

# Opportunities and Challenges in Financing of Startup Enterprises in the State of Odisha: A Literature review

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**Abstract** - In the past few years there has been huge uprising in startup enterprises in India, and now days lot of innovation are coming in the shape of startup enterprise. The startup enterprises are no doubt the outcome of the startup concept. The aim of the Central Government was to 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 state of Odisha introduced Odisha startup policy on 29 august 2016; the Odisha startup policy gives a very clear idea about the mission, vision and mandates which are needed for an enterprise to make it recognized itself as a startup. Currently more than 40 categories of startups are operational in the state. Large number of startups were established in the last past couple of 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 suffer major problem in getting smooth flow of finance for the startup, though it is claimed by many agencies that alternative finance facilities are available for startups but such finance options are not opted by the startup enterprises. This paper reviews the literature on opportunities and challenges faced for financing of startup enterprises in the state of Odisha. Focusing on the primary research orientations—i.e. studies centering on different categories of startup operating, factors responsible for motivation of starting of startup, employments generation through the startup, impact of the startup policy on the startups, the different finance facilities available, Problems encountered by startups in obtaining finance .

**Keywords** Startup, Startup Policy, Finance, Literature Review, Conceptual Frame work.

## I. INTRODUCTION

An idea can be transform into a start-up. In some cases the crisis creates an opportunity and the end result can be a start-ups. Many times it is seen that there is an idea but we do not have courage to start it or we do not feel it is worthy. On the contrary some people take that idea as an opportunity and mobilize into reality. (Dutta, 2016) **Paul Graham [1]** says that "A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. It is not at all required for a startup to work on technology or take venture funding, or have some sort of "exit". The only essential thing is growth. Everything else we associate with startups follows from growth." (Sharifi1, 2015)

Startup is defined as "an entrepreneurial venture or a new business in the form of a Company, a partnership or temporary organization designed and search of a repeatable and scalable business model."Startup India brings excitement and immense possibilities for the future.

India admits the evident truth of modern business and its complexity. (Dr.Shailja Badra1, 2016)

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 presently not being available elsewhere 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. In many 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.

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. They are in the lack of collaterals or significant revenues; hence they are unable to obtain bank financing. (Balázs Fazekas, 2015)

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. This paper aims on finding different funding options that can be utilized by startup firms and also the pattern and duration of availability. Furthermore with the significance on the possible options the startup firms can acquire in order to make sure the smooth flow of funds in crucial times. The enterprises which are addressed in this paper refer to "Start-ups". During their early start period the startup enterprise applies for finance, they face many problems as well. These problems will be addressed along with the relevant financed options available to startup enterprises. The startup Odisha policy have a major role in establishment, operation and recognition of startups in the state, this paper will study the important aspect of the policy as well as the changes made afterwards to explain the different aspects of the policy which can be very beneficial for the forth coming startup enterprises. The study will also suggest changes which are needed for the betterment and growth of startup enterprises in the state of Odisha.

## II. THEORITICAL BACKGROUND

Growth is a necessary & essential condition for economic development and inclusive growth. Growth is used as an indicator of economic wellbeing. The growth graph of the progressed countries gives the view that as growth increases, the conversion of economy takes place from traditional to modern sector i.e. from agro to industry to service sector. The share of industry and service sector in the Gross Domestic Product (GDP) starts to dominate the economy while the agricultural sector witnessed a decline in its share. One of the objectives of the inclusive growth is to generate both higher quantity and quality of employment. (Joshi2, 2018) Talking about startup enterprises in Odisha, cities of Bhubaneswar, Cuttack and Puri have appeared as the startup destination. One of the primary reason which make the state capital Bhubaneswar a start-up destination are the presence of premier educational institutes like Indian Institute of Technology, National Institute Of Science Education And Research,

