

Challenges in Obtaining Finance for SME Startups

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Abstract

Startups are the creations designed towards bringing new things into the society. The journey of a startup starts from a simple idea and ends in the shape of a startup enterprise. But the journey of a startup is not easy as it has to go through different obstacles. Major startup enterprises encounter obstacles in finding and allocation right resources which are the basic need for any enterprise. Choosing the right resource from different alternatives and at the same time keep the money spending low is again a difficult task. The problem enhances when the needed resources are completely new and not available anywhere. In such situation the startup enterprises have to develop the needed resources. The development process of resources needs lot of training and research & development plus time and funding. In such situations startups are forced to close down or shift to alternative business ideas. This paper makes an attempt to find out the problems by startup enterprises from different resources and make suggestions for overcoming the problem of non availability of resources.

Key words: Startup, Obstacles, Resources, Research& Development

I.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 small group of 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.

In the past few years people in the country have changed from job-seekers to job-creators. Doing a startup is tough and every country sees more failures than success. More often than not, a startup entrepreneur must be prepared to face setbacks and unimaginable hardships. Mittal (2014).

This idiosyncratic "all hands on deck" approach Works well at the beginning, when adrenaline is up and the company is low. But as dimension of the organization enhance, they encounter new levels of complexity that require them to define and delegate tasks more

systematically. In order to do this, they typically pursue specialization in selected roles, such as finance, human resources, marketing, R&D and manufacturing. Gulati & DeSantola (2016).

According to Neog (2019) the lack of infrastructural mechanisms is another challenge which is faced by the Indian startups. There is a shortage of various mechanisms like business development centers, technology parks, etc. in India. This ultimately leads to the failure of many startups.

Hindrances and fundamental systemic issues exist, limiting the dynamism of start-ups. There is also a decreased share of the business community which effects and could be connected to other troubling economic patterns, including rising wages and low economic mobility, which unintentionally affect entrepreneurial activity and development. Castle-Blugh (2018).

II.LITRATURE REVIEW

A startup company is an undeveloped company that is just commencement to mature. Startups are typically trivial and primarily financed and functioned by a handful of organizers or single individual. A startup is an organization intended to develop quick. Being freshly established does not in itself make an organization a startup. Nor is it important for a startup to deal with innovation, or yield venture subsidizing, or have some kind of exit.

According to Rehman A, Elahi Y (2004) the lack of an acceptable entrepreneurial environment, the absence of the requisite infrastructure facilities and access to the required technologies impede rapid industrial growth. Many of the time the Indian startup entrepreneurs have to tackle with electricity, transportation, water, and licensing problems.

According to Ochtel(2009), the availability of human resources is one of the major issues for startup companies compared to traditional companies. It is difficult for startup entrepreneurs to get experienced employees. Hence it would be challenging for startups to possess the sufficient human resources. Since startups are new businesses, applications may not show much interest in working with a business that has an unknown future. With regard to financial resources, internet technology can be used to reach investors and venture capitalists, although access to human resources is a difficult job. Valmikam (2015).

Although large numbers of startups are operating but out of them a majority of startups are service based and for which only few number of employments are successfully generated. The government should take necessary steps to bring forward product based startups enterprises in near future and for which government needs to design attractive schemes as well as establish centers and labs exclusively for product development and testing. Currently most of the product based startups are operating in the agro based, food beverage and textiles, the government should make it sure that other product based startups should come forward too in the future. Patnaik, A., Srinivas Subbarao, P. and Nayak, B. (2019)

Another reason for failure of startups is lack of right teams for attaining the goal of the organization Griffith (2014).According to Chandrasaha (2016) Procurement of raw materials is a very challenging job for a business entrepreneur. They may end up with low quality raw materials; they may also face storage problems. There is inadequacy for 'Special Types of Equipment,' like tech-driven refrigerated storage solutions, etc. Facilities which are not up to mark and improper management lead to high rates of depletion and degradation of stock. Dealing

with perishable goods is one of the key issues of warehousing. Increased transport of perishable goods and efficient storage solutions are a major concern to improve. Karthikeyan (2016).

