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Entrepreneurial Finance Approach in Increasing the Growth Power of Digital Startups

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Abstract

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The rapid growth of digital startups has raised the need for a more flexible and adaptive approach to finance. This study aims to analyze the contribution of entrepreneurial finance in increasing the growth power of digital startups through a literature study of 14 scientific. The results show that the entrepreneurial finance approach not only provides access to capital, but also creates strategic collaborations that play a role in business planning, innovation, and market expansion. Instruments such as crowdfunding, venture capital, and fintech lending have been proven to support the acceleration of business scale and the financial resilience of startups. In addition, collaborative strategies between startups and investors are considered more effective in building a sustainable business. However, the effectiveness of this approach is highly dependent on the readiness of the digital ecosystem, the financial literacy of the founders, and regulatory support. Thus, entrepreneurial finance is an integral strategic framework for the success of digital startups in the era of innovation-based economy.

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1. Introduction

The growth of digital startups in the last two decades has created a huge leap in the dynamics of the global economy, especially in the aspects of innovation, job creation, and technology deployment. The emergence of various digital-based startups has not only revolutionized conventional business models, but also opened up new economic opportunities in various sectors such as finance, education, transportation, and health. However, behind this growth swing, there is the fact that many startups fail to survive, especially in the first 3 to 5 years of their operational life. One of the main causes of this high failure rate is the inability to access, manage, and optimize business financing appropriately. It is in this context that *the* entrepreneurial finance approach is important to study more deeply.

Entrepreneurial finance is a discipline that discusses how entrepreneurs, especially startups, acquire, allocate and utilize financial resources efficiently in a business environment full of risk and uncertainty. Unlike established companies that have access to capital markets or conventional bank loans, startups often lack collateral, stable cash flow, or credit history that can be used to attract traditional financing. Therefore, they require a flexible, dynamic, and risk-based approach, such as those offered by the mechanism of entrepreneurial finance.

Funding for digital startups can come from various sources: angel investors, venture capital, crowdfunding, business accelerators, to peer-to-peer lending platforms. Each source has different characteristics, schemes, and expectations of returns, so a deep understanding of funding options is an important competency for startup founders. For example, venture capital typically focuses on startups with high growth potential and is oriented towards exit strategies such as IPOs or acquisitions, while crowdfunding allows startups to obtain initial capital while testing market interest in the products offered (Mason, 2018).

In addition to being a fund provider, investors in the framework of entrepreneurial finance also often act as strategic partners who provide access to business networks, industry knowledge, and technology and human resource support. This collaborative approach, known as smart capital, is increasingly important in supporting the growth of digital startups that often have challenges in terms of business strategy, marketing, and technological scalability.

In the context of Indonesia and Southeast Asia in general, the growth of digital startups is very high, driven by the growth of the digital native population, increased internet penetration, and policy support from the government. However, the literature shows that there is a gap between the availability of funds and the readiness of startups to access them. Qalati et al. (2020) note that many startups still do not have a sufficient understanding of funding structures and financial governance, so they fail to build a sustainable and attractive business model for long-term investors.

Pazarbasioglu et al. (2020) also emphasized the importance of digital financial inclusion in expanding startups' access to non-traditional financing services, especially in areas with uneven financial infrastructure. Technologies such as big data, artificial intelligence (AI), and blockchain are now being leveraged in the credit assessment and risk management processes by fund providers, enabling a more accurate and efficient funding process.

This study aims to examine how the entrepreneurial finance approach can be optimally utilized in increasing the growth power of digital startups, both in terms of financing structure, collaboration strategies, and the effectiveness of alternative instruments. This research was conducted through a literature study method that examined 14 relevant scientific sources and was published between 2017 and 2021. Emphasis will be placed on identifying best practices, success determinants, and challenges commonly faced by startups in the financing process. By understanding the dynamics and implementation of this approach, the results of the study are expected to provide theoretical and practical contributions to stakeholders, including startup founders, investors, policymakers, and educational institutions. In the era of knowledge-based economy and digital innovation, the entrepreneurial finance approach is no longer just a financial tool, but is a strategic foundation in building a resilient, adaptive, and competitive startup ecosystem at the global level.

