EQUITY FINANCING AND ENTREPRENEURIAL GROWTH: UNVEILING PERSPECTIVES FROM THE GROWTH AND EXPANSION STAGE

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ABSTRACT

This study explores how equity financing supports entrepreneurial ventures' development and expansion stages. By reviewing the existing literature, this study looks into how equity finance influences business development as companies progress through different stages of entrepreneurship. The findings reveal equity financing as an important catalyst, offering both crucial capital and strategic support to scale operations effectively. Although many studies support a strong relationship between equity finance and business growth, issues such as ownership dilution and potential stakeholder conflicts are highlighted. By integrating key findings from previous research, this study strengthens the understanding of how equity financing affects entrepreneurial success. The conclusion offers valuable implications for entrepreneurs, investors, and policymakers, underlining the need for strategic financial planning to sustain long-term growth and innovation across the entrepreneurial ecosystem.

Keywords: Equity Financing, Entrepreneurship, Entrepreneurship Life Cycle, Growth, Finance.

Received/Gönderim: 11.04.2025 – Accepted/Kabul: 02.05.2025

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Alashiq, M. A., Işın, T. & Topcu, M. K. (2025). Equity financing and entrepreneurial growth: unveiling perspectives from the growth and expansion stage. *Akademik Açı*, 5(1): 39-57. DOI: 10.59597/akademikaci.1673925.

ÖZSERMAYE FINANSMANI VE GIRIŞIM BÜYÜMESI: BÜYÜME VE GENIŞLEME AŞAMASINDAN PERSPEKTIFLER

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ÖZET

Bu çalışma, girişimcilik girişimlerinin gelişim ve büyüme aşamalarını desteklemede öz sermaye finansmanının rolünü incelemektedir. Mevcut literatürün gözden geçirilmesi yoluyla, öz sermaye finansmanının şirketlerin girişimcilik sürecindeki farklı aşamalarda iş geliştirmeye nasıl etki ettiğini araştırmaktadır. Bulgular, öz sermaye finansmanının önemli bir katalizör olduğunu, işletmelerin ölçeklenmesini sağlamak için hem kritik sermaye hem de stratejik destek sunduğunu ortaya koymaktadır. Birçok çalışma, öz sermaye finansmanı ile iş büyümesi arasında güçlü bir ilişkiyi desteklerken, mülkiyet seyrelmesi ve potansiyel paydaş çatışmaları gibi sorunlara da dikkat çekilmektedir. Önceki araştırmalardan elde edilen temel bulguların birleştirilmesiyle bu çalışma, öz sermaye finansmanının girişimcilik başarısına etkisine dair anlayışı güçlendirmektedir. Sonuç bölümü, girişimciler, yatırımcılar ve politika yapıcılar için değerli çıkarımlar sunmakta ve girişimcilik ekosisteminde uzun vadeli büyüme ve inovasyonun sürdürülebilirliği için stratejik finansal planlamanın gerekliliğini vurgulamaktadır.

Anahtar Kelimeler: Öz Sermaye Finansmanı, Girişimcilik, Girişimcilik Yaşam Döngüsü, Büyüme, Finansman

INTRODUCTION

Entrepreneurship significantly contributes to global economies by contributing to innovation, economic growth, and job creation. Effective financial resource management is a fundamental aspect of building and maintaining a successful business. For entrepreneurs, what is important is not only managing money wisely but also accessing funds through strategic channels, ensuring those resources are “smart” in that they contribute to the venture. This mindset captures a deeper philosophy about aligning financial decisions with their long term vision. For entrepreneurs the dynamics of managing money, navigating relationships and gaining access to investors and capital go far beyond the concept of “smart money”. It is equally important for the entrepreneur to be smart in how they handle and relate to the capital. It takes a certain level of intelligence, information, and experience to reach the necessary wisdom to make it all work. Entrepreneurs have access to various methods to finance their ventures and work their way in the finance world. Considering the connection between wisdom and money, this study focuses on the rational methods of accessing finance. Among these, equity financing stands out as the most significant method.

Equity financing is a method which allows entrepreneurs to secure capital for their ventures without taking on debt. In this model, investors provide funds in return for ownership shares, acquiring a portion of the business' future earnings. Because it does not involve repayment, equity financing is specifically appealing to early stage ventures in search of growth capital.

While equity financing is one of the oldest forms of financing in history, having emerged in different models throughout time, it continues to evolve in today's entrepreneurial world with alternative models as a new-generation financing tool.

