

# Challenges in Attaining Bank Finance for Startups

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## Article Info

Volume 83

Page Number: 8768 – 8777

Publication Issue:

May - June 2020

## Article History

Article Received: 19 November 2019

Revised: 27 January 2020

Accepted: 24 February 2020

Publication: 18 May 2020

## Abstract:

All startups need money but managing the money of a startup is an art and at the same times a science also. Availability, spending and investment of money are crucial to a startup. Capacity of startup for allowing the smooth operation and not lacking funds for its operations decides the importance of finance in business. Prior to starting a startup, it is essential to know about the available sources of finance. By analyzing the sources of finance, business will get an idea about from where the money can be obtained. Analysis of other sources of finance is therefore important to every business. In most of the case the first choice for startup entrepreneurs is bank loans. This paper analysis the importance of bank loan for startup enterprise and at the same time the paper highlights the problems faced by entrepreneurs in attaining bank loan..

**Keywords:** Startup, Finance, Operations, Bank Loan.

## INTRODUCTION

A startup venture could be defined as a new business that is in the initial stages of operation, beginning to grow and is typically financed by an individual or a group of few individuals. It is a young entrepreneurial, ascendable business model developed on technology and innovation in which entrepreneurs advance a product or service for which they anticipate demand through existing disruption or generating entirely fresh markets. Startups are nothing but the idea of commercialization. A startup requires continuous flow of money while the generation of revenue by them is insufficient. With less profits and huge expenses, startups need funding to survive. Necessary stability to the business and proper functioning of the business processes are possible only by pumping required amount of money to the startups.

Availability of finance can make or break businesses. Startup needs finance for achieving goals, short term and long term activities and for meeting financial

requirements. Finance is important to begin the business operations, for expanding businesses and to recruit staff. Companies can obtain finance from a lot many sources like loans, investors etc but efficient financial decisions are essential for the success of a company as it involve the management of financial activities and sources of fund. Capital and capital access to startups is an enduring problem.

While Venture Capital and Private Equity have helped some of the last startup enterprises, a vast number of startups are still struggling to raise funds from the institutional setup. The challenge of funding is not just imperfect to seed sequences, however also to crucial Sequence A and B series. For a startup looking to scale, the rounds are still hard to scale, as the number of investors who write big checks in India is very small. Critics argue that this is a challenge, however, and will always be on different sides of same coin; it is a challenge for some, a possibility for others.

In the early start, spending of money from startup companies tend to go much ahead then their revenues as they give priority on research, development and making their idea marketable. In most situations, they require funding. Startups enterprises always focus for funding assistance from financial institutions like banks or credit unions, in the different category of loans or through loans specified for business purpose from local banks sponsored by government, or take assistance from nonprofit organizations and state governments for different grants. Easy and smooth flow of funds for startup enterprises has always been a challenging issue to address by Economists and startup entrepreneurs.

Funding gaps occur usually in cases of companies in a given point of their life and with special field of activity. The problem of funding gap is prevalent in young, technology-oriented startup enterprises. As a result of the funding gaps, companies with huge growth potential are not able to obtain the necessary capital for their operation; hence they cannot live up to their growth potential. Funding gaps evolve in case of startup companies as a result of their special characteristics. In the seed and early phase of their start these enterprises are in the stage of research & development or they have just entered the market. In the current situation collaterals and revenues are negligible; hence they could not obtain bank financing. BalázsFazekas (2015).

## LITERATURE REVIEW

A start-up is a corporation that is in the initial stage of its processes. Start-ups are regularly at first rolled by bank of their business founders as startups try to take advantage of on enhancing a service or product for that they trust there is a demand (Sanghi and Srija, 2016). The start-up and SMEs appear to be of the same size with limited revenues, high cost of operation, job creating but they operate on entirely different business models.

