finnish Banks in blue (Bank of Finland 2013).

Finnish SMEs are traditionally more dependent on bank loans and due to rigorous loan terms and decreased payment period; SMEs are put in to a situation where the external financing must be looked from other sources. To bring a relief to the situation The European Union has proposed that governments should provide guarantees for SMEs. With this intervention SME's in Europe could receive loans worth of 55 million euros (Hartikainen 2013). Laakso (2013) writes that bank in Finland are demanding unbearable securities from entrepreneurs. To resolve this situation entrepreneurs consider the idea of setting up own bank.

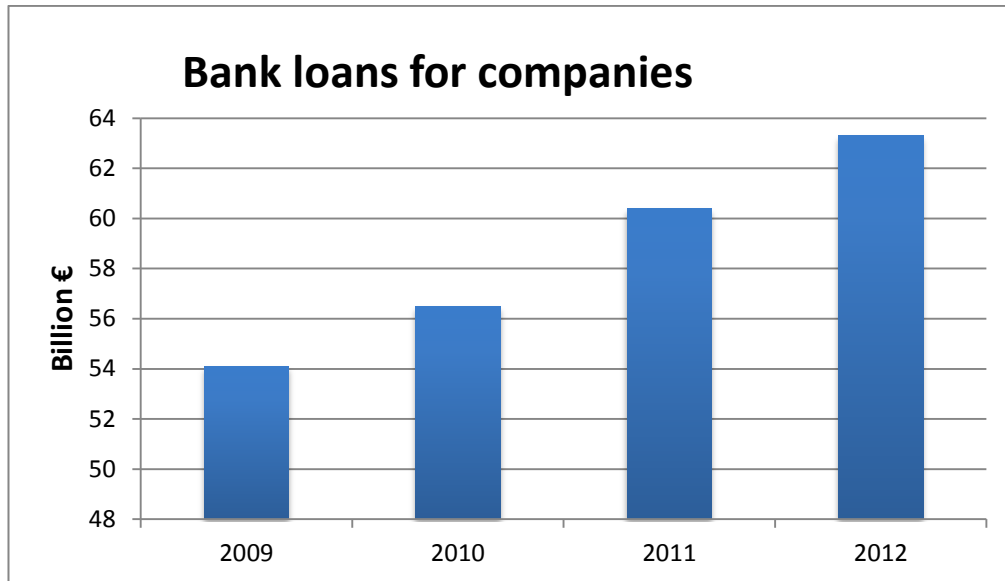


Figure 10. Bank loans for companies 2009-2012 (Finanssialan keskusliitto 2013).

There is not a sight of a better future for entrepreneurs dependent on bank loans until the European bank sector weaknesses are fixed (Hartikainen 2013). Currently the bank sector is undergoing a change in which it guards its own capital and avoiding risks. Entrepreneurs in Finland are now pushed to resorting to other external financing sources. This means that start-up companies must look funding from business angels and public institutions.

5.3 Public financing

As the commercial loans are increasingly hard to get, entrepreneurs are looking for funding from public institutions. However the public institutions provide funding that is usually aimed for R&D, export and other means. This funding is also limited and not every company gets it due to the applied conditions. Therefore there has been proposed that Finnvera would provide guarantees for SMEs loans in order to improve the funding situation of SMEs (Taloussanommat 2013). This change in funding market would definitely improve SMEs funding situation.

Additionally The Finnish government proposes a new investment tool for Finnvera, which would provide funding for SMEs. If the proposal were accepted, Finnvera would be able to invest in SMEs' bonds (Metsämäki 2013, Taloussanomat 2013). Finnvera's export guarantees have maintained its popularity and companies use them to protect from export risks. Finnvera funding has maintained its stable level during the crisis as the figure below indicates.