College Of Engineering & technology, Indian Institute of Information Technology, Central Institute Of Plastics Engineering & Technology etc that provide global exposure. The presence of software and IT majors like Infosys, Tata Consultancy Services, Wipro and MindTree in Bhubaneswar also acts as a stimulant for the fast developing start-up ecosystem in the city. The young generation of the capital is talented, enthusiastic and innovative. In the subsequent year, Bhubaneswar has earmarked as best pathway and environment which is friendly to do business as reported by World Bank. The situation is being studied by the venture capitalists and they are looking forward for action in recent future. During communicating with the business think tankers, it is observed that Bhubaneswar acts a great place to start and affirm customers. During 2015-19 period, Odisha government has a "target of generating 0.4 million jobs by promoting 0.15 million enterprises in the MSMEs (micro, small & medium enterprises) sector". (Priyabrata Nayak, Feb 2018) The other important districts, Jagatsinghpur, Kendrapada, Ganjam, Keonjhar, Mayurbhanj and Sundergarh district are also taken into consideration for the study. There are a many startups which are operating and face different challenges and opportunities in development and growth in Odisha. The literature review is done to focus light on the related study. In last few years, the Indian startup growth & development has been on a fast track and made its mark—driven by elements, for instance, the increase in number of subsidy, amalgamation exercises, advancement in innovation and steps towards expansion of local market however it has long approach and there are different problems which are encountered in method for Startup on the grounds that many controlling powers introduce in condition will ruin entire amusement. Development of business enterprises depends to the great extent on government directives, since government plays the major part in creating business person in a country however young moving business person bypass that due protracted approach and customs it is extremely hard to work together in India and world bank report totally bolster their feeling in light of the fact that as indicated by this report India is positioned 130th out of 189 economies on the effortlessness of working together, 133rd on the simplicity of exchanging crosswise over fringes and 157th on the simplicity of paying charges besides India is positioned 155th if there should arise an occurrence of beginning a business. Growing business visionaries need to make various excursions to government workplaces to enlist and look for clearances. (Kamaldeep Kaur, 2017)

## III. LITRATURE REVIEW

In all business idea has an important role; new companies can extent the spectrum. Some are unshaped, when we consider them in commercial sense, where the promoter of the business focuses on an idea that he thinks can fill an unfilled need among consumers. In many other cases

promoters moved ahead to reach up the scale and have transformed the idea into a marketable product, with little to show in terms of revenues. Still others have moved even further down the road to commercial success, and have a market for their product or service, with revenues and the potential, at least, for some profits. (Omid Sharifi1, 2015) “The organizational approach argues the conditions under which an organization is planned and the processes followed in its initial development [phase, which] have important consequences on its structure and performance in later life”. Yet, organization theories are silent on the issue of organizational evolution, or more specifically on startup evolution (Salamzadeh, 2015a). However, there is limited research which investigates the startup phase (e.g. see Boekerb&Wiltbank, 2005).(Aidin Salamzadeh, 2015)

Startup implies to an institution created or registered in India not prior to 5 years with an annual turnover not exceeding Rs 25 core in any preceding financial year , working towards innovation, development, deployment, or commercialization of new products process or services driven by technology or intellectual property. Provided that such entity is not formed by splitting up or reconstruction of a business already in existence. Provided, also that an entity shall cease to be a startup if its turnover for the previous financial year has exceeded Rs 25 core or it has completed 5 years from the date of incorporation / Registration. This definition is applicable only for Government enlisted startup schemes. In General scene, A Startup Company is a young company that is just beginning to develop. Startups are usually small and initially financed and operated by a handful of founders or individual. (Sarkar, 2016)

For a sample of startups from 27 countries, Nofsinger and Wang (2011) report that experience in managing startups is the key factor in securing funding, as experienced owners are able to reduce information asymmetry and obtain financing in the first year of operations. Besides experience, education is another trait found to increase the likelihood of using credit in the startup year (Cole and Sokolyk, 2013). However, for a sample of Australian startups, Cassar (2004) reveal that owner’s demographic and socioeconomic characteristics are irrelevant for capital structure decisions. The entrepreneur’s personal wealth may also affect the composition of capital in small businesses. For example, Coleet al. (2004) show that the commitment of a small business owner’s personal wealth is important to obtain external credit. Overall, these findings attest to the impact of owner characteristics, such as attitudes and beliefs, education, and experience, on financial decision-making. In addition, the entrepreneur’s gender may have an impact on type and size of their startup financing sources as males tend to be more risk tolerant than females. The empirical evidence on the impact of owners’ characteristics on startup financing has mixed results. (Carmen Cotei, 2017)

