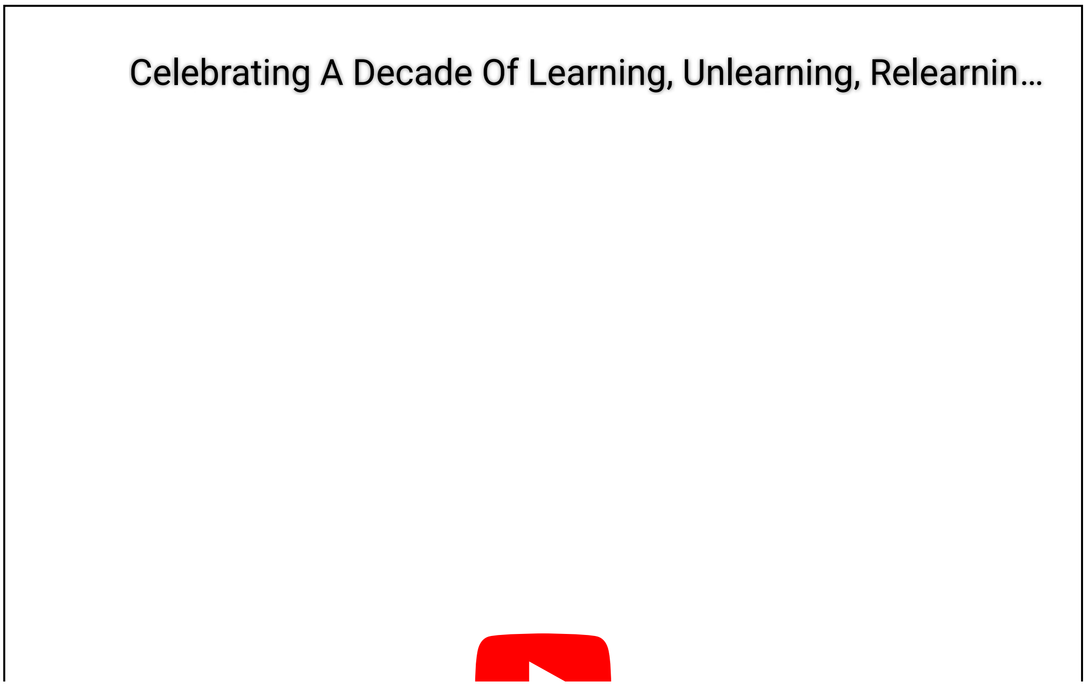
3.2 Sources of finance

The big picture

Business in the educational technology (EdTech) sector is booming. Even before the COVID-19 pandemic, there was a growing number of new businesses offering a wide range of technology-based educational services. Some of these businesses provide services to schools. You may even use some of their products, for example virtual learning platforms, student information management systems or language apps. Other examples of these businesses provide tutoring services directly to students and their families, or a hybrid of services.

A well-known example of an educational technology company is BYJU's in India, a for-profit private limited company set up in 2011. BYJU's app provides online lessons to more than 150 million student users; and the business has more than 12 000 teachers. The video highlights some of BYJU's achievements on its 10th anniversary in 2021.



Video 1. BYJU's celebrates a decade of learning.

Investors are always looking to fund new businesses in rapidly growing sectors of the economy. As a result, the funding sources for new EdTech businesses are many and varied; many businesses like BYJU's are able to access multiple sources of finance in order to start up and grow. In 2022, BYJU's plan to go public was reported. Selling shares on the stock market would allow an early investor in the business to sell its portion of the company and potentially earn a large payout.

All new businesses need to be funded in some way. But all funding sources come with consequences that can include risk, issues around ownership and control, and potential conflicts with the purpose and values of the business. New businesses need to consider their sources of funding – and possible consequences – carefully. They need to ensure that the funding aligns with their objectives, as choosing the wrong funding source could lead to conflicts in the business and even insolvency. The appropriateness of different sources of financing will be explored in Section 3.2.3 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/ext-sources-of-finance-debt-id-39292).

Concept

Sustainability (economic)

Businesses/entrepreneurs are risk-takers and strive to make a profit that sustains the activity of the business. Sustaining business activity is important when businesses are providing for human needs, supporting the wellbeing of diverse stakeholders in the community or providing tax revenue to support public services and infrastructure.

Lack of finance is the main reason that businesses fail. Identifying and securing enough finance and the right kind of finance is one of the most important parts of business operations. Finance is the fuel that keeps the business running.

Figure 1. All businesses need ‘financial fuel’ to get started and sustain operations.

Credit: Getty Images

Theory of Knowledge

The hype and hope around new startups can sometimes seem quite irrational. There have been startups that raise millions in funding with no history of profitability. It is sometimes clear that the scale that comes with funding will enable the business to earn a profit. But this is not always the case. It seems that there is often a level of emotion involved in investor decisions, particularly when charismatic founders are involved.

- What roles do reason and emotion play when evaluating financial performance?