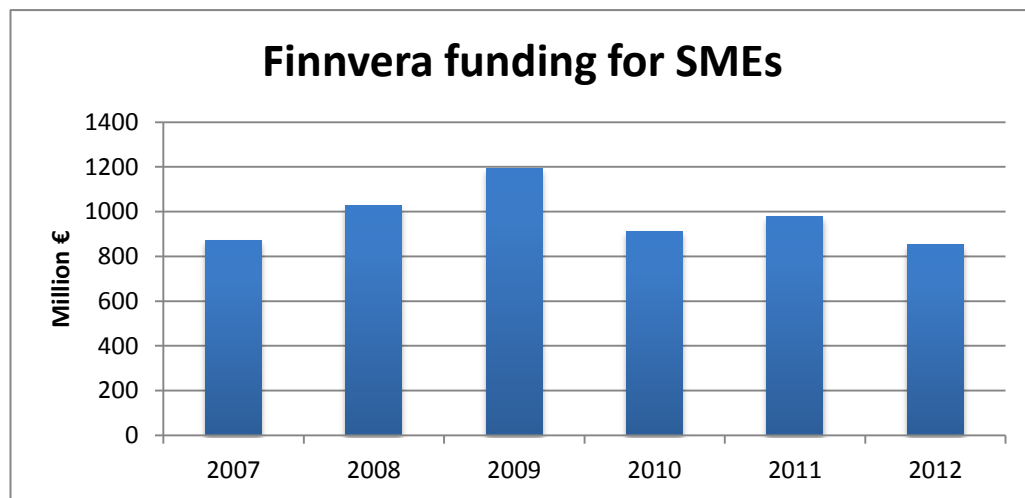


Figure 11. Finnvera funding for SMEs 2007-2012 (Finnvera 2013).

Another important relief for SMEs' funding situations has been proposed by Tekes. The European Union project called Horizon 2020 is a funding program aimed for R&D and innovative projects. The project's red tape has been reduced so that SMEs can apply for that funding without being tangled into red tape (Isotalus 2013). The funding from Tekes has witnessed a decline during this recession but it cannot be said to be significant.

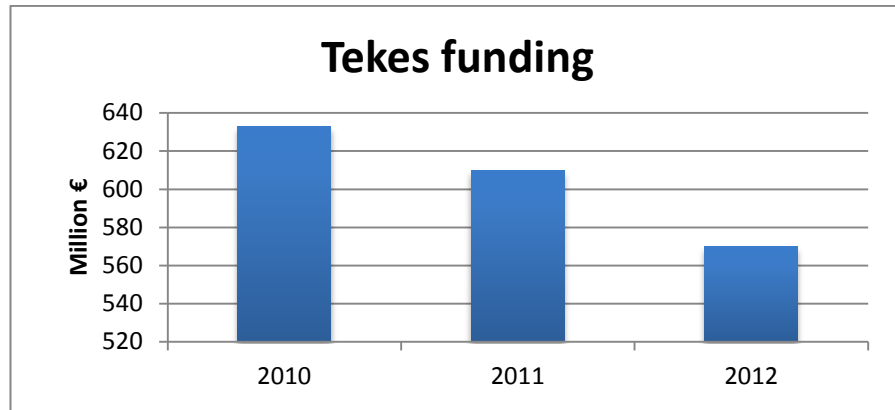


Figure 12. Total funding amount of Tekes 2010-2013 (Tekes 2013).

What comes to big companies in Finland, they are eligible for funding from public institutions but they are more cautious with their innovation projects. Bigger companies are more hesitant to participate in projects with external parties and do not take risks with their innovation projects (Mykkänen 2013).

5.4 Venture capital

Finnish venture capital market has experienced a downturn during this current economic crisis and venture capital markets have slowed down. Finnish government has identified this situation and now it has proposed two changes to public venture capital investors. Finnvera will gradually lose its venture capital investments, as Tekes will take the lead on VC investments. Tekes' investments will be allocated through funds that invest in growth companies. Additionally another public investor starts a growth fund of funds with other institutions. It is expected that in 10 years these two major changes will be able to gather one billion euros in their funds (Hirvelä 2013).

The use of funds when allocating money to growth companies is beneficial for investors and companies. When risks are gathered in different baskets, investors are not afraid of losing all capital and SMEs are more likely to gain capital for their growth. In addition the governmental involvement brings credibility for private investors.

Private institutional investors have taken up the challenge of funding growth companies. Especially private pension funds have seen the crisis of corporate funding and are now offering funding for SMEs. However risk funding is not typical for pension funds and they can be considered to be more cautious in their investments decisions (Herrala 2013).

