

# Personal networks

Business



Studies indicate that over 80% of entrepreneurs finance their own businesses. They raise funds by making appeals to relations and utilizing professional and personal networks.

The studies note that funds from close relation do not amount to much; however, they offer a kick-off to the entrepreneurs. This amount is sufficient to anti-debt starters and can help in avoiding the credit card option. The amount is also adequate in hiring assistants, purchasing initial stock, building advertising platforms such as websites among others. Indeed, personal and family finances are an essential point to start. It marks the beginning point of almost all types of start-ups. The logic in employment by the entrepreneurs is such a one: before approaching strange individuals it reaches out to the people who know you (Business Asia, 2008).

Certain factors increase the chances of securing funds from these close relations. Among them, it includes exemplary prior planning that outlines the salient features of the new venture. It is not sufficient to count on the acquaintanceship or family ties alone. Entrepreneurs need to demonstrate their business savvy side. Note that most family and friends may not be capitalists or wealthy philanthropic individuals but people who fill responsible in 'helping out'. They may go out of their way in order to help with conviction that they are taking part in a great venture.

Research indicates that most relations and friends have a feeling of responsibility on their friend's success and feel part of the dream. Unlike conventional sources, whose prominent terms are official, most of these source terms are tacit agreements. They invest in the confidence they have

in the entrepreneur, in the trust or in love (Highlands Capital Partners, 2012). Apart from demonstrating adequate preparation and convincing folks, it is vital to be clear on the terms of what one is requesting. The world is evolving into an era of shallow pockets and vast financial obligations.

Interviews with a vast number of people indicate that a majority will not lend to a friend or relation due to the vagueness that exists in the lending process. Those who lend, state that they will give minimal because there is feeling of shame when demanding repayment. This necessitates the requesting entrepreneur to state the nature of funds to friends or relatives. He/she should indicate clearly, whether he intends to receive donations, investments or personal loans. A request of donations is a clear indication that these funds are not subject to any form of repayment and, as such, will not be recoverable by the giving relation. Investments are funds that have a repayment scheme; it is two dimensional borrowing which taps into the acquaintanceship, but also offers the relation some partial ownership in the venture.

Lastly, there is the personal loan method, in which the entrepreneur seeks finances from these relations, with an intention to repay. The demonstration is that this method is the most effective and convincing; some close relations often offer assistance and refuse payment or accept minimal payment upon application of this approach (Field, 2007). Personal networking in financing start-up companies is also clearly possible within the technological sphere. With the influx of social sites, utilizing ones' personal and professional links is easier within this sphere. Most start-up companies with an environmental or social orientation stand to benefit from the social site approach. The <https://assignbuster.com/personal-networks/>

entrepreneurs can create a platform with a brief outline of the projects and its targets, and then send this with a request of modest donations to close and trustworthy contacts.

This will serve as a persuasive campaign platform that reaches many at minimal costs. It is less obtrusive with a professional angling in comparison to the other three approaches. Social sites like Face book andTwittercan boast the personal platform appeal. Additionally, the personal approach of the personal network can be useful to the entrepreneur by creating a larger network. Friends can reach out to other friends interested in such endeavors and introduce them to the entrepreneurs.

From this approach, the start-up company may end up receiving funds from new friends who have an interest in the success of such business ventures. Philanthropist may also get tapping from this personal network strategy (Hosmer, 2009). There is little study on the weaknesses of this method being yet the weaknesses abound. A few scanty researches highlight the shortcoming associated with personal and friends financing of start-up companies. Key among the shortcomings is the little amount of funds lent to the entrepreneur due to the reason of non-repayment.

Most aspiring entrepreneurs make the mistake of approaching friends and relatives with a sense of entitlement. They refuse to admit the reality that friends and relatives are making a sacrifice for their sake. Studies on various societies lending to groups indicate that a majority lend to friends on a purely social basis. African societies, for instance, have a character of more closely-knit society that will lend to another believing that the person will

reciprocate in future. However, there is a departure from this trend as social demands to become more pressing, and friends and relatives are bound to hold back and reduce the willingness.

Therefore, they end up lending little to cover face and avoid a social labeling of selfish or mean ones (Galbraith, 2009). Another prominent feature in the shortcomings of personal, relatives and friends mode of financing start-up companies is the law gap existent in the process. Recent findings indicate that few entrepreneurs bother to take legal precautions in drawing contracts of funding by acquaintances and relatives. There is the general presumption that nothing can go wrong and, therefore the entrepreneurs find little or no need of involving lawyers in the process. There are numerous cases of legal suits by friends and families that have seen many companies split, claims of damages awarded and prosecution commencements with because of this act of sheer ignorance. It is indispensable to involve lawyers or seek their counsel in these dealings, whether with friends or family.

Thus, literature indicates that financing start-ups through friends and relatives must not forget that professionalism is core to success. There should not be ignorance in the dealings whatsoever (Highlands Capital Partners, 2012). The source of finance and terms of the funds may be a determining factor of the manner of utilizing the funds, and the efficiency therein. Numerous studies indicate that financing from friends and relatives falls on a social scale with little pressure or financial ramifications. This creates an aspect of laxity on the entrepreneur's part.

Just like companies, undertaking capital budgeting whose sources of finances are retained earnings is likely to employ such funds less efficiently, so there are entrepreneurs using family or friends funding. Family and friends are less likely to demand books of the business and audit them. Studies indicate no attempts of friends or relatives to create pressure attaching conditions or demanding performance of the company's entrepreneurs. In sharp contrast to other sources of funding, the conventional bank loan lends to a start-up company in bits. This is based on demonstrated performance.

The entrepreneur, on the other hand, works to ensure that his output and performance covers the loan and remains profitable. The friends and family offer a comfort zone since startup companies' entrepreneur is under no challenge to step up to the eminent demands (Wiltbank & Willamette, 2007). While utilizing the modern social sites and appreciating the realities of times, this mode of reaching families, friends and acquaintances for funding has its shortfalls. This results from lack of entrepreneur's personal presence. Many societies such as African and Asian ones will consider this as act of disrespect, especially where the relative from whom funding is sought happens to be a senior. Personal presence creates proximity, has an individual appeal, indicates sincerity of need and offers an opportunity to expound on any unclear or doubtful concept (Field, 2007).

This study clearly demonstrates that this method, though conventionally thought to be an easy appeal to social and family ties has its different facets that can transform it to an effective source of finances for start-up companies. An entrepreneur can exploit the social and soft spots of his/her targets to obtain funding. He can employ innovativeness, walking the extra

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mile and taking advantage of existing social and technological advancements to reach out to the majority. An assurance approach will also serve to secure a greater amount of finances by assuring the friends and relatives. (Business Asia, 2008).