

Book Review of “Entrepreneurial Finance for MSMEs: A Managerial Approach for Developing Markets” by Joshua Yindenaba Abor

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1. Introduction

Entrepreneurial finance is a specialized field within finance that focuses on the unique financial aspects of startups, small businesses, and entrepreneurial ventures. It encompasses the financial activities, strategies, and decisions involved in starting, managing, and growing a business. Entrepreneurial finance is essential for driving economic growth and fostering innovation by providing funding and expertise to startups and small businesses, leading to the creation of new ventures, job opportunities, and wealth generation. These ventures introduce innovative products, services, and business models, contributing to increased productivity, competitiveness, and market dynamism. Additionally, entrepreneurial finance encourages risk-taking and experimentation, crucial for sustained economic development, ultimately enhancing overall economic resilience and prosperity.

2. About the Author

The first edition of *Entrepreneurial Finance for MSMEs: A Managerial Approach for Developing Markets* is an edited volume authored by Joshua Yindenaba Abor. Joshua Yindenaba Abor is a Professor of Finance and a researcher with the African Economic Research Consortium. Joshua is a Visiting Professor of Development Finance at the UCT Graduate School of Business, University of Cape Town, South Africa, and has also held Visiting Scholar positions at the IMF, Washington DC, USA. Joshua Yindenaba Abor is a seasoned

Financial Economist, qualified Accountant, and Professor of Finance, renowned for his expertise in development finance and economics research. Joshua Yindenaba Abor deserves commendation for delivering such a clear and thorough treatment of this subject matter.

3. Review

This book, *Entrepreneurial Finance for MSMEs, A Managerial Approach for Developing Markets* by Joshua Yindenaba Abor, provides a comprehensive and lucid exploration of entrepreneurial finance, offering timely and invaluable insights from a managerial standpoint. This book aims to demonstrate how entrepreneurs and MSME managers can use managerial finance tools to achieve this goal. The book is marked by exceptional clarity and profound insights. This book is a crucial resource for entrepreneurs, small business managers, venture capital firm managers, microfinance institution managers, policymakers, and SME development experts. It's also beneficial for students studying finance and entrepreneurship.

Entrepreneurial finance provides essential tools for entrepreneurs to effectively manage financial resources, bridging the gap between conception and execution. Entrepreneurs need to consider both funding sources and effective resource allocation to enhance the value of their firms. Moreover, entrepreneurial finance is relevant not only for micro, small, and medium-sized enterprises (MSMEs) but also for managers of large corporations. There is a growing emphasis on

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intrapreneurship, where managers within established organizations are encouraged to innovate and operate with an entrepreneurial mindset, Egle and Petra, (2019). In today's entrepreneurial milieu, mastering financial management principles is indispensable for realizing entrepreneurial aspirations. The pivotal role played by MSMEs globally cannot be overstated, serving as the linchpin for economic growth, particularly in developing and emerging economies.

The book is thoughtfully organized into five well-defined parts. Part I is an introduction to entrepreneurial finance and covers essential topics such as business planning. Part II delves into the financial environment and fund providers, offering crucial insights into understanding the financial systems that vary across different countries, which is vital knowledge for entrepreneurs. Part III is dedicated to discussing financial performance and planning in the early stages of a venture, including assessing financial performance and forecasting for the future. Part IV, arguably the most significant section in entrepreneurial finance, focuses on evaluating the value of entrepreneurial ventures. Emphasizing the importance of determining value from the outset, this section makes a substantial contribution to understanding the technical concepts involved in valuation. The final part, harvesting, addresses exit strategies, guiding entrepreneurial ventures toward the next phase of their evolution. The book's chapters are meticulously structured, commencing with learning objectives, concluding with chapter summaries, and featuring pivotal discussion questions.

Part I - The Entrepreneurial Setting

Sets out to define the field of entrepreneurial finance and distinguish it from corporate finance. Notably, the book opts for the broader term 'micro, small, and medium-sized enterprises' instead of 'entrepreneurial ventures', aligning more closely with practical usage and providing comprehensive coverage. It delves into the crucial role of MSMEs in economic development and elucidates the specific challenges they encounter, offering nuanced insights beyond traditional entrepreneurial finance texts. Throughout the

discussion, the book underscores the dynamic nature of financing sources available to MSMEs at different stages of their life cycle. Particularly in the developmental phase, securing seed capital from conventional banking systems can prove arduous due to factors like limited financial history and collateral, (Egle and Petra, 2019). Thus, entrepreneurs and MSME owners are urged to familiarize themselves with the diverse financing options accessible at each stage. Chapter two adeptly addresses this aspect, presenting complex concepts in an accessible manner to facilitate reader comprehension. Moreover, the author's examination of MSME characteristics in developing countries provides valuable insights for comparison and contrast. Diverging from many conventional entrepreneurial finance textbooks, the author of this book places greater emphasis on the significance of MSMEs to the nation. In chapter one, the book delves into the challenges encountered by MSMEs and offers insights on overcoming these obstacles. Consistent with Leach & Melicher (2012) the book offers comprehensive guidance on crafting a business plan, underscored as the cornerstone document for any entrepreneurial venture. Given the inherent lack of historical data and formal financial structures in nascent ventures, until they attain stability, the importance of meticulous business planning from inception is emphasized.