Rather than focusing on the necessity of equity financing, this paper investigates the philosophical foundations that guide the selection of the appropriate method for its application to serve specific goals. To achieve this, the entrepreneurial life cycle is examined, analyzing at which stages equity financing can be applied, how it can be implemented, and assessing the advantages and disadvantages of current methods. This perspective opens the door to a broader contemplation on the nature of capital itself. In contemporary discussions, the term "wise capital" refers to funding that's not just financially robust but also ethically aligned and strategically intentional. Such capital aims for more than just returns, it seeks alignment with the values and vision of the venture. This framing provides a philosophical basis for evaluating equity not only as a financing tool but also the wisdom of entrepreneurship.

To this end, this study is organized as follows: entrepreneurial life cycle is introduced at conceptual framework, equity financing is thoroughly examined following the discussion of financing tools, in particular pros nad cons of equity financing, consequently key points are highlighted and some recommendations are made for both policy makers and entrepreneurs.

1. CONCEPTUAL FRAMEWORK

1.1 Entrepreneurship and the Entrepreneurial Life Cycle:

Entrepreneurship is the process of identifying, creating, and pursuing opportunities to develop new businesses, products, services, or innovative methods. It involves a willingness to take risks, act swiftly, and drive change in order to achieve business or social objectives. Among the numerous qualities that an entrepreneur should possess and will need to develop, at the very least, creativity, resilience, vision, and a readiness to challenge the status quo are essential, particularly in the context of dynamic entrepreneurship concepts and literature.

The entrepreneurial life cycle and its phases are cited by different researchers in varying numbers, depending on their approach. These differing perspectives reflect the dynamic nature of entrepreneurship as a field, largely due to the fact that the concept and literature surrounding entrepreneurship are relatively young and continuously evolving.

Stevenson (1983) talks about how business is always changing, pointing out steps like finding an opening, getting resources, setting up an organization, creating value, and finally getting paid. Gartner (1988) studies the role of stories and tales in business. He says that there isn't a single lifespan, but rather different paths that are shaped by social norms and personal experiences. Sarasvathy (2001) comes up with effectuation, a theory that stresses trying new things and changing over a set amount of time. Audretsch's (2004) work titled “Spillover Theory of Entrepreneurship” shows how important it is for new ideas and sharing information to promote entrepreneurship.

Entrepreneurship generally goes through several phases, as described by Maha et al. (2021). The stages outline the path an entrepreneur takes from the initial idea to potential business decline:

1. **Seed Phase**: This is the very beginning when the business idea is formed. Entrepreneurs conduct research, develop a business plan, and look for initial funding.

2. **Startup Phase**: At this stage, the business officially starts. The focus is on creating the product or service, gaining the first customers, and setting up business operations.

3. **Early Growth and Expansion Phase**: During this phase, the business experiences rapid growth in revenue, customer base, and market presence. This stage involves both scaling operations and expanding into new markets. Entrepreneurs often need to hire more employees, enhance production capabilities, and improve their market strategies to support this growth.

4. **Maturity Phase**: Here, the business is well-established, and growth stabilizes. The focus shifts to maintaining market share, optimizing operations, and possibly diversifying products or services.

5. **Decline or Exit Phase**: Some businesses may face decline due to market changes, increased competition, or other factors. Entrepreneurs may need to rethink their strategies, pivot the business, or consider exiting the business.

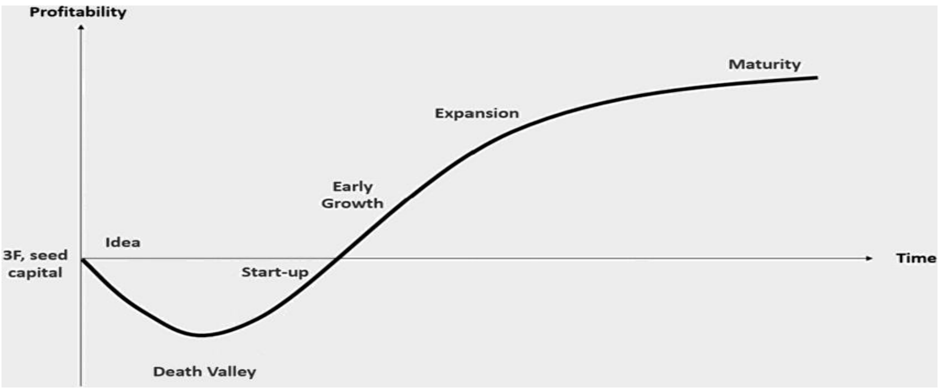

Figure 1: The Stages of Life Cycle of Entrepreneurship (Maha et al., 2021)

In contrast to Audretsch's 5-phase entrepreneurial life cycle, and particularly to Bayarchenko's 3-phase life cycle, which focuses on Technology Readiness Levels (TRL) and methods of financing, Işın et al.(2024) have proposed a broader and more up-to-date model consisting of a 6-phase life cycle.