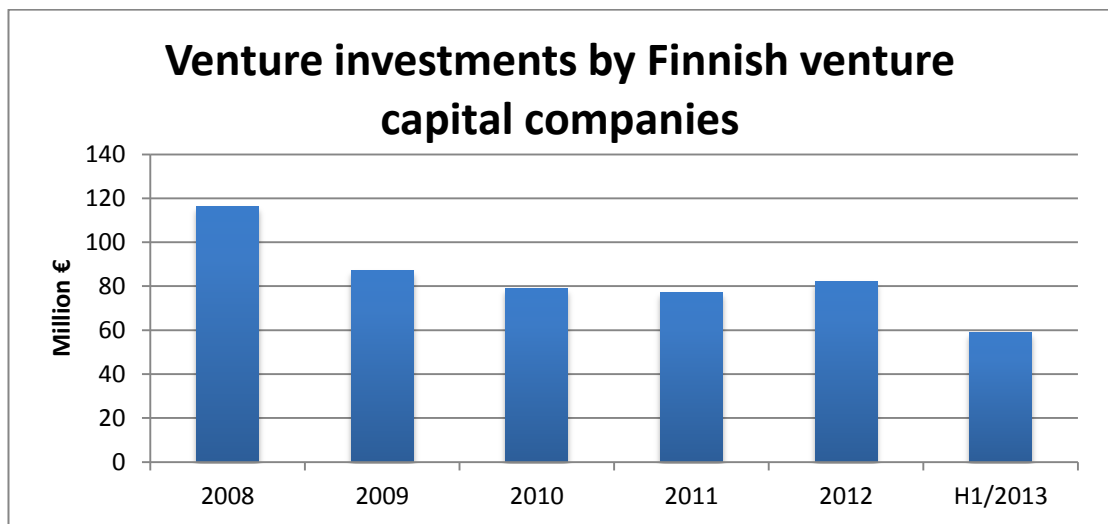


Figure 13. Venture investments by Finnish venture capital companies (Talouselämä 2013).

The newest program, Vigo, has managed to obtain 80 million euros of private venture capital during year 2012 and the program is continued with another three-year period. The aim for the second phase is to strengthen the public-private relationship and increase the private investors' activity (Tikkanen 2013). Consequently the whole program has received positive reviews and has managed to channel a great amount of venture capital to innovative corporations (Vanhanen 2013).

Vigo has many potential for entrepreneurs due to its characteristics. Growth companies receive funding without guarantees and they can take advantage of the accelerator's know-how. Additionally the accelerator can give an insight into international markets.

5.5 IPO

Nasdaq OMX Helsinki where Finnish companies are usually listed but currently there is no rush in the market. Finnish companies consider listing expensive and troublesome due the obligations after listing, although an IPO brings visibility for the company and opens the company for bigger crowd of investors (Mustonen 2013). However in the light of current tax changes, listings are highly doubted since the new tax law raises the normal shareholder's taxation.

As the typical listing is considered to be a difficult and expensive procedure, Finnish companies have looked for another way to be traded public. First North Finland market is aimed for growth companies and the conditions for listing are not strict. This market brings an excellent value for growth companies so that they can acquire new capital for business from a larger crowd (Eräniemi 2012).

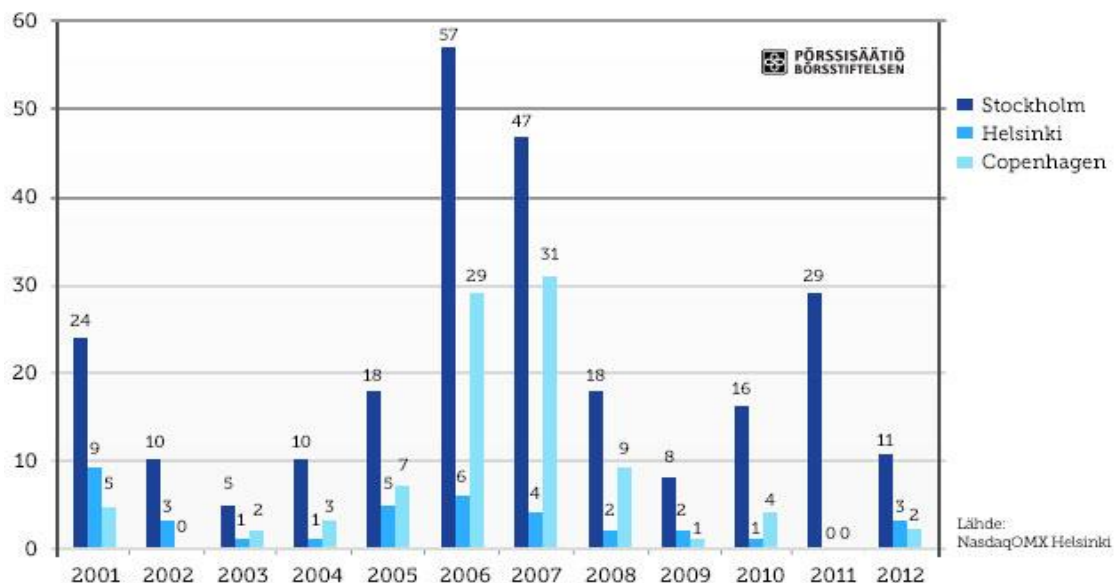


Figure 14. Listing in OMX Nordic between 2001-2012 (Pörssisäätiö 2013).

The current atmosphere for listings in Finland is not quite suitable as the Helsinki Stock Exchange is considered to be dull and unattractive. Additionally growth companies tend to go public after having reached maturity growth in which the company's turnover has reached a point where it is cost-effective to be listed.