Many of the failures of new projects are the result of the inability of start-up founders to cope with uncertainty and bear the repercussions of uncertainty. Uncertainties impact almost every stage of the entrepreneurial cycle, and the success or failure of companies depends on how entrepreneurs cope with uncertainties before acting on an opportunity. Tomy & Pardede (2018).

According to Agarwal (2019) One of the major challenges is the infrastructure and policy ecosystem needed to sustain the growth of technology-based start-ups is currently missing from India. Recent positive policy reforms to promote the country's start-up culture aside, rigid legislation, comprehensive documentation standards and a shortage of indigenous resources for product production are counter-productive to the cause. There is a scarcity of cooperative manufacturing facilities that could theoretically be used for production by start-ups with monetary constraints.

III. 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 faced by startup enterprises.

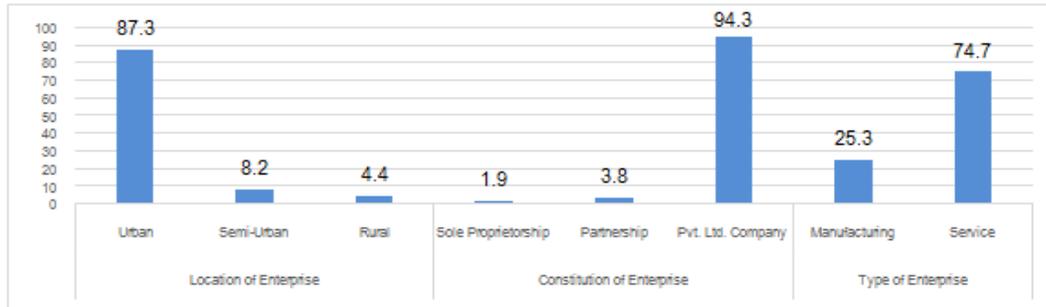
Questions are prepared in 5-point Likert Scale. Statistical package IBM SPSS (21) package was used to conduct all the statistical analysis. For analysis of the collected data test was done using Chi-squared test and for normality of data skewness test were performed.

Table-1:

Demographic profile of the startups				
		N	Percent	Cumulative Percent
Location of Enterprise	Urban	138	87.3	87.3
	Semi-Urban	13	8.2	95.6
	Rural	7	4.4	100.0
Constitution of Enterprise	Sole Proprietorship	3	1.9	1.9
	Partnership	6	3.8	5.7
	Pvt. Ltd. Company	149	94.3	100.0
Type of Enterprise	Manufacturing	40	25.3	25.3
	Service	118	74.7	100.0

Source: Field Survey

Figure-1: Demographic profile of the startups



The table 1 and figure 1 shows the demographic profile of the startups in different districts of Odisha. The data cites that the startup’s in the state has a huge presence in the urban location which accounts to 87% of the total sample followed by semi-urban location which accounts to 8.2% and rural location which accounts the lowest 4.4%. The data also cites that the startups in the state registered themselves as sole proprietorship which accounts at 1.9% followed by partnership which accounts 3.8% and highest numbers of startups are registered as Pvt.Ltd.Company which accounts at 94.3%. The figure in the table also cites type of enterprise where manufacturing accounts at 25.3% and followed by service which accounts at 74.7%.

Table –2:

Social profiles of the startups				
		N	Percent	Cumulative Percent
Gender	Male	141	89.2	89.2
	Female	17	10.8	95.6
Age	18-30 Years	64	40.5	40.5
	31-40 Years	74	46.8	87.3
	41-50 Years	20	12.7	100.0
Qualification	Graduate	75	47.5	47.5
	Post Graduate	75	47.5	94.9
	Professional	8	5.1	100.0
Experience	Below 1 Year	35	22.2	22.2
	3-5 Years	42	26.6	48.7
	5-10 Years	66	41.8	90.5
	Above 10 Years	15	9.5	100.0