In past many years there has been huge uprising in startup enterprises in India, and now a days' lot of innovation are coming in the shape of startup enterprise. The startup enterprises are surely the result of the startup concept and through this the Central Government consider the collective aspirations and enterprise of the risk taking Indian by provide maximum help and support through the medium of finance, technology economic, social as well as environment. The Odisha startup policy was introduced in the state on 29 august 2016; the startup policy of Odisha gives a very clear picture about the mission, vision and mandates which are essential for an enterprise to get it recognized as a registered startup of Odisha.

Till date more than 35 varieties of startups are running their operations in the state. Large numbers of startups were established in the last few years. Many startup enterprises are coming up but they are facing major problem in accessibility of finance and apart from government schemes which are supporting a very few startups others face obstacles in getting smooth flow of finance for the startup, although many agencies make claims that alternative finance facilities are available for startups but such finance options are either very limited or not opted by the startup enterprises. Startups are generally small in size and in the development stage being funded and operated by few promoters or one person.

The primary feature of startup firms is to provide service and/or product which are currently not present in the market or being offered in an inferior form. In the starting phases, spending of startup companies tend to go much ahead then their revenue earnings as they center themselves on developing, testing and making their idea marketable.

In large number of cases, they require funding. Startups enterprises always look for financial support

from commercial banks or credit unions, in the shape of business loans or through Small Business loans from local banks sponsored by government, or approach nonprofit organizations and state governments for different grants. Easy and quick accessibility to finance for startup enterprises has always been a challenging issue to address by Economists and startup entrepreneurs. Problems linked to the decision of capital structure have attracted lot of attention, as these issues are primarily associated in small and comparatively new firms.

Thomas Astebro and Irwin Bernhardt (2003) research the connection between the survival of new private venture and bank advances. They expressed that there is a negative connection between bank advance furthermore, business survival and positive connection between non saving money advance and business survival. These think about depends on the information alluding to an arrangement of independent company propelled in 1987 in U.S.

Sarkar, A. (2016) looked at the observational confirmations on the effect that the financial speculators can have on the improvement way of new firms. Their investigation proposes that there is delicate aspect to financial speculators as far as supporting organizations to develop their human assets inside the association.

Ghatak (2010) clarified about of the serious factors confronted by MSMEs in India. These factures comprised: accessing suitable and timely finance, lack of obtainable information, access to skillful manpower, R&D facilities and restricted marketing channels.

Hussain and Yaqub (2010) exposed approximately business encounters confronted by businesspersons in Pakistan. The conclusions were predictable was means the founders of Pakistan are no diverse. They face defies that other businessmen face in emerging

nations. Scarcities of financial resources and/or failure to get access financial market were the most severe problems.

Dessai (2017) dealt with recognizing the different systems offered under startup by Govt. of India, and amount of economic support offered and performance is studied over the period of 5 years. Despite establishing more than 80 % of the total number of industrial enterprises and supporting industrial development in country, startups in India suffer from the difficulties of economic support from the government, which has resulted in overall startup growth of just 10 to 15 % over the last 5 years. There is an essential of more distribution of funds for startup expansion that might upsurge in employ generational particularly in village range and can quicken general GDP growth.

The different financial agencies set-up in India for the promotion of industries has done remarkable work. However, these agencies are not effective for new or relatively unknown entrepreneurs due to association of risk with the ventures". (Chopra 2017)

## CONCEPTUAL FRAMEWORK

Startups are generally small in size and in the development stage being funded and operated by few promoters or one individual. The main objective of startup enterprises is to provide service or a product which is currently not being available anywhere in the market, or being offered in an inferior manner. In the beginning stages, expenses of startup companies' tend to go much ahead then their earnings as they center themselves on developing, testing and making their idea marketable. Smooth obtainable finance required for a startup enterprises have always been a burning issue on focus by Economists and startup entrepreneurs. Funding gaps occur usually in cases of companies in a given point of their life and with special field of activity.