2. FINANCING METHODS IN ENTREPRENEURSHIP

Entrepreneurship financing is currently evaluated under two main categories. The first category includes traditional financing methods such as equity, partnership, stock financing, and loans. The second category comprises alternative financing methods, including angel capital, venture capital funds, equity capital, and crowdfunding. As can be observed, stock financing is included in both traditional and alternative financing methods, functioning as a financing instrument in one aspect.

Financial methods in entrepreneurship include a wide range of strategies and techniques that business owners use to get and handle money, which helps their businesses grow, stay in business, and make money. These methods are very helpful for entrepreneurs because they help them navigate the complicated world of financial management, make it easier for them to get cash, and make the best use of their resources. Various researchers have explored and defined these methods, offering valuable insights into how entrepreneurs can effectively manage their financial resources.

In their study, Robb and Robinson (2014) examine the capital structure decisions of new firms, highlighting several key financial methods these companies use. They discuss debt financing, where firms obtain funds through loans or bonds, and equity financing, which involves raising capital by selling ownership shares. They also explore hybrid instruments like convertible bonds that combine features of both debt and equity. Additionally, the study covers financial modeling techniques for forecasting performance, cost of capital analysis to optimize funding sources, and risk management strategies to mitigate financial risks. These methods are essential for new firms to effectively raise funds, manage risks, and support their growth.

Gompers and Lerner (2001) in their work on venture capital and private equity, discuss various financial methods critical for venture capital firms and the startups they invest in. They highlight methods such as equity financing, where startups raise capital by selling ownership stakes, and staged financing, which involves providing funds to startups in phases based on achieving specific milestones. They also emphasize the importance of valuation techniques to determine the worth of startups and contract design to align incentives between entrepreneurs and investors. Additionally, they cover monitoring and governance practices to ensure that startups adhere to agreed-upon business plans and strategies. These financial methods are vital for venture capital firms to effectively support and grow startups while managing risks and returns.

Harrison and Mason (2007) discuss various financial methods that are vital for business angel investments and the startups they support. These methods include bootstrapping, where startups use their own resources and revenue to fund operations and growth, and debt financing, which involves borrowing money that must be repaid with interest. They also emphasize equity financing, where business angels provide capital in exchange for ownership stakes. Additionally, the study highlights the importance of government programs and support, which can offer grants, loans, and tax incentives to startups. Lastly, they cover financial management practices, which encompass effective budgeting, financial planning, and cash flow management to ensure the financial health and sustainability of the business. These methods are crucial for securing funding, managing finances, and fostering growth in startups.

Gitman et al. (2014) provide a comprehensive overview of various financial methods essential for effective financial management. They discuss financial management, which includes budgeting, forecasting, and financial analysis to ensure a company's financial health. Capital budgeting and investment analysis are highlighted as methods for evaluating and selecting investment projects to maximize returns. Risk management and financial planning are emphasized for identifying, assessing, and mitigating financial risks while planning for future financial needs. Funding strategies and capital structure are covered, focusing on how businesses can optimize their mix of debt and equity to fund operations and growth. Lastly, they examine financial markets and institutions, which play a crucial role in providing access to capital and facilitating financial transactions. These methods are essential for making informed financial decisions and ensuring the long-term success of a business.

Sahlman (1990) underscores the critical role of various financial methods in the entrepreneurial and managerial landscape, emphasizing the necessity of financial planning and forecasting, capital budgeting, valuation techniques, financial statement analysis, risk management, funding strategies, and performance metrics. These methods serve as foundational pillars for informed decision-making, efficient resource allocation, and value creation within businesses. By adeptly applying the financial tools, entrepreneurs and managers can navigate complexities, mitigate risks, and optimize outcomes, ultimately fostering sustainable growth and success in their ventures:

1. **Bootstrapping:** Bootstrapping involves financing a business using personal savings, revenue generated from the business, and other internal resources without relying on external funding. This method emphasizes frugality and efficient resource management. Entrepreneurs using bootstrapping aim to grow their businesses with minimal external debt or equity investment, thereby retaining full ownership and control.

2. **Equity Financing:** Equity financing is the process of raising capital by selling shares of the company to investors. This method provides businesses with the necessary funds in exchange for a percentage of ownership. Equity financing is particularly beneficial for startups and growing companies as it does not require repayment like debt financing. However, it involves giving up a portion of control and profit-sharing with investors.

3. **Debt Financing:** Debt financing involves borrowing money that must be repaid over time, usually with interest. This method includes loans from banks, financial institutions, or issuing bonds. Debt financing allows entrepreneurs to retain full ownership of their company but requires a steady cash flow to meet repayment obligations. It is suitable for businesses with predictable revenue streams and the ability to manage debt responsibly.