5.6 Bonds

As the commercial loans fail to attract companies, bond market is expected to bring aid for the toughening funding situation. Although Finnish bond market is usually dominated by larger companies, the revolution in the bond market might be happening in just few years. The current trend in Europe indicates that bond markets will increase its significance amongst all company sizes (Broström 2013).

However there is one drawback which limits SMEs' desire to enter bond markets – credit rating. Rating is mainly done by a professional credit rating agency, which naturally costs money and is laborious for SMEs (Hirvelä 2013). After having entered the bond market, it is usually not enough that they have an established credit rating, as the investors need more securities for their investments. Consequently the Finnish government plans to expand Finnvera's operations to cover up also bond market. Finnvera would have the possibility to provide securities for the bonds and invest in bonds. The intervention would attract and reassure investors (Hertsi 2013).

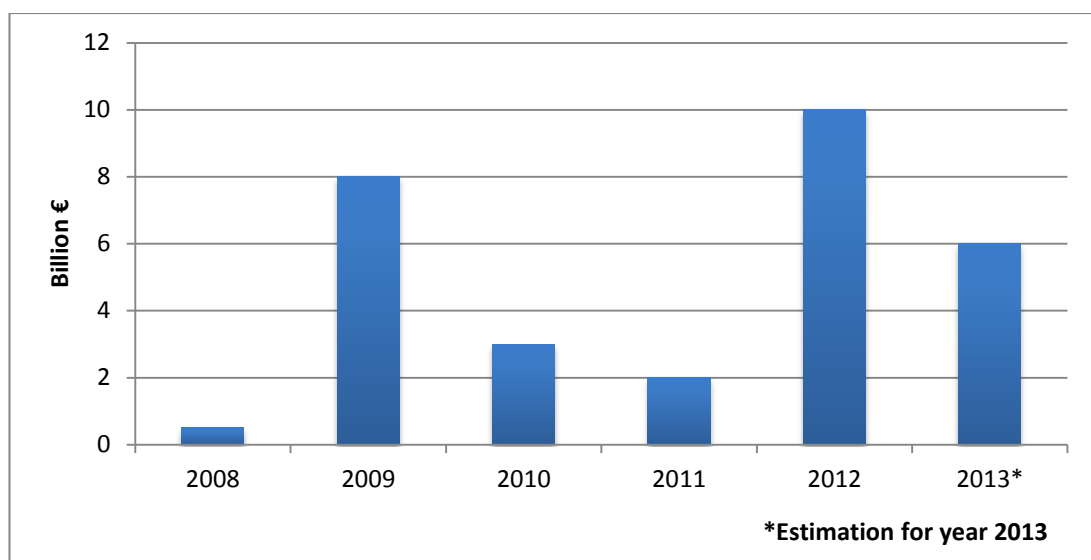


Figure 15. Corporate bonds issued in Finland 2008-2013 (Kauppalehti 2013).

The bond market is expected to start flourishing as investors find their ways to the market. The Finnish bond investors have been mostly big pension funds but now there are other investors active in the market. Finnish companies can really take advantage of this new bond market, as there is a great amount of free venture capital on the markets.

6 CASE STUDIES

Company A

This technology company was founded 1970's and is now specialized in developing and manufacturing electronic equipment aimed for design and production. The company was merged with another company at the beginning of 21st century and after two years of the merger the company was acquired back by its employees in a management buyout. The manufactured equipment is designed for healthcare, industrial systems and information technology. These products are exported to over 50 countries. The company's turnover is about 4 million euros and has over 30 employees. The company is highly innovative and cooperates with other innovative businesses. The focus in this interview is to shed light on the years after the management buyout.

Although the company was already established it had to work its funding from scratch. The company can be considered a growth business at this time. The management had a really good starting point for the launching of the company, as they were former employees of the company. The growth has been natural and the company has looked for ways of expanding by acting as an accelerator for another company. Through this cooperation the company wishes to launch new innovations.

The first financing method for the business happened at the buyout. Three of the board members had to take bank loan for the buyout. The board members

were personally responsible for the loan but they had also Finnvera's guarantee for this loan. The first funding was organized well and swiftly and it has been the most significant funding source for the company. During the year of buyout the company also used services from finance houses and has bought small equipment with leasing contract. The use of leasing was considered to be easy and the machinery acted as the guarantee.

The company has received Finnvera's guarantee for a big domestic deal. The guarantee was applied in order to maintain a proper working capital for a short period. The process was easy and quick for the company. The company was involved in a group project that is funded by Tekes. The funding was for organizational development and with this funding the company wishes to make strategic change in its organization. There were also schools involved in this project and the results were documented from Tekes.

