# NEXUS BETWEEN GREEN VENTURE FUNDING AND BEHAVIORAL CORPORATE FINANCE

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**Abstract:** Behavioral finance is often linked with the study of behavior of investors in relation to stock market. However, they are fewer studies in relation to corporate behavioral finance and even less when it comes to investor's behavior investing in green venture. Green ventures have the ability to transform the current state of economy into a sustainable one by generating sustainable and environmental friendly innovation in the market. As the organizations product or services are different in terms of its features, motives and the approach from the usual start up, green venture might find more difficulties while rising and convincing investors. This conceptual study aims to address green venture funding issues from the theoretical lenses of behavioral corporate finance.

**Keywords:** Green Venture, behavioral corporate finance, Green venture funding, Perception asymmetry

## 1.0 Introduction

Green ventures within sustainable entrepreneurship faces issues of financial access is a weak assumption, which is not is neither explored thoroughly nor much empirical research has been done on this subject (Kumar &Ali 2010). This major challenge is assessing motivation of investors beyond the profits and the thoughts behind the strategies for achieving sustainability linked goals. Behavioral corporate finance can help in understanding the rationale behind investor's decision making factors that is beyond the traditional concepts of risk, return, time and liquidity. As per the traditional theories the investors and the owners are able enough to comprehend the complex dilemmas and carry out limitless immediate optimizations (Orsato 2013).

This article main focus is difficulties faced by the green ventures in raising seed capital for carrying out their works especially at initial stages. The other focus is also in comprehending the difference in the supply-demand perspective of investors in these sustainable ventures from that of the traditional ventures (Aragon-Sanchez et.al 2017). Next the article tries to draw a rational framework using behavioral corporate finance using some new concepts. Finally, it tries to give recommendation for future research.

## 2.0 Objective:

The objective of this paper is to find the relationship between investors attitude towards investment in green ventures based on the behavior corporate finance theory.

## 3.0 Methodological Approach:

A wide ranged literature review was conducted in different stages for this theoretical article. Initially research was conducted with terms like "green ventures", "sustainable organization", and "green venturing seed capital issues", general characteristics of such organizations, the issues mainly financial faced by them and also by building on previous work by different authors (Aragon-Sanchez et.al 2017). Next, for behavioral finance a variety of relevant and high level journals were searched using different combinational word search like "behavioral corporate finance" and "green ventures", "behavioral corporate finance", or "behavioral finance". In addition, use of Google scholar search was use to widen the search results. Largely, hypothesis and conceptual studies were analyzed and taken into consideration with additional support from some of the empirical works. Importance was given to on hand literature reviews along with the studies and theories relating to behavioral corporate finance. The impact of contact between investors and the organization on the financing decision of the investors are considered as unit of analysis.

## 4.0 Green Ventures

Green ventures can be described as the novel companies with the mission of having a green impact on the economy and to have a positive effect on the environment through manufacturing or selling such product or services (McNally 2015). These could range from reduced emission of dangerous chemicals or gases in the environment, optimizing energy utilization, enhancing and adding to circular economy and likewise. These companies stand out from other companies in the form of product or services that are designed eco-friendly, high quality endurance, avoid usage of dangerous chemicals and making use of renewable resources (McNally 2015).

Furthermore, these require long product or service development time before they are into implementation stage, however, some may target the markets that need immediate attention and a probable sustainable solutions and modification in the existing business model to flourish (Patzelt & Shepherd 2016). The orientation of such organization can vary from non-profit oriented robustly environment friendly, Profit based or a mix of both types. The organizations with specific environment friendly orientation and with no particular objectives are usually analyzed to lack business qualification (Patzelt & Shepherd 2016). The sustainability factor varies differently from efficiency to sufficiency for instance decrease in usage of particular item or to purchase renewable products that are disposable and are compatible with nature. The strategic orientation differs, the growth of the organization may get stunt subject to concession of environmental objectives or based on sustainability. Further, the environment that the organization functions in is also a deciding factor.

## 5.0 Behavioral Corporate Finance

Behavioral corporate finance is a part of behavioral finance and is relatively new subject in the recent decades. Behavioral finance is a branch of finance, which has been recognized as an individual study based on accumulated pragmatic proofs collected in financial market studies that challenge the "Efficient Market Hypothesis" EMH that forms the basis for the current finance theory, that states that market as self efficient, with almost perfect resource allotment (Tipu & Arain 2011). The proof includes investor's interest in satisficing instead of optimizing, investors current mood while investing in shares, decisions by investors that are based on intuitions along with the influence of news relating to organizations (Tipu & Arain 2011).

Some of the finance theories believe people can be partial and irrational, however they insist that there is no systematic alterations. On contrary, behavioral finance proposes that alterations are important and are organized. Alteration is humanly, individual state of mind is result of the knowledge expansion, accumulated learning processes, exposure to different information, environment and its own experiences (Weber 2017).

Implementation of behavioral finance to corporate finance is now drawing consideration from many academic. It looks into the rationale behind financing decisions made by management within the organization (Alam & Tang 2012). It focuses on methods to drive administrative to optimal behavior, the factors that influenced their decisions while taking capital structure decisions and organizations financial policies. Behavioral corporate finance has recommence humanity in the corporate finance decisions.

## 6.0 Seed Funding Decision

The central concern of this article here is implementation of behavioral corporate finance to investor's financing decision of green venture also known as entry decision. The decision by the owner to start a green venture is not enough; they need to convince investors to finance their ventures. They need to try rationale behind the decision process and criteria of investors (Alam & Tang 2012).