Source: Field Survey

Figure-2: Social profiles of the startups

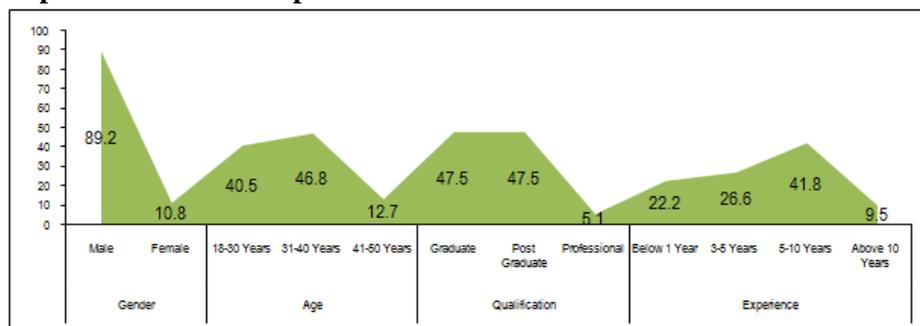


Table-2 and Figure-2 reveals the social profile of the startup promoters. The table cites the number of male startup promoters is very high and represented by 89.2%, were as female

promoters are comparatively low and accounts at 10.8%. The numbers of startup promoters in the age category were 40.5% in the category of 18-30 years followed by age category of 46.8% in the category of 31-40 years and 12.7% in age category of 41-50 years. The table cites the qualification of promoters were graduates are represented by 47.5%, followed by post graduate 47.5% and professional 5.1%. The table cites experience of the promoters were below 22.2% have 1-year experience, 26.6% have 3-5 years, 41.8% have 5-10 years' experience and 9.55% have above 10 years' experience.

This below section presents the opinion of startup promoters regarding the views of startup promoters on Non availability of resources. The rating was taken on Likert 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. Further skewnesstest is conducted to check the normality of the data distribution.

Table – 3:The Percentage frequency distribution of all Background Variables of respondents with respect to respondent's opinion on Non-Availability of Resources as an Obstacle and the results derived from chi-square test are represented in the table below followed by skewness table and graph

Non-Availability of Resources as an Obstacle							
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	X ² (DF)
Type of Enterprise	Manufacturing	42.5%	35.0%	12.5%	5.0%	5.0%	11.146* (4)
	Service	28.8%	40.7%	5.1%	23.7%	1.7%	
Age of Promoter	18-30 Years	32.8%	35.9%	9.4%	20.3%	1.6%	5.399 ^{NS} (8)
	31-40 Years	36.5%	39.2%	5.4%	16.2%	2.7%	
Qualification of Promoter	41-50 Years	15.0%	50.0%	5.0%	25.0%	5.0%	6.607 ^{NS} (8)
	Graduate	36.0%	38.7%	6.7%	16.0%	2.7%	
	Post Graduate	30.7%	38.7%	6.7%	22.7%	1.3%	
Experience of Promoter	Professional	12.5%	50.0%	12.5%	12.5%	12.5%	13.993 ^{NS} (12)
	Below 1 Year	22.9%	42.9%	11.4%	22.9%	0.0%	
	3-5 Years	33.3%	26.2%	9.5%	28.6%	2.4%	
	5-10 Years	36.4%	47.0%	3.0%	10.6%	3.0%	
	Above 10 Years	33.3%	33.3%	6.7%	20.0%	6.7%	

N.B: * - Significant at 5% level (P<0.05), NS – Not Significant at 5% level (P>0.05)