4. Venture Capital: Venture capital is a form of equity financing provided by venture capital firms to startups and small businesses with high growth potential. These firms invest in exchange for equity, often taking an active role in the company's management and strategic direction. Venture capital provides significant funding and valuable expertise but typically involves giving up a considerable amount of control and ownership.

5. Financial Management: Financial management encompasses a range of practices aimed at efficiently managing a company's financial resources. This includes budgeting, financial planning, cash flow management, and financial analysis. Effective financial management ensures that a company maintains financial health, makes informed strategic decisions, and achieves long-term sustainability. It is a continuous process that helps entrepreneurs navigate the financial complexities of running a business.

3. NAVIGATING THE ENTREPRENEURIAL FINANCING LANDSCAPE: STRATEGIES FOR EACH STAGE

According to the entrepreneurial stages described in the literature, financing methods vary. This variability is not only natural but also inevitable due to the dynamic nature of entrepreneurship, which leads to a continuous state of fluctuation. At this point, examples of financing methods based on the entrepreneurial stages discussed in the literature are evaluated below.

Seed Stage: At the seed stage, entrepreneurs often rely on bootstrapping, using personal savings and funds from family and friends, which allows them to retain full control (Cassar, 2004). Angel investors are another option, providing capital and mentorship in exchange for equity (Sohl, 2003).

Startup Stage: During the startup stage, equity financing from venture capital firms becomes crucial, offering significant capital for scaling and product development in exchange for equity stakes (Gompers & Lerner, 2001). Crowdfunding is also popular, raising small amounts from many people through online platforms, which validates the business idea and builds a customer base (Belleflamme, Lambert, & Schwienbacher, 2014).

Growth Stage: As the business grows, debt financing through bank loans or lines of credit is often used, allowing capital acquisition without diluting ownership, though it requires regular interest payments (Berger & Udell, 1998). Mezzanine financing, combining debt and equity features, provides flexibility and growth capital (Schwienbacher, 2008).

Expansion Stage: In this stage, private equity firms invest large sums for significant equity stakes, aiding major expansions or acquisitions with strategic expertise (Kaplan & Strömberg, 2009). Strategic partnerships or joint ventures offer both capital and strategic resources for entering new markets and sharing risks (Dyer, Kale, & Singh, 2001).

Maturity Stage: Mature companies often pursue public equity through an initial public offering (IPO), raising substantial capital and increasing market visibility (Pagano, Panetta, & Zingales, 1998). Retained earnings, reinvesting profits back into the business, are also commonly used for further growth (DeAngelo, DeAngelo, & Stulz, 2006).

Renewal or Exit Stage: Companies might consider acquisitions, where a larger company buys the startup, providing an exit strategy for founders and early investors (Gaughan, 2010). Alternatively, a management buyout (MBO) allows the management team to purchase the business, maintaining leadership continuity (Wright, Hoskisson, & Busenitz, 2001).

4. THE IMPACT OF EQUITY FINANCING ON THE GROWTH AND EXPANSION STAGE OF ENTREPRENEURSHIP

Based on the literature review, several key findings and themes emerged regarding the effect of equity financing on the growth and expansion stage of entrepreneurship. Equity financing is widely recognized for its positive impact on the growth and expansion of entrepreneurial ventures. Most studies indicate that equity financing provides startups with the necessary capital to invest in innovation, product development, market expansion, and talent acquisition (Cassar, 2004). This financial support not only facilitates immediate business needs but also lays a foundation for sustainable growth and competitive advantage by allowing startups to focus on long-term strategic goals without the immediate pressure of repaying debt (Berger & Udell, 1998). Additionally, equity investors often bring valuable expertise and networks, which can further accelerate business growth and expansion (Robb & Robinson, 2014).

Equity financing enables entrepreneurs to access additional resources beyond capital, including strategic guidance, industry expertise, and valuable networks from investors. These resources play a crucial role in accelerating growth, scaling operations, and achieving market leadership (Hsu, 2004). The involvement of equity investors often brings in-depth market knowledge and strategic insight, which can help startups navigate complex business environments and make informed decisions (Hellmann & Puri, 2002). Moreover, the networks provided by investors can open doors to new business opportunities, partnerships, and customer bases, further propelling the startup towards market leadership (Sapienza, Manigart, & Vermeir, 1996).

Equity financing promotes a long-term orientation among startups by aligning the interests of entrepreneurs and investors towards sustained growth and value creation. Investors in equity often take an active role in guiding the company, focusing on long-term strategic goals rather than short-term financial gains (Sahlman, 1990). This alignment encourages startups to invest in research and development, brand building, and market expansion initiatives that may not yield immediate returns but are crucial for future success (Hellmann & Puri, 2002). Additionally, equity investors typically provide ongoing support and resources, fostering a stable environment conducive to achieving long-term objectives (Gompers & Lerner, 2001).