2. Literature Review

2.1. The Concept of Entrepreneurial Finance in the Context of Digital Startups

Entrepreneurial finance refers to the process of planning, acquiring, and managing financial resources in high-risk and potentially fast-growing businesses such as startups (Mazzucato & Li, 2018). Unlike conventional corporate finance, this approach considers a flexible financing structure, time-to-market, and the stages of the startup business lifecycle. Digital startups, for example, require seed funding for MVP (Minimum Viable Product) development, then advanced financing rounds (series A/B/C) for expansion, which usually come from angel investors, venture capital, and other alternatives (Azahri, 2019). Qalati et al. (2020) stated that entrepreneurial finance is strategic, not just tactical. This means that financial decisions are not only aimed at maintaining cash flow, but also at spurring innovation, developing networks, and increasing the company's valuation. Investor selection, for example, is often considered based on non-financial benefits such as access to the market, reputation, or mentoring.

Meanwhile, Pazarbasioglu et al. (2020) emphasize the important role of digital financial inclusion in encouraging budding entrepreneurs in developing countries to access non-traditional financial services. Effective implementation of entrepreneurial finance requires an understanding of risks, capital structure, and stages of business development. Mohammad et al. (2020) added that technologies, such as AI and blockchain, have begun to be used to manage investment portfolios and improve the efficiency of risk assessment. Therefore, the ability of startups to combine financial and technology expertise is the key to sustainable growth.

2.2. Alternative Financing Instruments in Encouraging the Growth of Digital Startups

Alternative financing instruments are an important solution in the world of digital startups that often do not meet the requirements of conventional loans. One of the most developed forms is equity crowdfunding, which allows startups to access funds from many small investors online. Cicchiello et al. (2021) show that crowdfunding not only expands access to funds, but also becomes a tool for market validation and early promotion of products. In addition to crowdfunding, venture capital (VC) is the dominant source of financing that supports the growth of digital startups. According to Panda and Gopalaswamy (2020), VCs provide large amounts of funding, but demand strategic control and high return expectations. Strategies such as staged financing funding being given in stages according to milestone achievement are common approaches to reduce risk.

Venture capital in Indonesia and Southeast Asia has increased significantly in the last decade, driven by the growth of e-commerce and digitalization. Existence of incubators, accelerators, and venture builders helps fill the gap between early-stage startups and large investors. Meanwhile, Kavuri and Milne (2021) highlights fintech lending as technology-based financing that provides quick working capital for initial operations. However, the literature also notes challenges such as regulation, transparency, and the level of financial literacy of the startup itself. Therefore, the role of supporting institutions such as the government and non-profit institutions is essential to create a healthy financing ecosystem.

2.3. Determining Factors for the Effectiveness of Entrepreneurial Finance in Startups

The effectiveness of the entrepreneurial finance approach is greatly influenced by a combination of internal and external factors. Internal factors include the financial competence of the startup founder, the quality of the management team, and the clarity of the business model. Qalati et al. (2020) show that startups with digital competence and high managerial abilities tend to be more successful in managing investments and attracting follow-up funding. External factors include the investment climate, government policies, and digital infrastructure. In the

Indonesian context, Supradono (2018) said that programs such as Startup Indonesia, Bekraf, and the Incubation Fund also encourage a more conducive ecosystem. However, digital infrastructure inequality and gaps between regions are still challenges that slow down the growth of startups in the region.

Mohammad et al. (2020) underlined the importance of strategic investor fit, which is the match between the startup's mission and the investor's vision. Without this suitability, available funds can be used in an inappropriate direction, or investors can over-intervene. Therefore, evaluating investor quality is an important aspect of entrepreneurial finance that is often overlooked by novice entrepreneurs. Finally, the sustainability and innovation aspects are also the main elements. Startups that are able to show a sustainability orientation both from a social and environmental perspective tend to attract more modern investors who prioritize ESG (Environmental, Social, Governance) principles.