The main concern for these startup firms is not only limited up to the fact that how these sources of finance are successfully acquired but also how these sources are effectively implemented once they are made available, since the startup firms lack both the experience and expertise in dealing with the core business operations. (Tariq, 2013) The alternative of financing growth from retained earnings is feasible; however for a start-up this can be very slow. Moreover, technology-based start-ups often experience a period of financial losses prior to the generation of surpluses for reinvestment. (DOSSANI, 2002) The relative difficulty of start-ups in accessing finance is likely to be aggravated by a weak business environment, in particular by inadequate legal frameworks and underdeveloped financial systems. Given very limited access of entrepreneurs to international financial markets, they are particularly sensitive to institutional constraints in domestic countries. (Mickiewicz, 2008) Investing in a fledgling start-up firm is extremely risky, because of the high rate of failure among new firms, something Stinchcombe (1965) termed the “liability of newness” In general, private banks are unwilling to lend money to a newly established firm, because of the lack of collateral and high risk of losing the principal as a start up is faced with no of issues that have to be dealt with it in order to grow into a successful organization. Apart from planning the most effective business strategy for this Startup Company is to look at the regulatory environment and various legal issues and laws of the country where Startup proposed to be set up. A Startup business should be protected from specific risk faced by the sector in which it operates. Empowered with unique demographic advantages and guided efforts, analysts are predicting that India will be poised to a position by itself among developed economics within the next 10 to 15 years. As indicated by the most recent UN articulation India with 356 million 10-24 year-olds have the real centralization of youth populace regardless of having a littler populace than China. Youth is the main thrust behind advancement, creation, and the future pioneers of a nation besides Youth likewise drives request and utilization design in a nation. (Kaur, 2017)

It provides a huge opportunity to create a dominant position in the Global Market. In an Indian context the ecosystem is growing however the speed of execution is slow. In the past couple of years we have seen a good rise in the number of angel investments and early stage investments. However the number of initial public offer (IPO’s) has decreased drastically. Hence the cycle as such becomes incomplete. This creates an imbalance which gets carried forward to the future years. Therefore, in order to have a flourishing start-up ecosystem in India there has to be a balanced marketplace. Entities like Accelerator are crucial because they avoid further inefficiencies and help create trust between entrepreneurs and angels while giving

them an active mentorship on all aspects on business. (Apoorv Ranjan Sharma\*, 2014)

#### IV. SETTING OBJECTIVES

- The primary objective of this paper is to determine whether the financial support available is adequate for funding of start-ups
- To determine and study the Impact of alternative sources of finance
- Examine the Role of commercial banks in funding of start-ups
- Determine the growth and development of start-up's in the state

#### V. TESTING HYPOTHESIS

- The four types of hypothesis are interrelated and correlated to examine the impact of different finance support in development and growth of startups
- Startup entrepreneurs start their enterprise by investing fund from self but in the later stage alternative sources of fiancé fulfill their fund need for research and expansion
- Loans from commercial banks and establishment of startup enterprises are correlated with each other
- The indicators of startup establishment have positive correlation with employment generation in the state
- Government policies have a significant impact on the growth of startups in the state
- Startup policies and schemes have significantly impacts on growth of women entrepreneurs in the state.

#### VI. RESEARCH METHODOLOGY

As Ravitch and Riggan (2016) put it, the conceptual framework includes not only the relevant theoretical literature but aims at fitting into it also the findings of prior research as well as the researching authors own experience-based knowledge and commitments. (Saukkonen, 2017) Research methodology of any research project is designed tailor made as per the specific objectives of the research project. Research objectives are set basing upon the identified research gap. From the literature review and gap analysis, presented in the objective part, following points were identified as issues for investigation, as the factors are related to the formation and growth of entrepreneurship. Intention as a construct has multiple variables associated. At the same time each variable would vary in its level. Multiple intent variables would interact with each other and in combination would generate a level of intent which could be substantial for new venture formation. Similarly for each of the construct representing different activities or dimensions of new venture formation it could be argued that there would be a threshold level of the construct and the interaction among construct would indicate success or satisfaction from