Equity financing facilitates risk sharing between entrepreneurs and investors, which is crucial for the growth and sustainability of startups. By providing capital in exchange for ownership stakes, investors share the financial risks associated with the business, reducing the burden on entrepreneurs (Gompers & Lerner, 2001). This shared risk encourages entrepreneurs to pursue innovative and potentially high-reward projects without the fear of bearing the entire financial loss (Timmons & Bygrave, 1986). Furthermore, equity investors often bring expertise and strategic guidance, helping to mitigate risks through informed decision-making and effective management practices (Sahlman, 1990).

Equity financing promotes strategic alignment between entrepreneurs and investors, ensuring that both parties are working towards common long-term goals. This alignment arises because equity investors typically seek to enhance the overall value of the company, aligning their interests with the entrepreneurial vision (Sahlman, 1990). Through equity stakes, investors gain a vested interest in the company's success, which encourages collaboration on strategic decisions and business planning (Hellmann & Puri, 2002). Moreover, equity investors often contribute strategic guidance and industry expertise, helping to shape the company's direction in ways that maximize value and support sustainable growth (Gompers & Lerner, 2001).

Despite its benefits, equity financing also has potential drawbacks for entrepreneurs. One significant drawback is the dilution of ownership, which can reduce the control that founders have over their company (Cumming & Johan, 2008). Additionally, equity investors often require a substantial influence in company decisions, which can lead to conflicts if there are differences in vision or strategy (Sahlman, 1990). The pressure to deliver high returns for investors can also push companies towards aggressive growth strategies that may not align with the founders' original plans (Gompers & Lerner, 2001). Furthermore, the process of securing equity financing can be time-consuming and expensive, involving extensive due diligence and legal complexities (Cumming & Johan, 2008).

While equity financing offers numerous advantages, there are also gaps and contradictions in its application and impact on startups. One gap is the unequal access to equity financing, as many startups, particularly those led by underrepresented groups, may struggle to attract venture capital (Brush et al., 2001). Contradictions also arise in the alignment of interests; while investors seek high returns, founders may prioritize sustainable growth and control, leading to potential conflicts (Sapienza & Gupta, 1994). Moreover, equity financing can sometimes push startups towards short-term performance metrics at the expense of long-term innovation and stability (Hellmann & Puri, 2002). These issues highlight the complexity of equity financing and the need for careful management of investor-founder relationships.

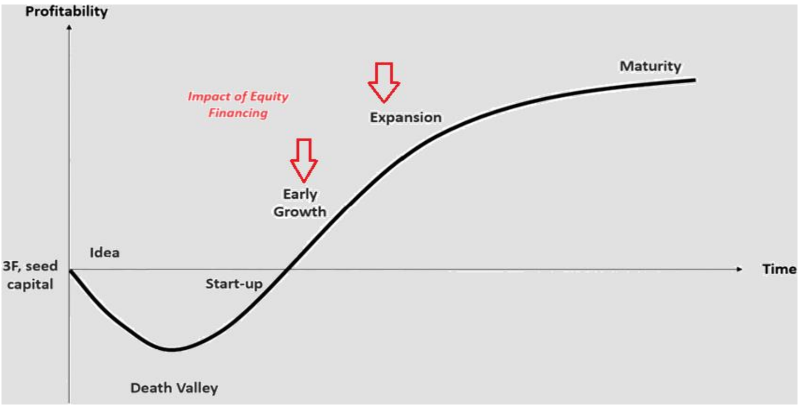

Figure 2: The Impact of Equity Financing on the Growth and Expansion (Maya et al., 2021)

According to the literature, although equity financing (Fig. 2) is recommended primarily during the early and growth stages, it is also possible throughout the entrepreneurial process (Fig. 3).