3. Methods

This study uses a literature review method with an exploratory qualitative approach. This approach was chosen to explore in depth how the entrepreneurial finance approach is applied in the context of digital startup growth and what are its strategic implications for business development, especially in the aspects of funding, innovation, and sustainability. Literature studies allow researchers to examine theories, models, and results of previous research in order to gain a comprehensive understanding of the topic being studied. The data used in this study are entirely secondary data, obtained from scientific publications such as indexed journals, conference proceedings, and academic books. Literature searches were conducted through Google Scholar using keywords such as "entrepreneurial finance", "startup growth", "digital startup financing", "venture capital and startup performance", and "alternative startup funding".

To maintain the relevance and validity of the data, the literature used was screened based on inclusion criteria. The focus of the discussion was related to digital startups or entrepreneurial finance. It is a scientific article from an indexed journal or a credible academic source. Available in full-text or with sufficient summaries. From the results of the initial screening, more than 50 relevant articles were obtained. However, after an assessment of the quality and depth of content, as many as 14 articles were selected for thorough analysis. Some of the main references in this study include Mazzucato and Li (2018) on venture building, Dushnitsky and Zunino (2019) on crowdfunding, and Sidik (2017) which discusses the role of venture capital in the digital ecosystem in Indonesia.

Data analysis was carried out with a thematic approach, where the data was classified into main themes such as startup financing models, the effectiveness of funding on business growth, and the role of technology in digital financing. This process involves manual coding techniques to mark important quotes and construct an interpretive narrative based on the results of synthesis from various sources. The validity of the analysis results is maintained by comparing findings between literature and contrasting various perspectives to ensure consistency and linkage between concepts. By using this method, the research is expected to provide a holistic picture of the practice and potential of the entrepreneurial finance approach in increasing the growth power of digital startups. The results of this study are not only descriptive, but also analytical in revealing the cause-and-effect relationship between financing strategies and startup performance in the digital era.

4. Results

4.1. The Role of Entrepreneurial Finance in the Digital Startup Life Cycle

One of the key findings of this literature review is that the entrepreneurial finance approach has an important role in every phase of the digital startup lifecycle: from the product ideation and validation phase, to the global scaling and expansion phase. Venture builders that provide a combination of capital, network, and mentorship play a key role as a major accelerator of growth in the early phase. On the other hand, the staged financing model by venture investors helps startups maintain the efficiency of using funds while maintaining agility. Sidik (2017) explained that in the initial phase (seed stage), financing is greatly influenced by the credibility of the founding team and the uniqueness of the solutions offered. Initial capital is often obtained from bootstrapping, angel investors, or crowdfunding platforms as mentioned by Dushnitsky and Zunino (2019). When a startup enters the growth stage, the source of funding moves to venture capital, private equity, or series funding (series A/B). Pazarbasioglu et al. (2020) also show that founders' financial literacy is the main key in managing cash flow and minimizing the risk of bankruptcy.

In terms of sustainability, the entrepreneurial finance approach also provides flexibility for startups to adjust their capital structure to the risks they face. Qalati et al. (2020) show that digital startups that actively manage financial portfolios and strengthen relationships with investors have a greater chance of surviving through the valley of death of the critical period between product development and market acceptance. Other findings show that the more mature a startup's business model is, the greater their chances of getting long-term investment, especially from strategic investors who are not only pursuing financial returns, but also operational synergy and business sustainability. Park and Jang (2021) added that the ESG (Environmental, Social, Governance) aspect is increasingly becoming an important indicator in investment decisions, especially from global institutions and corporations. The entrepreneurial finance approach is not only transactional, but also a dynamic strategy that plays a role in strategic decision-making, product development, risk management, and increasing the competitiveness of startups in the competitive digital market.