Part II - The Financial Environment and Finance Providers

This part investigates the intricate financial ecosystem and its relevance to entrepreneurial ventures. Chapter five offers a comprehensive examination of the country's financial landscape, encompassing detailed discussions on financial markets, institutions, and notably, microfinance institutions. These institutions, driven by governmental initiatives, aim to foster financial inclusivity and provide access to funding for MSMEs lacking traditional collateral for financial statements. Additionally, the chapter underscores the findings of Evan Dudley (2021), emphasizing how social capital plays a pivotal role in enhancing the financial viability of young firms by facilitating easier access to external funding, reducing dependence on personal guarantees, and mitigating the risk of failure. Recognizing the paramount

importance of venture capital finance in MSME financing, a dedicated chapter is allocated to discussing venture capitalists and venture capital firms, which specialize in investing in early-stage, high-risk MSMEs while offering advisory services alongside equity investments. Throughout the book, a notable observation is the author's adept presentation of complex technical concepts in a simplified format, tailored for the understanding of MSME owners. The latter portion of Part II provides insights into public sector interventions for MSMEs, albeit with the acknowledgment that these interventions may vary across countries and over time.

Part III - Financial Performance and Planning

This part encompasses three chapters that are commonly found in other prominent textbooks within the field, (see Leach & Melicher (2012)). As an entrepreneurial venture evolves through its life cycle, it becomes imperative to develop and analyze financial statements. Beyond merely understanding the findings derived from these analyses, entrepreneurs must leverage them for forecasting both short-term and long-term cash requirements. Additionally, acquiring proficiency in managing cash flows to ensure a balance between shortages and excess liquidity is vital knowledge that business owners should possess.

This part of the book thoroughly addresses these essential aspects of MSMEs. It provides comprehensive guidance on financial statement preparation and analysis, empowering entrepreneurs to derive meaningful insights from their financial data. Moreover, it emphasizes the importance of utilizing these insights to forecast future cash needs accurately, enabling proactive decision-making and strategic planning. Furthermore, the book delves into the intricacies of cash flow management, elucidating techniques to optimize cash flow efficiency and mitigate risks associated with liquidity shortages or surpluses. By equipping MSME owners with practical knowledge to navigate these financial challenges, Part III serves as a valuable resource for fostering financial acumen and ensuring the sustainable growth and success of entrepreneurial ventures.

Part IV - Valuation

This part of the book focuses on the crucial aspect of valuing MSMEs, providing indispensable knowledge for entrepreneurs to understand the worth of their ventures. Notably, the author adopts a unique approach by commencing this section with the foundational concept of time value, gradually building up to the complexities. This methodical progression sets the stage for a comprehensive understanding of valuation techniques. Distinguishing from most conventional textbooks, Part IV of the book dedicates a separate chapter to project evaluation, underscoring its significance in the value creation process. Chapter 13 delves into various MSME valuation techniques, offering a comprehensive overview of methodologies commonly employed in the field. These include the discounted cash flow method, risk adjusted NPV method, venture capital method, free cash flow to equity method, and valuation using comparable firms. By covering these widely utilized methods, the chapter equips entrepreneurs with the necessary tools to assess the value of their ventures accurately. Through its thorough exploration of valuation concepts and methodologies, Part IV serves as an invaluable resource for entrepreneurs seeking to make informed decisions regarding their businesses' worth and strategic direction. Equipping entrepreneurs with the expertise and capabilities to effectively understand and manage the complexities of valuation is crucial for pursuing growth opportunities and achieving long-term value-creation goals, (Mehta, Sharma, Vyas, Kuckreja, 2021).

Part V - Financing Choice and Harvesting

Critical elements of financing and venture harvesting are explored in part V. An exceptional feature of this book is that, in addition to covering new venture development and sources of financing as discussed in chapter 02, the author provides detailed insights into financing options for effectively managing an established company in Chapter 14. Although the discussion on the cost of capital estimation may not be as detailed as in other texts, it still provides valuable insights for readers

to understand this aspect to some extent. Chapter 15, focusing on harvesting the venture investment, is meticulously documented, covering various harvesting strategies commonly found in most textbooks. By comprehensively addressing harvesting strategies, this chapter equips readers with the essential knowledge to effectively navigate the final phase of the venture lifecycle. Despite the unconventional arrangement, Part V serves as a valuable resource for entrepreneurs, offering insights into financing options and guiding them through the process of harvesting their ventures for optimal returns. Through its detailed exploration of harvesting strategies, the book empowers readers to make informed decisions regarding the future of their ventures, ensuring the realization of their investment objectives.

Entrepreneurial finance textbooks commonly structure their content around the developmental stages of early-stage ventures. In Leach & Melicher's (2012) publication, this organizational approach is evident as it guides readers through the stages of venture maturation or the venture life cycle. While providing valuable insights into each stage, the book notably highlights the growth of MSMEs within these conventional life cycle stages. However, the presentation of knowledge related to entrepreneurial finance in 'Entrepreneurial Finance for MSMEs, A Managerial Approach for Developing Markets' seems to somewhat lack emphasis on these stages of the venture life cycle.

4. Conclusion

The book's clear and logical organization enhances its readability, ensuring that readers can easily follow the content without unnecessary distractions. Through this structured approach, the author effectively illustrates how entrepreneurs and MSME managers can utilize managerial finance tools to enhance their firms' value, making it a compelling textbook for both undergraduate and postgraduate students studying entrepreneurial finance. Practical applications of financial concepts are demonstrated, providing actionable insights for real-world scenarios and empowering readers to make informed financial decisions that contribute to business growth. The author's commendable delivery of comprehensive and detailed subject matter, along with their ability to

explain complex financial concepts with clarity and insight, ensures readers gain a thorough understanding of the material. Overall, the book's accessible writing style and insightful content make it a valuable resource for those looking to deepen their understanding of entrepreneurial finance and managerial finance tools, with a particular focus on the managerial practice within MSMEs.

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