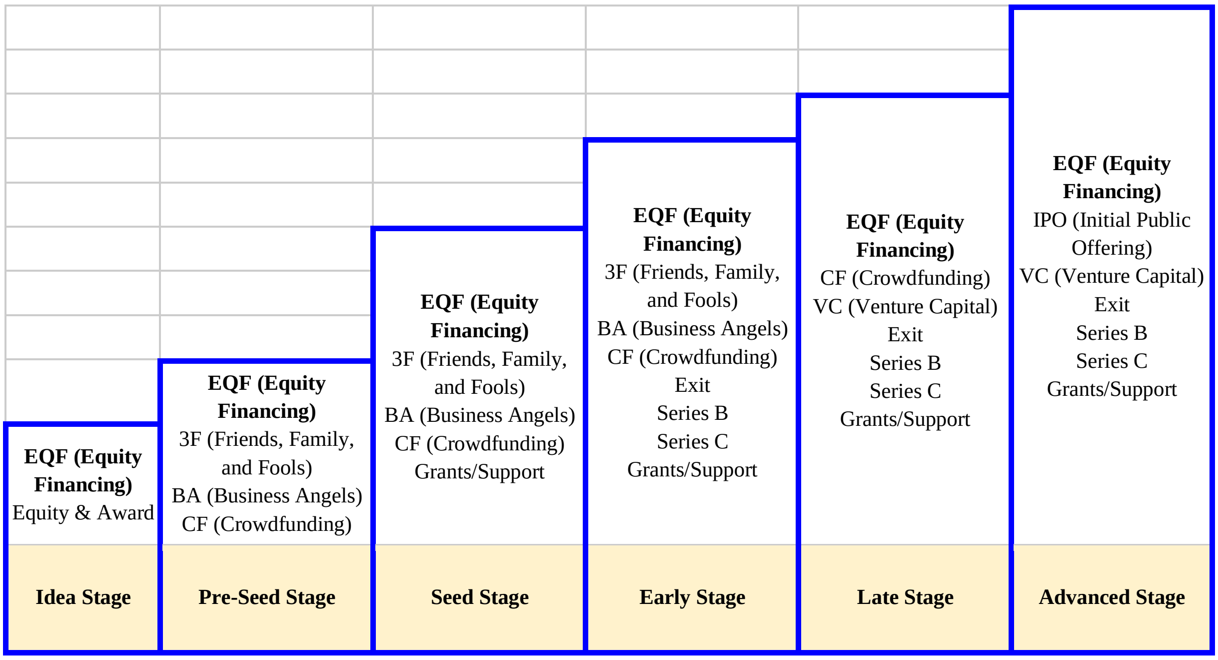

Figure 3: Shows the Impact point of Equity Financing on the Growth and Expansion (Işın et al., 2024.)

5. KEY POINTS IN ENTREPRENEURIAL FINANCING

Equity financing can be positioned at all stages of entrepreneurship. However, a critical aspect to consider is the source from which this equity financing will be obtained. All financing methods, excluding borrowing and credit, provide some form of equity financing. Whether in-kind or cash, entrepreneurs can use equity methods to secure financial resources for their ventures. It is possible to utilize equity methods across all supply processes, including labor, services, raw materials, and so on. This approach is even encouraged from the perspectives of both Marxist philosophy (Marx, 2003) and the Philosophy of the Adil Düzen (Erbakan, 1993), as a fair method for achieving equity in the world. Instead of raising money, bearing its cost, and then making expenditures, it is possible to provide in-kind financing directly through the equity method in procurement. This method can be employed at every stage of entrepreneurship, from the idea phase to the final stages.

When seeking to raise cash, targeting civilian or non-professional investors—while taking into account the following considerations in equity issuance—presents certain challenges but may offer a safer source of funding. Alternative financing methods, including equity financing, inevitably introduce risks associated with involving professional investors, such as angel investors, whose motives may always be subject to debate. In other words, securing equity financing from professional investors carries a significant risk, aptly captured by the famous Russian proverb: "If you invite a bear to dance, the bear decides when the dance ends."

The decentralized structure of entrepreneurship (Decentralization) necessitates financial decentralization as well. This decentralization defines a class of investors we refer to as civilian or non-professional—investors outside the business and financial world who are not solely interested in growing their capital, thereby representing decentralized financing (Işın et al., 2023). Equity financing can be regarded as an important investment tool, particularly for individuals who have an entrepreneurial spirit and those seeking interest-free returns. Similarly, the equity financing method is a crucial alternative to borrowing for investors aiming to support entrepreneurs, including 3F (Friends, Family, and Fools) investors, as well as those in the entrepreneur's personal network who are willing to lend.

The entrepreneurial trends and activities that emerge as a result of manipulations driven by trends and ecosystem guidance, whether in the global ecosystem or certain local elements, are shaped by the capitalist approach aimed at fulfilling needs. These manipulations, in turn, promote the use of financial methods and tools, leading to the realization of entrepreneurship. This process is often employed as a tool for the exploitation of enterprises, functioning as a mechanism that, while occasionally addressing emerging needs, more frequently ensures the persistence of those who lose, in order to generate entrepreneurial phenomena.

Within the capitalist system, capital tends to focus on exploitation. This isn't confined to the traditional exploitation of labor, it increasingly includes the entrepreneur, who is repositioned as a type of worker within the business itself. Once capital enters the equation, the entrepreneur's autonomy fades, and they effectively assume the role of labor. In this framework, entrepreneurs can be conceptualized as "white-collarless workers" (Işın et al., 2024).