The company A acts currently as an accelerator for the company B. Company A received funding from Ely-Centre, which was aimed to fund a promising project. The funding was a part of the accelerator program with company B.

The company has had discussions with pension funds but they refused to fund due to the high risks. Other venture capital investments haven't been done in the company and they were not interested in venture capital. IPO and bonds are not considerable options at this point of the business. Although the company is an innovative company business angel funding was completely turned down and not even considered as an option.

Overall the funding has been a success and the needed funding has always been granted. The biggest funding program has been the commercial loan for the management buyout and all other funding has had a minor significance. In the future the company is aiming to finance their new investments with own capital and considers funding case by case.

Company B

The company was founded in 2012 to develop and market innovative devices regarding the human visual system. The company operates in synergy with the company A. There are currently 3 employees in the company and it is heavily reliant on innovative ideas. The company is still in the start-up phase as it is looking for ways to expand. The business has received help from its accelerator, which has contributed to growth. The human visual system innovation has been marketed in Finland and the company is aspiring to look for growth from other countries.

The financing began with business angel funding. There are business angels who have invested in the company and the company considers this start-up funding to be vital for the company. However, the business angels act as 'silent partners' in the company. They have not been involved with the business management or brought any know-how to the company. There are no conditions regarding the angel funding.

As they operate as part of an accelerating program, they have been exploiting the know-how of the accelerator (Company A). However, they have not received any venture capital from this company but the program has been considered to be very useful. To implement the innovation, Company B has applied for an R&D loan from Tekes and received it. However, the business thinks that the reporting and instructions regarding the loan program could be clearer and more elaborate.

ELY-centre has not provided any financial aid for the company but the members of the board have been attending the educations provided by ELY-centre.

For the future the company has considered many options for funding – venture capital investors, Finnvera and bonds. Pension funds were considered to be a major source of financing since they have a great amount of wealth. In addition, the company is also marketing its innovation at different networking events in order to raise venture capital. Consequently, networking is regarded as beneficial for the company. To reach the international markets, the company thinks that it will resort to Finnvera's funding program. The potential renovation of bond

market in Finland is also noted and the possibility of funding through bonds is a positive issue. Stock market listing is not considered as a way of financing at this point.

Company B thinks that the funding has gone well so far and due to the start-up stage of the firm, future funding decisions will be even more important in order to increase the growth. The business is currently looking for a bigger funding aid with open minds.

Company C

Company C offers taxi and bus service in the region of Turku. The company was founded 2007 and then has expanded constantly. The growth has happened gradually and was easy to control. The start-up phase was the toughest part but as time passed on the growth started to occur. In Finnish business environment the company can be considered to reach its maturity level.

The company was established with a commercial bank loan. The bank needed the entrepreneur's personal guarantee and a real-estate guarantee. The bank loan's was due in three years. The loan was rapidly organized. Additionally the company has applied for other loans during its growth so that it can afford to buy new vehicles. The loans have had characteristics of consumption credit and the entrepreneur personally is responsible for the loans with own guarantees.

2008 Company C applied for a Finnvera's microloan to cover up the costs of new investments during growth phase. The entrepreneur considered this loan to be extremely expensive as there were no chances of paying the whole in advance and the purchased vehicle acted as a security. The reporting was considered to be a troublesome process and the company does not want resort to Finnvera's service.

The latest funding was organized through a finance house as investment funding. The finance house demanded that the bought vehicle and the

entrepreneur would act as guarantees. The finance was easily organized with bank's own finance house.

The entrepreneur had noticed that his bank has stricter terms for credit as before. This has led to seek of other financing methods but has not yet generated any results. The possibility of getting finance from bond market had been noticed but due to the smallness of the company, it is not currently thought as a way of financing. IPO is not an option for the company.

The funding has gone well during the years but as the firm grows, the lender has been stricter due to the bigger risks as the loan amounts have risen. The biggest issue for the company is to maintain its expenses on investments relatively low since the equipment is being replaced or fixed between four years.

Company D

The company was founded 1997 and is a family business. The company delivers high-tech automatic storage and sorting systems for the use of manufacturing industry. Currently the company employs less than 10 employees. All the equipment are designed and manufactured in the company. The company distributes its equipment mainly in Finland but wishes to expand internationally.

The growth of the company has not happened without difficulties. After having launched, the entrepreneur identified that their innovation environment was difficult to handle. The innovation management needed to be controlled but at the same time other management needed attention as well. Therefore the management tasks were divided so that innovation management was appointed for one manager and the other administrative management was divided to other managers.