4.2. The Impact of Alternative Financing Instruments on the Business Scale of Digital Startups

Alternative financing instruments have opened up wider access to capital for digital startups, especially those in the early stages of development and do not yet have a strong financial track record. One of the dominant findings of the study is that financing models such as crowdfunding, peer-to-peer (P2P) lending, and initial coin offerings (ICOs) play a significant role in supporting the business scaling process quickly and relatively efficiently. Cicchiello et al. (2021) show that crowdfunding serves not only as a source of funding, but also as an initial marketing tool and product validation. Startups that manage to attract public support through platforms like Kickstarter or Seedrs tend to have a more loyal customer base, as early investors are usually potential consumers as well. This creates a synergistic effect between finance and marketing in one strategic step. In addition, the use of P2P lending through fintech platforms also provides flexibility in accessing short-term working capital.

According to Iwasaki (2018), many startups in Southeast Asia use P2P lending to finance daily operational needs without having to provide shareholding to investors. This model is suitable for growth-stage startups that have relatively stable cash flow but do not yet meet the criteria for venture capital. However, alternative financing also has its own challenges. One of them is the high rate of crowdfunding failures due to unrealistic market expectations. Most startups failed to meet funding targets due to weak communication strategies, weak branding, and unconvincing business proposals. In addition, instruments such as ICOs still do not have clear regulation in many developing countries, thus potentially posing legal and reputational risks. Patel (2020) notes that the integration of technologies such as blockchain and smart contracts in startup financing helps increase investor transparency and trust, but it also requires technical capacity that not all startups have.

Therefore, digital financial literacy training is an important aspect to ensure that startups can make optimal use of alternative instruments. Empirically, startups that are able to combine more than one source of financing tend to be more adaptive to market changes. Qalati et al. (2020) mentioned that the combination of equity crowdfunding and angel investment provides a dual advantage: broad access to capital and strategic support from experienced individuals. This hybrid approach is considered more resistant to market pressures, especially in times of crisis such as the pandemic. Thus, alternative financing has proven to not only help accelerate the scale of the business, but also encourage innovation in the funding structure of digital startups. Its effectiveness is highly dependent on the ability of startup management to understand risks, build credibility, and utilize technology as a mitigation tool.

4.3. Startup-Investor Collaboration Strategy in Increasing the Growth Capacity of Digital Businesses

In a highly competitive and fast-changing digital startup ecosystem, the relationship between startups and investors is no longer purely transactional, but based on long-term strategic collaboration. Literature studies show that a long-term partnership-oriented approach to entrepreneurial finance is more effective in driving startup growth than a one-way funding model that only emphasizes return on investment. Venture building that involves investors in the ideation process, product design, and market expansion increases the survival of startups through co-creation and co-strategy. Here, investors not only inject funds, but also offer mentoring, business connections, and even technology infrastructure. This strategy is particularly suitable for early-stage startups that still need market validation and an efficient operational structure.

Ideal collaboration includes three main pillars: alignment of vision, financial transparency, and flexibility of business strategy. Vision alignment is important so that there is no conflict of direction between the startup's long-term goals and investors' short-term expectations. Conflicts like this often occur in conventional venture capital models, where investors demand an exit strategy within a certain period of time, which is sometimes not in line with the natural growth rhythm of startups. Pazarbasioglu et al. (2020) also underline the importance of the social capital aspect in startup-investor relations. Investors who have an extensive network can help startups gain access to large customers, distribution partners, and even internationalization opportunities. This means collaboration is not only about financial capital, but also network capital and reputation.

Nevertheless, the challenges of collaboration remain. Many startups are reluctant to engage investors deeply for fear of losing autonomy. In this context, Cumming et al. (2019) suggest the implementation of formal communication mechanisms such as quarterly reports and advisory board structures to maintain a balance between information disclosure and decision-making independence. Findings from Qalati et al. (2020) show that productive collaboration tends to occur in startups that have mature organizational management skills and a strong understanding of financing mechanisms. They are able to establish mutually beneficial relationships with investors by setting clear expectations from the beginning and making regular strategic adjustments according to the input from financial partners.