Therefore, if an entrepreneur engages in entrepreneurial activities with motivation and effort free from manipulation and with their own free will, the likelihood of preserving their freedom will be high. This would also encourage entrepreneurial freedom by keeping entrepreneurial motivation distant from popular capitalist influence. As a result, the entrepreneur would be able to make decisions based on their free will throughout all stages of the venture's life cycle, which, in turn, would enable them to maintain their freedom in accessing finance and ensure the exercise of their will and success in doing so. Freedom will make the entrepreneur transparent, confident, and courageous. These outcomes will enable the entrepreneur to access financial resources, including equity financing, that do not pose a threat to their freedom.

A venture without financial independence can never be truly autonomous. In entrepreneurship, all existing alternative financing methods tend to restrict entrepreneurial independence. This situation is, in fact, contrary to the entrepreneurial spirit. Although popular entrepreneurial culture promotes alternative financing methods, considering that 1 out of every 10 ventures fails, the importance of entrepreneurial independence and the potentially threatening consequences of alternative financing methods are evident. These outcomes are a natural consequence of the capitalist system's tendency to either take over ventures by sidelining the entrepreneur or discard them when they are no longer useful. The most significant counterargument to this is independent entrepreneurship, which demonstrates the will and effort to continue a venture with autonomous decisions under all circumstances (Işın et al., 2023). Equity financing and the use of civil resources are important means to eliminate this threat. Indeed, entrepreneurial independence is a critical approach in addressing the selection problem of the popular entrepreneurial world in terms of access to financing. Similarly, investors face a significant selection problem in their investment decisions, as is the case in the public sector (Işın et al., 2023).

As in Nasreddin Hodja's story, in entrepreneurship, "he who pays the piper calls the tune." For entrepreneurs, investors, governments, and nations, ensuring the security of entrepreneurial ventures is crucial for the protection not only of the business itself, but also of capital, labor, and innovation. The most fundamental factor in entrepreneurial security is financial security. Financial security is important not only for the protection of capital in entrepreneurship but also in terms of national security. When global capital, whether directly or indirectly, enters ventures in an uncontrolled manner, it poses the threat of overpowering and eroding the capital of both entrepreneurs and non-professional investors, while also carrying the risks of exploiting or completely taking over national resources, along with labor, capital, and innovation, in the context of national security (Işın et al., 2024).

Entrepreneurial ethics are primarily shaped by the ethics of the entrepreneur. However, as a venture receives more investment, the ethics of the venture begin to shift in accordance with the ethics of the capital it attracts. Over time, the investor, rather than the entrepreneur, increasingly dictates the ethical framework of the venture, particularly as investments grow.

The ethics of the entrepreneur are molded by the sources of the entrepreneur's motivation, and the venture develops within this ethical framework in its operations. If the entrepreneur’s sole motivation is profit, this will influence all aspects of the venture, from its management style to the delivery of its products or services. In ventures that are primarily focused on outcomes and success, the mentality that “the ends justify the means” tends to become more prevalent. This mentality also has an impact on the ways in which ventures seek financing. Methods such as debt, interest, or the high return expectations of professional investors, alongside dreams of a lucrative exit, can have detrimental effects on the ethics of the venture. This ethical shift, which affects all components of the venture, can lead to negative outcomes such as "Ponzi schemes" or phenomena like the “Tosuncuk” case. The pathway to such outcomes is shaped by both the entrepreneur's and the investor's ethics (Işın et al., 2023). From this perspective, it is not only the stock financing method that is important but also the sources from which the stock financing is obtained.

6. DISCUSSION

The study brings key discussions about equity financing into sharper focus. These discussions play a vital role in shaping the understanding of equity financing from both the entrepreneur’s and the investor’s perspectives, as well as in informing decisions regarding investment and capital acquisition.

The study begins by questioning whether equity financing should be regarded as a method or a tool. In practice, it is largely treated as a method—one that spans the entire entrepreneurial journey, from inception to exit. It’s often used independently but also frequently combined with other approaches, as seen in models like angel investing, crowdfunding, and strategic partnerships, all of which incorporate equity financing in some form. Nearly all of the partnership, angel capital, crowdfunding, and other financial sources used in entrepreneurial finance are combinations of equity financing. What truly matters, however, is not the structure itself but the impact equity financing creates within the venture. Whether it is applied alone or alongside other financial strategies. This holds just as much weight for investors. Their choice of equity model often depends on the level of rights they seek within the venture and how they plan to exercise those rights. On the other hand, equity financing also positions as a tool in the investment world for other funding methods.

The second key question explores whether equity financing truly benefits entrepreneurship. From the perspective of entrepreneurs, equity financing is nearly the ideal financial source and method, particularly in terms of reducing financial costs and facilitating access to capital. Yet, the process of attracting investors and preserving core venture values like autonomy, independence, and ethical integrity introduces significant challenges. These risks demand careful, experience driven analysis and strong execution capabilities to navigate effectively.