After the start-up phase the company has experienced a constant growth and reached its maturity. The business has had a steady growth during those times but when the current economical situation hit Finland, there was a time for

change and revamp of the company. The company changed its strategy three years ago and the entrepreneur said that the company has experienced a new, bigger growth.

The company started with a bank loan which was during that time easy to get and effortless. The bank needed personal guarantee from the entrepreneur and real estate as well. After the bank loan the company has operated with its own capital. Additionally the company received R&D loan from Tekes, which was guaranteed by a business mortgage. Tekes was considered to be an easy partner to work with and the reporting was not troublesome to maintain.

During the time for a strategic change, the company applied for a new bank loan, which was guaranteed by Finnvera. The Finnvera guarantee was easy to get and it was a convenient way of receiving a guarantee for a loan. Finnvera guarantee was over 50% of the loan sum and it was considered as de minimis.

For the future the company is planning to apply for internationalization aid from Ely-centre. With the help of Ely-centre financial aid the company could hire a new consultant, which would promote the company internationally and make market research for the company. The consultant has been already picked up for the project and he is wished to continue working in the company.

Venture capital and angel funding are considered to be a positive external financing tool for the company and especially the increase in working capital would be great. Additionally the possibility of gaining new contacts through venture capital investments was mentioned as a positive side of venture capital. IPO is not suitable for the company and bond market was cited to be bureaucratic. Overall the funding for the company had gone as planned.

6.1 Cross-case comparison

To combine the theory part with the empirical part, the figures below gives more concrete comparison between the theory and the case studies regarding the external funding during a company's life cycle. To begin the comparison, firstly is introduced the main life cycle theory.

	Start-up	Growth	Maturity
Author's research	Business angel Banks Public financing	Venture capital IPO	Bonds

	Start-up	Growth	Maturity
Company A	Bank	Public Financing Bank	-

	Start-up	Growth	Maturity
Company B	Business angel Venture capital Public financing	-	-

	Start-up	Growth	Maturity
Company C	Bank Public financing	Bank	-

	Start-up	Growth	Maturity
Company D	Bank Public financing	-	Bank Public financing

Figure 16. Cross-case comparison.

Firstly it can be stated that bonds and IPO have not acted as a tool of external financing in the case companies. In this case study it can be identified that none of these companies do not fulfill the criteria for listing. The companies are relatively small and their turnover is small. However although one of the companies has reached its maturity phase, it has not considered even listing due to the smallness of the company. In this case study it can be estimated that

entrepreneurs consider stock market to be a distant matter in their business. Bonds have not been either used amongst the case companies and the reason for not using bonds as an external financing tools can derive from the fact that it is difficult to issue and costly. Additionally the bond market is unfamiliar for many Finnish entrepreneurs.

With these results it can be stated that the case study companies do not fulfill the criteria what is expected from a company issuing bonds or listing to a stock market. But for some of the companies, the idea of bond market seemed to be lucrative and viable option for the future. However the bank dependency may hinder this change, as the bank loan is rather easy to get due to established customer relationship. The loan from bank is easily to control while issuing bond needs a tremendous amount of work and time.

Secondly business angel funding played a major role in company B's funding while on the other hand, company A turned down the idea of angel funding. Company D finds that business angel funding would be an interesting source of funding. The common factor for all A, B and D company is that they operate in an innovative industry. The total refusal of angel funding in the case of company A originates from the company's history – the company has been merged with another company already and then through buyout required back to its previous owners. Consequently the new management is completely against angel funding since they want to maintain the controls of the company to themselves.

The company B has received angel funding and really highlighted its importance during the start-up phase. The angel funding was a rightful choice at the start-up phase and it can be stated that a bank loan could have had major obstacles due to the risk involved in this venture. Both company B and D has one factor in common – they both appreciate the extra working capital that the business angel could bring to the company.

Venture capital investments were only done in company B and the investment was intellectual capital – not financial aid. The accelerator program between A and B has been beneficial for company B. The lack of venture capital amongst

case companies can derive from the nature of the companies – they are considered to be unprofitable to invest or they have greater risk. On the other hand, the case companies may be afraid of venture capitalists since they do not want to share the company's ownership.

Thirdly companies A, C and D have received funding from banks during the start-up phase. All of these companies have applied for bank funding during the time before current economic crisis and it was rather easy to get. Consequently company D has funded its growth phase with bank loan but stated that the terms of bank loan has been getting stricter. The company D applied for bank loan at its maturity phase, which was then guaranteed by Finnvera. The increased size of both companies may have affected the bank's willing to give credit due to the higher risks involved and hence the bank loan must have had guarantees.