entrepreneurship. The objective of linking the intention, support, ideation, measure and satisfaction presented a novel challenge to the research design. Generally intention is taken a priori to the formation of new venture. (Kar, 2015) The personal values as sex, ages etc are taken into consideration to fit into their scale of measurement. Average men and average women participation were calculated and also average age were also calculated to analysis various factors. Variance analysis and reliability test was done along with averages (Panagiota Darvyri1\*, Michael Galanakis2, Adamantios G. Avgoustidis3, Niki Pateraki1, Spyros Vasdekis4, Christina Darviri1,2014). A sample of 200 employees from Startup's located in the 07 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 will be represented with one respondent only. The questionnaires will be 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. A self-designed questionnaire was used to gather the research data. The questionnaire is designed with lot of care so as to elicit the right kind of information. The primary focus was on the three major Research objectives of effectiveness of the intervention, additionality and counterfactual. The other objectives of Bank's willingness to extend credit, effectiveness on insistence on collateral security and impact of the scheme towards motivating more persons to take on entrepreneurship were also factored in the questionnaire.

#### VII. DATA COLLECTION AND DATA ANALYSIS

The survey questionnaires were mailed to a random sample of 10,000 business leaders in 1993 and 2001, respectively. Survey respondents were asked to "rate" the acceptability of behavior presented in 16 different ethically charged scenarios (L. N. Emerson Tisha, A. Mckinney Joseph, 2010).Albaum, G., & Peterson, R. A. (2006) had examined the ethicality of large corporations.

The 15 questions sample survey was conducted by author and more over 1000 samples from 20 different countries. There are 17, 243 respondents had responded to questionnaires. (Brammer, Williams & Zinkin, 2006).

#### VIII. RESEARCH FINDINGS

- It was found that only few entrepreneurs feel that the financial support is adequate for starting their startup enterprise
- It was found out that entrepreneurs fund there startups in the early stage but face major difficulty in attaining

alternative finance for their startup to fulfill their need of fund for research and expansion

- The finding suggest that male promoters have dominance as compared to female promoters
- The finding suggest that the loans from commercial banks are not at all correlated with establishment of startup enterprises
- It was found that the indicator startup establishment have positive correlation with employment generation in the state
- It is found out that government policies have a significant impact in establishment of startup
- It was found that startup have major presence in urban areas as compared to rural areas
- It was found that government schemes have insignificant role in the encouraging entrepreneurs in the state
- Majority of startups operate in the areas of software, IT development and mobile app development

### IX. RESEARCH GAP

- The impact of different schemes specifically meant for startup enterprises is not done
- The study of different alternative finance facilities available have to be done
- Investigating the Role of commercial banks in funding startup enterprises
- In depth Personal interview of samples are not accessed
- The role of startup enterprises in employment generation has to be ascertained
- Study the impact of government policies in establishment of startup
- The significance of special government schemes for growth of women entrepreneurs has to be done
- To determine the major obstacles in the growth and development of startup enterprises

### X. FUTURE SCOPE OF RESEARCH

Based upon the literature review, the further research is to be carried in Odisha. The research design is done on the light of source literatures.

- Determine the impact of different schemes specifically meant for startup enterprises
- To find out different alternative sources of finance available for raising fund for startup
- Find out different bank loan facilities available for startup enterprises and the different criteria needed to avail the loan facility
- F- Test and t- test, Z- test are to be applied for testing of large sectional data and also small number of samples.
- A review of different startup study to be done

### XI. CONCLUSION

The literatures review defines that the startup enterprises are developing in the state of Odisha, but constantly face challenges in different areas specifically in attaining timely finance. In some cases the startup entrepreneurs are not getting benefits from the schemes lunched by the government from time to time due to unawareness. Although specific commercial bank loan are lunched by the central and state government but the startups are not successful in availing it. One of the primary objectives behind startup enterprises is employment generation but that too need to be addressed. It is seen in some cases that few startups are getting benefits from government schemes but others are not. The promoters who give the initial money in the shape of seed capital to start their startup, in the long run have to face many obstacles in for sustain their startup enterprises. Even in certain cases where the startups are performing well in the initial stage suffer major problems due to certain decisions taken in capital structure. Market accessibility is one of the important factor which needs an through analysis, the reason behind such problem is although certain startups which are operating at a good pace but fails to get acceptance due to absence of markets or due to heavy competition among the similar category of startup's.

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