Following the second discussion, a third debate centers on which sources are most suitable for equity financing. This debate draws a clear line between professional and non-professional investors. While professional investors can pose risks to the venture’s core values, non-professional investors often present barriers in terms of accessibility and persuasion.

Moving beyond the dominant logic of risk and return, equity financing can act as a vehicle for entrepreneurial liberation. When entrepreneurs engage with interest-free, non-professional investors who share their values, they retain strategic autonomy, uphold ethical standards, and open capital access to a wider community. This approach reframes equity not merely as an exchange of ownership for capital, but as a shared moral and strategic alignment. Rooted in traditions like the Ahiyan and echoed in today’s funding models, civil capital emerges as a meaningful response to the extractive nature of global finance.

7. CONCLUSION

In conclusion, the relationship between equity capital and the growth and expansion stage of entrepreneurship is is both complex and essential to startup success. Bridging the gap in utilizing equity financing during these critical stages requires a well-rounded strategy, one that integrates thoughtful planning, strong investor relationships, and disciplined financial oversight. By gaining a clear understanding of how equity funding shapes business development, entrepreneurs are better equipped to make informed decisions about capital allocation and long-term financial strategy. Implementing the recommended strategies and advocating for supportive policies, can create an enabling environment that empowers entrepreneurs to leverage the full potential of equity financing for sustained growth and expansion. Ultimately, these efforts highlight the importance of sound financial management in driving innovation, generating employment, and economic expansion in entrepreneurial ecosystem.

One of the most important advantages of equity financing lies in its support for interest free financial autonomy in a business. This model not only reinforces entrepreneurial independence but also removes interest related costs from production, improving cost-efficiency and strengthening a business’ competitive side. A key aspect is the preference for non-professional investors, those who contrabute capital without aiming for management control. Thereby supporting the preservation of the core values and operational freedom of the business. Achieving this investor profile is more attainable than often expected, especially when businesses maintain transparent management and perform consistent and stable growth. Civil financing, supported by civil societal organizations, and public institutions, provide a reliable path to secure funding under these principles. At the same time, mobilizing savings that are kept outside the formal economy into the market should strengthen this financing model, which fosters lower-cost production and challenges the dominance of capital-driven finance.

To bridge the current gap and enhance the role of equity financing in supporting entrepreneurial growth and expansion, a set of actionable strategies has been outlined. Before seeking equity financing, entrepreneurs should engage in comprehensive strategic planning. This includes evaluating their growth potential, setting clear business objectives, and developing a persuasive value proposition that resonates with prospective investors. By aligning these goals with investor expectations, entrepreneurs can improve their appeal and secure more favorable terms of investment (Gompers & Lerner, 2001).

Developing strong, trust-based relationships with equity investors is critical to the success of equity financing. Entrepreneurs should prioritize clear, ongoing communication and regularly share updates on business performance. By managing a transparent and collaborative dynamic, they can gain both financial backing and also valuable strategic support through expansion (Hellmann & Puri, 2002).

Strong financial management and sound governance are essential to maximizing the benefits of equity financing. Entrepreneurs should establish solid financial controls, closely track performance indicators, and follow best practices in business management. By demonstrating financial discipline and transparency, entrepreneurs can build confidence in investors and strenghten their credibility in the market, paving their way to additional funding rounds and strategic partnerships (Sahlman, 1990).

8. RECOMMENDATIONS

Drawing on the findings of this study, the following recommendations are offered to strengthen the role of equity financing in supporting entrepreneurial growth and expansion. Entrepreneurship support organizations and academic institutions should design targeted capacity building initiatives that equip entrepreneurs with the tools to navigate equity financing with full confidence. These programs must offer hands-on guidance in areas like strategic planning, investor engagement, and financial oversight tailored specifically to the challenges of growth-stages.

Raising awareness, building understanding, and offering consistent support through decentralized venture capital platforms is essential.To achieve this, public backed civil platforms should be developed. The platforms should provide regulatory guidance without restrictive pressures capital interests. It’s equally important to actively involve the non-profit sector, encouraging its contributions as part of these inclusive financial ecosystems. In this regard, the Ahiyan model offers a valuable historical model that can be restructured for today’s entrepreneurial needs. The Ahiyan model, rooted in Anatolian socio-economic history, refers to a decentralized, ethics based communal financing system that emphasizes fairness, mutual support, and most importantly interest free transactions. Historically, it provides a unique conceptual bridge between civil capital and modern entrepreneurial finance. By integrating the core principles of the model into today’s equity models, businesses can align with modern day values while accessing sustainable capital.

Entrepreneurs, industry associations, and advocacy organizations should take and active role in pushing for regulatory reforms that foster equity financing and entrepreneurial development. Key priorities include simplifying regulatory frameworks, minimizing management difficulties, and strengthening investor security to improve access to equity funding for businesses.

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