The one exception in this case was company B that had not received any funding from a bank. In the case of company B one can estimate that the value of angel funding was so high that there was no need for a commercial loan. However there is a possibility that the company may not have received any bank funding since the company is considered to have high risk.

Only one external financing tool was listed in every company's history – public financing. In these companies the use of public financing was not only selected to bring capital at the start-up phase but also companies have used it in other phase of life cycle. The scattered usage of public financing results from the various functions that public financing has to offer. Public financing institutions have the opportunity to provide funding in every situation of the company, as their service range is broad.

One common factor during the growth and maturity phase can be identified. As the company is about to get a bigger deal or undergo a strategic change, public financing aid was involved in the form of guarantees or loan. The situation where guarantees were needed for a bank loan happened in the cases of A and D. Additionally it can be identified that when dealing with innovative projects

regarding new products or restructuring the management, companies resort to public funding.

6.2 Deductions

To draw a conclusion of the case study, one can especially notice that public financing and banks are the biggest providers of external funding. Also these two instruments complement each other and can be used in every stage of business life cycle. However there are differences between these two – banks are more careful with their credit policy while public financing is more willing to take risks. Hence they are used together. Additionally case companies are deeply rooted to their banks and the primary source of funding is firstly looked from banks. Subsequently public financing operates as an important extra source of capital and its usage is aimed towards R&D, innovations and strategical changes.

Only one of the case companies had received angel funding. It is difficult to figure with these results whether every highly innovative start-up receives angel funding but one can say that angel funding has managed to gain a foothold in Finland as all of the case study companies recognized angel funding as potential external funding instruments. The reason for not resorting to business angel amongst company A, C and D lies in the fact that other companies have been set up by using own private capital and they have had guarantees for bank loans.

None of the case study companies haven't received any monetary venture capital investments which can result from the fact that VC investors consider them to be more irrelevant to invest in or they bear a high risk or their field expertise is not suitable for the investors. The new Vigo program has brought a new way of collaborating to the Finnish market and the company A and B have generated their own synergy in which they share intellectual capital with each other.

IPO and bonds are not used in any of these cases, which bring about many questions. IPO is not even considered as a way of collecting capital due to its red tape. These case firms employ less than 50 people so it is rather hard to list in the stock market due to all obligations what are required from a listed company. However the bond market received recognition from the case firms but they were more eager to wait for the possible changes that are about to happen.

The overall differences can derive from the entrepreneur's attitude towards different external financing instruments and the industry in which the company operates. When one compares a basic service company with a highly innovative company, the differences are notable – the basic service company deals mostly with bank loans while an innovative firm has the possibility to use a wider range of external financing tools. Also the management of the firm may be hesitant to take in external financing due to its consequences or conditions related.

7 CONCLUSION

7.1 Existing theory and research findings

According to the existing theory and research findings it can be stated that Finnish business environment is unique in the sense of external funding. The existing theory of external funding instruments supports mostly the presented research findings but one must state that the company's field of expertise has a certain effect on the choices regarding external funding decisions.

Finnish companies are aware of the fact that there is angel funding available on the market. However due to the low knowledge on angel funding companies are still resorting to other financial instruments but for innovative companies angel funding can be the most important source of financing at the start-up phase. With the help of the new organization for angel funding it can be expected that the popularity of angel investments will increase in the future as the hindrances for investing are lowered.

The biggest funding organization, banks, has not lost its reputation as the biggest lender for companies. However there might be a major change ahead due to the restructuring of bank business though operating banks in Finland have managed to rise from the recession. However one case company indicated that the recession has changed the credit policy of banks. Businesses in Finland traditionally begin their life cycle with a bank loan, as it is easy and swift to receive and bank loans can be used in any stage of life cycle.

Public financing has maintained its popularity amongst Finnish entrepreneurs and companies have applied for public funding with same rate as before. Also the timing for public funding is broader – companies can apply for public funding during its start-up, growth and maturity phases. Hence the public funding cannot be mainly categorized to start-up phase. Public sources have increased their funding methods from simple loans to guarantees. As commercial banks hold the position of biggest lender, public financing institutions are guaranteeing the

loans for companies. Additionally the role of each public funding is currently going through a change.

The new interesting business accelerator program has been adapted to Finnish business scenery and has been exploited as companies have established accelerator programs of their own. Although there was no direct funding between the parties, the knowledge sharing process was taken advantage in the case company.

Venture capital is expected to be a new big player in Finnish market although its importance cannot be said to be significant. The new tax reliefs are estimated to raise venture capital investments and institutional investors have taken up the challenge of investing in Finnish companies. However with the cases presented, there are no venture capital investments made. Consequently this leads to the question if the venture capital is more towards bigger companies and not for companies with less than 50 employees. Additionally the attitude towards venture capital is divided - some prefer it and others doubt the benefits.