## 7.0 Understanding the Behavioral Finance Approach To Seed Funding Decisions

As indicated earlier behavioral finance focuses more on financial markets and the behavioral corporate finance is a recent phenomenon. The investors for the green ventures may vary from family members, friends, venture capitalists to business angels (Vickers 2015). Our study main focus is business angels and venture capital. Business angels take investment decisions based on personal experience, and their intuition whereas VC has a more systematic approach with the data analysis of the factors related to the green ventures. As per the behavioral game-theoretical model, while choosing between VC and business angels, investors mostly prefer business angel as they help overcoming agency issues via forming trust and bond with the owner even if the VC will optimize the firm value (Vickers 2015). Some of the studies suggest, VC investors are also subjected to systematic biases (McWade 2012). Some studies pots out the deficits in asymmetric behavioral theory listing the complexity when the owner of the green ventures could be the investors and other investors could become an agent (McWade 2012). To justify these counter arguments theories like "perception asymmetry" came into existence.

## 8.0 Perception Asymmetry

Perception asymmetry is a state of affairs in which there is gap in perception between the owner and the investors in relation to profits and loss probabilities, business prospects, and the supposed value of prospects (Erikson 2014). The only time this gap doesn't exist is when the owner and the investors have same expectations. PA is based on two theories that is prospect theory and affects theory.

**8.1 Prospect Theory:** As per the prospect theory, decision consists of two phases that is starting phase called framing and the later known as evaluation phase (Alam & Tang 2012). The framing phase includes different functions that make decision problem simpler before it is forwarded to next phase. In the evaluation phase different alternatives are assigned values for making the decision making process easier.

**8.2 Affect Theory:** This theory purposes good or bad impression act as a medium for quick opinion decisions (Alam & Tang 2012). For instance, shares of good company are perceived to be of low risk and that of bad company demands higher return as it is perceived risk is higher.

Based on these theories the basic assumption under the perception asymmetry is built. The opinion of the owner and the investors are impacted by three factors from both the theories that are framing, evaluation and perception judgment (McWade 2012). Human brain could act as a fourth factor however; we will limit the research to three.

Furthermore, in relation to perception asymmetry is the result of difference in thinking and get involve in conflicts that adds to the cost or may result in constructive disagreements of difference in knowledge and experience that may leads to enhancing the value of the organization (Tipu & Arain 2011). Owners often take decisions based on their perceptions and effectuation therefore has the gap with the investors. Hence, the theory that the perception difference between owners and business angels are small as they take decision based on the intuition and their personal entrepreneur experiences in comparison to VC and the owners opinions. Aligning the interest alone doesn't solve the conflict; answer is more complex and needs to be researched. Mentoring can help lessen the knowledge gap and owners need to communicate their product quality and its features to the investors. This will enhance the comprehension between the investor and owner of green venture in its funding.

## 9.0 Other Reasons:

The other reasons of investor's contribution to the green ventures beyond traditional risk and return can be based on facts like investors interest in the organization similar to them, based on perceived value when linked to such companies, social status or other such considerations (Tipu & Arain 2011). Behavioral corporate finance thus helps in understanding the rationale behind investor's investment motivate by both financial return and social impact. There are proof from empirical researches supporting the explanation for such investor's attitude (Weber 2017). Like some of them invest for emotional grounds to boost a certain type of sustainable organization or to help the owners or may be because of the significance of a technology. The funds from family and friends can be noble in nature and there concern is to support the owner grow (Vickers 2015). The unselfish motives can also be expected from strangers based on the predisposal interest in supporting green economy. This interest could also depend on the observation from the average figures that public funding gives higher return than the private. They consider it less risky and non-financial advantages by investing in such firms (Weber 2017).

## 10.0 Summary

This report discusses seed funding issues in relation to green ventures with the help of behavioral corporate finance theory. It also describes the issues faced by the green ventures while raising the initial capital. It does a literature review and helps in understanding the rationales behind investor's decisions and the underlying processes. The study further uses perception asymmetry theory and its relevant concepts to analyze the investor's behavior. It also tries to reason the other probability behind the investor's motivation to invest in such firms. This research was conducted with the conviction that if the issue is comprehended well, then organizations can positively influence the decision making process of investor. Even though the article doesn't come up with a particular model, Attempt has been made to influence the future thoughts and empirical research from the thoughts and knowledge shared.

## 11.0 Suggestions for Future Findings:

Some of the future research topics relevant to the given issue are

- A formal study through surveys on the owners from the green organizations and usual organizations to know the issues they face and collect evidences,

- The gap between investors and the owners can be reduced by considering rationales behind information, perception and knowledge.
- Role of mediators and their expert skills and their contacts to reduce the risks inherited in the green ventures (Vickers 2015).
- Mediator's role in avoidance of unfavorable decisions and their contributions towards introducing the investors and the owners,

## 12.0 Conclusion:

In conclusion, green ventures focus on product or services that reduce carbon footprints on the environment. This put together them as different case from other products or services and needs to be understood thoroughly. Behavioral corporate finance helps in comprehension of goals of investors besides financial gains. It gives importance to moral beliefs and values of the investors while investing in the organizations. Furthermore, it discusses the importance of non-financial interest of the interest based on their perceptions and intuitions. Perception asymmetry exists between owner and the investor thinking which can increase the cost or beneficial through constructive feedback and by matching the like-minded people. Further research can be directed based on role of mediator and usage of their skills, empirical research by collecting evidence built using behavioral corporate finance theory.

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