The problem of funding gap is prevalent in young, technology-oriented startup enterprises. As a result of the funding gaps, companies with huge growth potential are not able to obtain the necessary capital for their operation; hence they cannot live up to their growth potential. Funding gaps evolve in case of startup companies as a result of their special characteristics. In the seed and early stages of their lives these companies are in the phase of product development or they have just made their market entry.

For the level of financial acumen affects progress of startup businesses, maximizing profit is the ultimate aim of every business and financial awareness can increase the chances of being successful. Loans from commercial banks are necessary for startup for many reasons which not only will provide the needed funds but also help them grow better.

## RESEARCH METHODOLOGY

This study is conducted through primary data collection where a sample of 158 from Startup's

located in the 18 districts of Odisha are chosen for the purpose of this study. This geographical area has been chosen as they represent a large number of Startup enterprises in Odisha. The population frame was drawn from the list obtained from the Startup Secretariat, IED Odisha. Each Startup was represented with one respondent only. The questionnaires were distributed based on the random sampling to ensure it is able to represent the sample population. Data collection was accomplished by Google forms and personal delivery. The population of the study consisted of promoters and directors in the startup enterprises. The questionnaire comprised of different categories to collect information on challenges and opportunities faced by startup enterprises in financing.

Questions were prepared in 5-point Likert Scale. Statistical package IBM SPSS (21) package was used to conduct all the statistical analysis. Chi-square test was conducted to establish validity.

**Table-1 Demographic profile of sample startups**

		N	Percent
<b>Location of Enterprise</b>	Urban	138	87.3
	Semi-Urban	13	8.2
	Rural	7	4.4
<b>Constitution of Enterprise</b>	Sole Proprietorship	3	1.9
	Partnership	6	3.8
	Pvt. Ltd. Company	149	94.3
<b>Type of Enterprise</b>	Manufacturing	40	25.3
	Service	118	74.7
<b>Gender</b>	Male	141	89.2
	Female	17	10.8
<b>Age</b>	18-30 Years	64	40.5
	31-40 Years	74	46.8
	41-50 Years	20	12.7

<b>Qualification</b>	Graduate	75	47.5
	Post Graduate	75	47.5
	Professional	8	5.1
<b>Experience</b>	Below 1 Year	35	22.2
	3-5 Years	42	26.6
	5-10 Years	66	41.8
	Above 10 Years	15	9.5

Source: From Primary data

This section presents the opinion of startup promoters regarding the factors which create hindrance in attaining bank finance by startup. Different factors were provided in the questioner for rating. The rating were taken on Likart 5-point scale (Strongly agree, Agree, Neutral, Disagree, Strongly disagree). Further for validity of the opinions cross tabulation is done by comparing background variables of respondents (type of enterprise, age of promoter, qualification of

promoter, experience of promoter) with respondent's opinion. The validation is proved using chi-square test.

**Table – 2:** The Percentage frequency distribution of all Background Variables of respondents with respect to respondent's opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup and the results derived from chi-square test are presented in the table below