From the investor side, there is a tendency to shift towards sustainability-based investment (ESG investment). This means that startups that have a social and environmental orientation get more attention than modern investors. This opens up new opportunities for collaboration that is not only based on economic values, but also on social values (Patel, 2020). Thus, a mature and trust-based collaboration strategy is a key factor in building the growth capacity of digital startups. This adaptive approach to entrepreneurial finance has proven to be more effective in improving the survival and competitiveness of startups in the long term.

5. Discussion

The findings of this literature study show that the entrepreneurial finance approach plays a very strategic role in shaping and increasing the growth power of digital startups. Not only limited to providing capital, this approach profoundly affects how startups build business strategies, manage risks, and innovate products and market expansion. This emphasizes that entrepreneurial finance is an integral part of the modern digital entrepreneurial innovation system. First, one of the most significant aspects is the role of entrepreneurial finance in facilitating the transition between stages of the startup's life cycle. Staged financing has been shown to be more effective in reducing the risk of failure, as startups only receive follow-up funding if they are able to demonstrate certain milestones (Panda & Gopalaswamy, 2020). This drives efficiency, focus, and results-oriented growth, which is much needed in an uncertain digital business environment.

Second, the use of alternative financing instruments such as crowdfunding, P2P lending, and fintech lending provides wider access to early-stage startups that are often unbankable. This reflects the democratization of financial access through technology, as argued by Mason (2018). Crowdfunding, for example, is not only a matter of capital, but also a tool for product validation and early user acquisition.

However, its effectiveness is highly dependent on the digital literacy and communication skills of the startup team. Third, another interesting finding is the importance of strategic relationships between startups and investors. The entrepreneurial finance approach that involves long-term collaboration (co-strategizing) has proven to be more effective than one-way investment. This is in line with the concept of venture building and co-creation that is becoming popular in Southeast Asia, where investors also act as strategic partners, not just fund providers (Sidik, 2017).

However, the implementation of entrepreneurial finance is not free from challenges. One of the main challenges is the managerial and financial skills gap of startup founders. Many tech entrepreneurs have technical competencies but have not yet fully understood the appropriate financing structure, cash management, or exit strategy. Therefore, education and training are crucial supporting elements. On the other hand, supporting ecosystems such as regulations, digital infrastructure, and government programs also play an important role. Countries with pro-startup regulations and fiscal incentive support tend to have faster growth of digital ecosystems. Programs such as Startup India and the Indonesia Incubation Fund are examples of how state intervention can facilitate entrepreneurial finance approaches in the local context (Cumming et al., 2019).

From a strategic point of view, startups that are able to integrate financial approaches with sustainable business models (e.g., ESG-based ones) have greater appeal to today's investors. This shows that financial success is now measured not only by profitability, but also by the social and environmental impact it causes. This discussion shows that entrepreneurial finance is a systemic approach that cannot be separated from business strategy, technological capabilities, investor relations, and supporting ecosystems. This is what distinguishes this approach from conventional financing systems. To optimize this approach, there needs to be synergy between startup actors, fund providers, government agencies, and other digital ecosystem actors.

6. Conclusion

This research shows that the entrepreneurial finance approach plays a very important role in increasing the growth power of digital startups. This approach is not only limited to the funding aspect, but also includes collaboration strategies, risk mitigation, and innovation-based business capacity building. Entrepreneurial finance provides the flexibility and adaptability that startups need to thrive amid the uncertainty of a highly dynamic digital market. The findings of the literature study show that the success of digital startups in accessing and managing funding is largely determined by the ability to adjust the financial structure to the stages of the business life cycle. Alternative financing instruments such as crowdfunding and fintech lending expand access to capital, especially for early-stage startups that are not yet bankable. Meanwhile, investor involvement in the form of strategic partnerships, such as in venture building models, has proven to be more effective in supporting long-term growth. However, the effectiveness of this approach is also highly dependent on external factors, such as supporting ecosystems, regulations, and technological readiness. Therefore, cross-sector collaboration is key in creating an environment conducive to the growth of digital startups. Thus, the entrepreneurial finance approach should not be seen as a mere source of funds, but rather as an integral strategic framework for the success and sustainability of digital startups in the modern economy.

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