None of the companies that were interviewed find an initial public offering or bond market to be their choice of funding. Bond market was though considered to be attractive if the market would be more easily accessible. It can be argued that bond markets and IPOs are labeled for bigger companies. However the environment for bond market will undergo a change during the future and the potential results of the change will be seen in the future.

7.2 Exploitation of this thesis

Firstly this study gives an insight into the external funding instruments of a company in Finland and how has the current economical situation affected the situation. Secondly the funding strategies of a company are brought into the light with the help of case studies. Consequently the funding decisions explain the firm's growth as the purpose of funding is explained. Thirdly there are predictions on the future; what kinds of changes are expected in the field of external business funding.

However the case studies bring a limited view on a certain company's funding decisions and cannot be exploited in more general way. This study's research methods can be though used to measure different companies funding decisions. In addition the models of funding can be used as a guide when implementing business funding strategic.

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Company A 24.10.2013

Company B 24.10.2013

Company C 25.10.2013

Company D 23.10.2013

Rahoituskysely

1. Mitä yritys tekee ja mikä on yrityksen koko?
2. Miten yrityksen kasvu on tapahtunut tähän päivään saakka? Onko kasvu ollut luonnollista vai onko tapahtunut suuria muutoksia?

PERUSTAMISVAIHEEN RAHOITUS

Bisnesenkelit

1. Oletteko saaneet yrityksen perustamisvaiheessa bisnesenkelirahoitusta? Jos olette, minkälaista rahoitusta on ollut? Onko bisnesenkeli toiminut aktiivisesti yrityksen parissa vai onko hän ollut "hiljainen yhtiökumppani"?

Pankit ja rahoitusyhtiöt

1. Oletteko hakeneet perustamisvaiheessa pankista lainaa? Mikäli kyllä, minkälaisia ehtoja lainoitukseen on liittynyt ja minkälaisia vakuuksia on kaivattu? Miksi ette ole hakeneet pankkilainaa?
2. Oletteko hakeneet investointeja varten rahoitusta rahoitusyhtiöltä? Mikäli kyllä, minkälaista rahoitusta, ja minkälaisia ovat olleet vakuudet ja ehdot?

Julkinen rahoitus

Oletteko saaneet näiltä tahoilta rahoitusta – Finnvera, Ely-keskus, Tekes tai Vigo?

Finnvera: Minkälaista rahoitusta tai takuita olette saaneet Finnveralta? Mihin käyttötarkoitukseen tämä rahoitus oli suunnattu? Minkälaiset olivat ehdot ja vakuudet? Koitteko rahoituksen hankkimisen vaikeaksi? Koitteko raportoinnin

hankalaksi?

Ely-keskus: Minkälaisia tukia olette saaneet? Mihin käyttötarkoitukseen tämä tuki oli suunnattu? Minkälaiset ehdot tuelle? Oliko tuen hakeminen vaikeaa?

Tekes: Minkälaista rahoitusta olette saaneet? Mihin käyttötarkoitukseen tämä tuki oli suunnattu? Minkälaiset ehdot olivat? Oliko raportointi työlästä?

Vigo: Oletteko osa kiihdyttämö projektia? Jos ette ole osa Vigoa, onko teillä oma yhteistyö toisen yrityksen kanssa? Onko yhteistyössä kyse rahoituksesta vai tietotaidon välittämisestä?

KASVUN VAIHE

Sitra: Oletteko saaneet Sitralta rahoitusta? Minkälaista rahoitusta olette saaneet Sitralta? Oletteko hyötäneet Sitran yhteistyöstä muilla tavoin kuin rahallisesti?

Vera: Oletteko saaneet Veralta rahoitusta? Minkälaista rahoitusta olette saaneet Veralta? Oletteko hyötäneet Veran yhteistyöstä muilla tavoin kuin rahallisesti?

Eläkeyhtiöt: Oletteko saaneet rahoitusta eläkeyhtiöiden rahastoilta?

Pääomasijoittajat: Oletteko saaneet yksityiseltä pääomasijoittajalta rahoitusta?

Listautuminen

Oletteko harkinneet yhtiön viemistä pörssiin? Oletteko miettineet First North pörssiä vaihtoehtona?

KYPSYYS VAIHE

Joukkovelkakirjat

Oletteko harkinneet joukkovelkakirjojen tarjoamista yleisölle suuremman rahoituspohjan hankinnassa?

Onnistuiko rahoituksen hankkiminen suunnitellusti?

- Kyllä
- Ei, miksi?