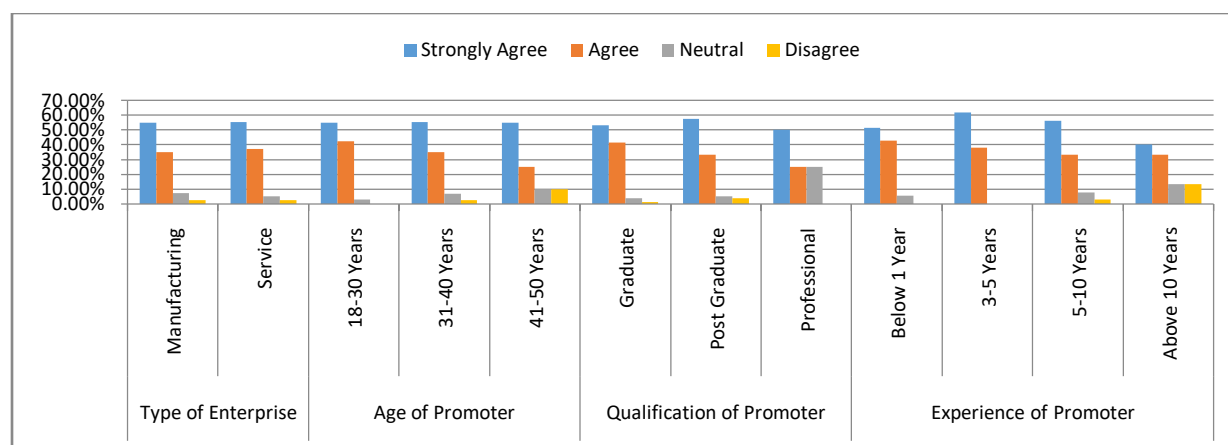
**Table-2: Analysis of the opinions of the startups on Insufficient Collaterals and Guarantees**

		<b>Insufficient collaterals or guarantees</b>				
		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>X<sup>2</sup> (DF)</b>
Type of Enterprise	Manufacturing	55.0%	35.0%	7.5%	2.5%	0.349 NS (3)
	Service	55.1%	37.3%	5.1%	2.5%	
Age of Promoter	18-30 Years	54.7%	42.2%	3.1%	0.0%	8.898 NS (6)
	31-40 Years	55.4%	35.1%	6.8%	2.7%	
	41-50 Years	55.0%	25.0%	10.0%	10.0%	
Qualification of Promoter	Graduate	53.3%	41.3%	4.0%	1.3%	8.013 <sup>NS</sup> (6)
	Post Graduate	57.3%	33.3%	5.3%	4.0%	
	Professional	50.0%	25.0%	25.0%	0.0%	
Experience of Promoter	Below 1 Year	51.4%	42.9%	5.7%	0.0%	16.785 NS (9)
	3-5 Years	61.9%	38.1%	0.0%	0.0%	
	5-10 Years	56.1%	33.3%	7.6%	3.0%	



	Above 10 Years	40.0%	33.3%	13.3%	13.3%	
N.B: * - Significant at 5% level (P<0.05), NS – Not Significant at 5% level						

**Figure-1: Opinion of Entrepreneurs on insufficient collaterals or guarantees as factors which create hindrance in attaining bank finance for startup.**



H01 There is no association (relation) between the background Variables of respondents (type of enterprise, age of promoter, qualification of promoter, experience of promoter) with respect to respondents' opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

### Interpretation

Chi-square test of independence was performed to examine the relation between the background variables of respondents with respondent's opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

Types of enterprise do not have any influence or impact on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2 = 0.349$ ,  $DF=3$ ,  $N=158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation

existing between the type of enterprise and hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 55% strongly agree and 36% agree in favor on opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

Ages of promoter do not have any influence or impact on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2 = 8.898$ ,  $DF=6$ ,  $N=158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 55% strongly agree and 51% agree in favor on opinion on

hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

Qualifications of promoter do not have any influence or impact on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2 = 8.013$  DF=6, N=158. From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 53.5% strongly agree and 49.8% agree in favor on opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

Experiences of promoter do not have any influence or impact on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied

here. From the chi-square test it is revealed that its value  $X^2 = 16.785$ , DF=9, N=158. From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from insufficient collaterals or guarantees for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 52.35% strongly agree and 36.9% agree in favor on opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup.

Hence, the null hypothesis H01 “There is no association (relation) between the background Variables of respondents with respect to respondents opinion on hindrance from insufficient collaterals or guarantees for attaining bank finance by startup” is accepted.