Source- Field Survey

Statistics

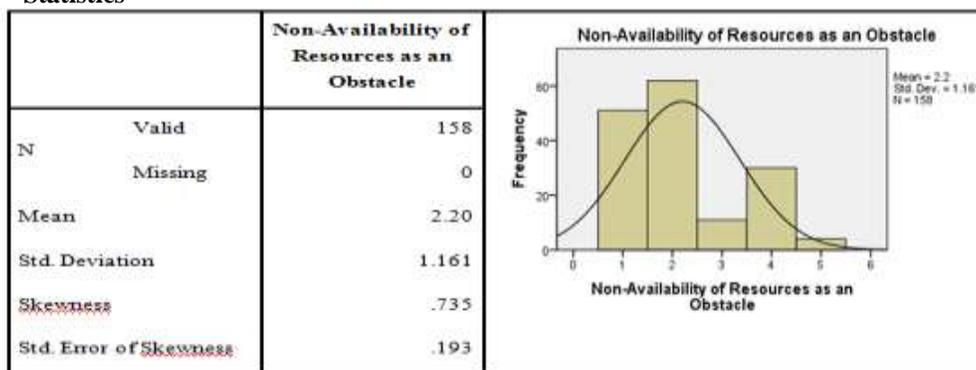
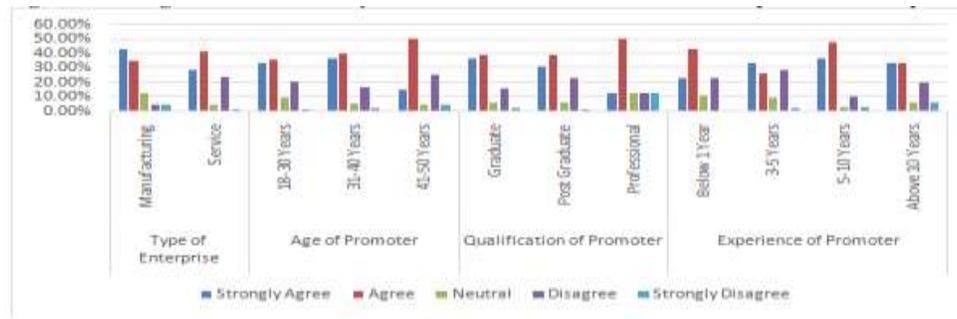


Chart-01

Self-Developed

Figure-3: Rating on Non-Availability of Resources as an Obstacle for development of 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 respondent's opinion on Non-Availability of Resources as an Obstacle.

H02 There is association (relation) between the background Variables of respondents (type of enterprise, age of promoter, qualification of promoter, experience of promoter) with respect to respondent's opinion on Non-Availability of Resources as an Obstacle.

The χ^2 -values shown against type of enterprise (11.146) is significant at 5% level ($P < 0.05$) for $DF=4$. Hence, the Null Hypothesis **H01** is rejected and the alternative hypothesis **H02**: "there is association between type of enterprise and opinion of startup promoters on Non-Availability of Resources as an Obstacle". Accordingly, the response obtained from startup promoters on Non-Availability of Resources as an Obstacle is uniform. The figure in the Table states that majority of both manufacturing and service startup promoters are not agreed on the issue.

Similarly, the χ^2 -values shown against age of promoter (5.399) is not significant at 5% level ($P > 0.05$) for $DF=8$. Hence, the Null Hypothesis **H01**: "there is no association between age of promoter and opinion of startup promoters on Non-Availability of Resources as an Obstacle" is accepted. Accordingly, the rating obtained from startup promoters on Non-Availability of Resources as an Obstacle is uniform. The figure in the Table shows that majority of startup promoters irrespective of their age are agreed on the issue.

Further, the χ^2 -values shown against qualification of promoter (6.607) is not significant at 5% level ($P > 0.05$) for $DF=8$. Hence, the Null Hypothesis **H01**: "there is no association between educational qualification of promoter and response on non-availability of resources as obstacle" is accepted. Accordingly, the trend of response obtained from startup promoters of different educational qualification groups for response on non-availability of resources as obstacle is uniform. The figures in the Table cite that majority of startup promoters from different educational qualification groups are agreed on the issue.

Also, the χ^2 -values shown against experience of promoter (13.993) is not significant at 5% level ($P > 0.05$) for $DF=12$. Hence, the Null Hypothesis **H01**: "there is no association between experience of promoter and response on non-availability of resources as obstacle" is accepted. Accordingly, the trend of response obtained from startup promoters of different experience groups on non-availability of resources as obstacle is uniform. The figures in the Table cite that majority of startup promoters from different experience groups are agreed on the issue.

IV. CONCLUSION

Startup enterprises are comparatively smaller in size than that of normal enterprises and for which they need constant development. Development in every stage is essential for the survival of a startup but large numbers of startups face difficulty in development not only in the early stage of inception but also in their advance stages too. There are many problems associated with resources. In many cases the problems are so tough that it puts a question mark on the survival of the startup. In such situation they have to choose between saving their startup or go for development. Some problems can be passed through proper planning and strategy but others need government intervention and new reforms. It is the duty of the startup entrepreneur to check all probable ways to solve the problem in advance and specifically try for alternative solutions.

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