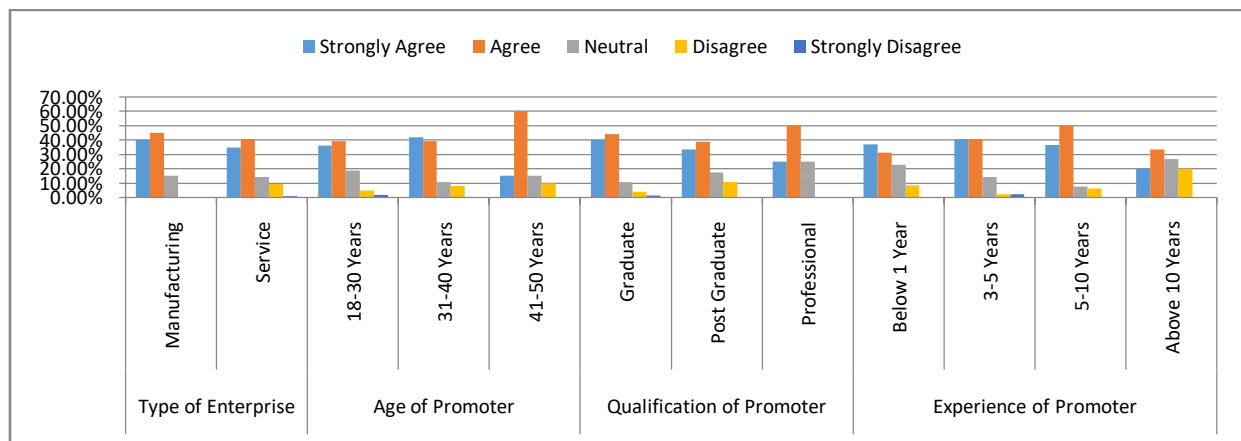
**Table – 3:** The Percentage frequency distribution of all Background Variables of respondents with respect to respondents opinion on hindrance from cumbersome application procedure for attaining bank finance by startup and the results derived from chi-square test are presented in the table below

**Table-3: Analysis of the opinion on hindrance from cumbersome application procedure for attaining bank finance by startup**

		Cumbersome Application Procedure					
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	$X^2$ (DF)
Type of Enterprise	Manufacturing	40.0%	45.0%	15.0%	0.0%	0.0%	4.437 <sup>NS</sup> (4)
	Service	34.7%	40.7%	14.4%	9.3%	0.8%	
Age of Promoter	18-30 Years	35.9%	39.1%	18.8%	4.7%	1.6%	8.816 <sup>NS</sup> (8)
	31-40 Years	41.9%	39.2%	10.8%	8.1%	0.0%	
	41-50 Years	15.0%	60.0%	15.0%	10.0%	0.0%	

Qualification of Promoter	Graduate	40.0%	44.0%	10.7%	4.0%	1.3%	7.004 <sup>NS</sup> (8)
	Post Graduate	33.3%	38.7%	17.3%	10.7%	0.0%	
	Professional	25.0%	50.0%	25.0%	0.0%	0.0%	
Experience of Promoter	Below 1 Year	37.1%	31.4%	22.9%	8.6%	0.0%	16.828 <sup>NS</sup> (12)
	3-5 Years	40.5%	40.5%	14.3%	2.4%	2.4%	
	5-10 Years	36.4%	50.0%	7.6%	6.1%	0.0%	
	Above 10 Years	20.0%	33.3%	26.7%	20.0%	0.0%	
N.B: * - Significant at 5% level (P<0.05), NS – Not Significant at 5% level (P>0.05)							

**Figure-2: Opinion of Entrepreneurs on cumbersome application procedure as factors which create hindrance in attaining bank finance for startup.**



H01 There is no association (relation) between the background Variables of respondents (type of enterprise, age of promoter, qualification of promoter, experience of promoter) with respect to respondents' opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

### Interpretation

Chi-square test of independence was performed to examine the relation between the background variables of respondents with respondent's opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

Types of enterprise do not have any influence or impact on hindrance from cumbersome application procedure for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2 = 4.437$ ,  $DF = 4$ ,  $N = 158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from cumbersome application procedure for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 37.35%



strongly agree and 42.85% agree in favor on opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

Ages of promoter do not have any influence or impact on hindrance from cumbersome application procedure for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2=8.816$ ,  $DF=8$ ,  $N=158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance cumbersome application procedure for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 30.93% strongly agree and 46.1% agree in favor on opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

Qualifications of promoter do not have any influence or impact on hindrance from cumbersome application procedure for attaining bank finance by startup. To what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2=7.004$   $DF=8$ ,  $N=158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from cumbersome application procedure for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 32.76% strongly agree and 44.23% agree in favor on opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

Experiences of promoter do not have any influence or impact on hindrance from cumbersome application procedure for attaining bank finance by startup. To

what extent the above statement is valid. To prove that Chi-square is the appropriate technique this is applied here. From the chi-square test it is revealed that its value  $X^2=16.828$ ,  $DF=12$ ,  $N=158$ . From this we can very well conclude that null hypothesis as scribed above holds good. It means that there is no relation existing between the type of enterprise and hindrance from cumbersome application procedure for attaining bank finance by startup. Further % frequency distribution Out of the total 158 respondents 33.5% strongly agree and 38.8% agree in favor on opinion on hindrance from cumbersome application procedure for attaining bank finance by startup.

Hence, the null hypothesis  $H_{01}$  "There is no association (relation) between the background Variables of respondents with respect to respondent's opinion on hindrance from cumbersome application procedure for attaining bank finance by startup" is accepted.

## FINDINGS

- Frequencies are showing Location of Enterprise ratio 87.3 % in urban, 8.2 % in semi-urban and 4.4 % in rural
- Frequencies are showing Constituent of Enterprise ratio 1.9 % sole proprietorship, 3.8 % partnership and 94.3 % Pvt. Ltd Company
- Frequencies are showing Type of Enterprise ratio 25.3 % Manufacturing and 74.7 % Service
- Frequencies are showing Gender ratio 89.2 % Male and 10.8 % Female
- Frequencies are showing Age ratio 40.5 % 18-30 Years, 46.8 % 31-40 Years and 12.7 % 41-50 Years
- Frequencies are showing Qualification ratio 47.5 % Graduates, 47.5 % Postgraduates and 5.1 % Professional

- Frequencies are showing Experience ratio 22.2 % Below 1 Years, 26.6 % 3-5 Years, 41.8 % 5-10 Years and 9.5 % Above 10 years
- Opinion of Entrepreneurs on insufficient collaterals or guarantees, the trend of response obtained from entrepreneurs of different groups on insufficient collaterals or guarantees as factor which creates hindrance in attaining bank finance is uniform. The figures in the Table cite that majority of entrepreneurs from different groups are agreed on this issue. And by which we can say that the startup enterprises face problems in attain bank loan due to lack of collateral or guarantees.
- Opinion of Entrepreneurs on cumbersome application procedure, the trend of response obtained from entrepreneurs of different groups on cumbersome application procedure as factor which creates hindrance in attaining bank finance is uniform. The figures in the Table cite that majority of entrepreneurs from different groups are agreed on this issue. And by which we can say that the startup enterprises have to go through lot of paper work which is time consuming as well as a big headache.

## CONCLUSION

One of the most desirable sources of finance for startup enterprises is bank loan, and many startup enterprises look forward to avail this facility to full fill their capital need from time to time. Government has also framed different policies to provide a platform for providing finance to startup enterprises through commercial banks. But the problem still exist and most of the startup promoters have to either put in their own money or find other sources to get fund for their startup. Such kind of acts not only discourages startup promoters but also force future startup entrepreneurs to rethink on their decision for

starting their startups. At this level it is one of the major task for government and commercial banks is to bring on new reforms by which existing startups can be motivated as well as future startups will be attracted to start new ventures.

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