

ALTERNATIVE SOURCE OF FINANCE A WAY FOR START-UP FINANCE**Dr Anubhab Patnaik****ABSTRACT**

A startup experience could be depicted as a business that is in the essential times of development, starting to make and is normally an individual contribution or collecting from people. New associations are only the opportunity of commercialization. Investors play a vital role in commencing the startups. But capital and capital access to startups is an enduring problem. While some of the most recent startup businesses have benefited from traditional sources of finance, a huge proportion of companies are still having difficulty raising money from modern source of finance. Fundamental dauntlessness to the business and real running of the business measures are possible essentially by satisfying required proportion of money to the new organizations. This research paper analysis the problems faced by startup enterprises in attaining finance and also how startup's use different methods to raise fund for their startup.

Key words: Startup, Investors, Funding, Venture Capital, Private Equity

I. INTRODUCTION

Every new business needs money but managing the money of a business is an art and at the same times a science also. Like any other business startup enterprises too needs capital investment to start or for current business and expansions. Seed money or capital is crucial for the development of products services product testing, for sales, marketing, and suggestions to improvement etc. Startups have initially some debt to deal with but excess debts can create issues in generation of revenue and profit for a startup, due to which availability spending and investment of money are crucial to a business.

The Capacity of business for permitting the smooth activity and not lacking assets for its tasks chooses the significance of money in business. Making of shrewd and prudent corporate cash flow and long-term finance strategies are influenced by business actions. With suitable strategies, businesses can improve profitability and chances for leveraging better opportunities. Debt ratios may attract or repel investors as it shows the capability of a business.

To make the startup operations consistently in progressing mode, a constant good finance flow is needed. In the beginning phase of a startup it takes ample amount of time for the expenses and revenue to be matched with each other. Due to these factors short-term financial decisions are highly needed for startup businesses. For developing new products or for analyzing new opportunities, startup need finance, Research & Development (R&D) activities also can be conducted with the availability of funds for a business. Advertising and marketing of products and services of a startup also need separate amount of money.

By conducting such activities startups are prone to get affected by the changes in the market. Different business cycles like growth, boom, recession, depression and renewal are affected by the changes in the economy and for which every business should be prepared to face the consequences of these business cycles. Smart investments, good credit, cash savings and favorable supply and property plans are help's a business in not getting affected by economic crisis or to keep the pace during economic growth.

Raising capital is a long-standing challenge for startups. Angel investing and seed investing are easy to find because the totals are so low, it is difficult to move on to the next round of rounds because companies burn too fast and do not look toward unit economics. Fundraising has become a celebration; instead it should be the founder who reaches the starting line of the race. There are very limited funds available in India in the form of large checks. In our ecosystem (India) we promote the founder, and not the organization, and sometimes the founder can get caught up in the glamour of funding. Startup promoters must fix objectives for the subsequent five years and not be passionate about fundraising (Kaur, 2017).

A solid business plan and the advice of a financial advisor are important in developing a suitable financing plan for c business. While startup's general poor information conditions create frictions and diminish opportunities for startups to attract potential alliance partners and financing from outside investors, startups overcome informational frictions by taking actions that credibly convey information about their quality, and yet are costly for other startups to imitate and in such situation alternative sources serves the purpose of fulfilling the financial needs of startup enterprises.

II. LITRATURE REVIEW

Ghatak (2010) explained about of the genuine elements stood up to by MSMEs in India. These factures involved: getting to reasonable and convenient account, absence of reachable data, admittance to able labor, R&D offices and confined promoting channels. Hussain and Yaqub (2010) exposed approximately business encounters confronted by businesspersons in Pakistan. The results were predicted, implying that Pakistan's founders were not diversified. They encounter challenges that other entrepreneurs in developing countries experience. Scarcity of financial resources and/or lack of access to financial market were the most severe problems.

Kiraka et al. (2013) analyzed the improvement and advancement in Startup in Kenya by assessing the presentation of the Women Enterprise Fund (WEF) on these measurements. The WEF, a Government of Kenya activity, meant to create and develop ladies claimed new companies. A long time since its initiation in 2007, it is definitive to build up whether the Fund is achieving its goals in accomplishing the planned recipients with the right sort of account and backing. Utilizing a blended strategy approach, containing subjective and quantitative practices, the investigation reviewed the exhibition of the reserve at the smaller scale, little and full scale levels. The most well-known type of development was seen in the change or expansion of new items in the post credit period. Advancements as far as administrations, markets and wellsprings of crude materials were, in any case, less regular among ladies possessed undertakings.

Dessai (2017) dealt with recognizing the different systems offered under startup by Govt. of India, and mount of economic support offered and performance is studied over the period of 5 years. In spite of building up more than 80 % of the complete number of modern undertakings and supporting modern advancement in country, new companies in India experience the ill effects of the hardships of monetary help from the public authority, which has resulted in overall startup growth of just 10 to 15 % over the last 5 years. There is a fundamental of more circulation of assets for startup development that may upsurge in utilize generational especially in town run and can revive general GDP development.

Vijayalakshmi et al. (2016) expressed that the investment (VC) fund centers around organizations, which are not recorded in a stock trade. The VC-account is by and large value money, which could be straightforwardly set on the offer

capital or through mezzanine financing structure in a roundabout way to shares. Funding venture is auspicious restricted, when all is said in done for 3 - 5 years. The funding speculation relies upon the investor's understanding between the speculator and the organization. The understanding incorporates the valuing standards of the offers from the beginning stage to the leave organize.

Agarwal (2012) expressed that in India, the greater part of the little and medium organizations (SMBs) have depended on either cash gotten from loved ones, obligation by neighborhood financing organizations or obligation from banks. Adventure fund is open to just those SMBs who have arrived at a specific advancement phase of their organization's life cycle and those not accomplishing those levels experience difficulty getting account. Another wellspring of money for SMB's in India has been gotten through the Security and Exchange Board of India (SEBI). Therefore, it is critical for SMBs to perceive what value financial specialists resemble and which variables are fundamental to the value venture decision.

III. NEED AND IMPORTANCE OF FINANCE FOR START-UP'S

A startup requires immense measure of cash while the age of income by them is lacking. With less benefits and tremendous costs, new companies need financing to endure. Important solidness to the business and smooth working of the business measures are conceivable exclusively by siphoning required measure of cash to the new companies. 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. Startup enterprises can obtain finance from other sources such as term loan, crowd funding, incubators, government programs, friends and relatives, etc but most startup enterprises look for venture capital and angel investment as a major source of investment for their startups.

a) Venture Capital

Investors are money related go-betweens and wellspring of non-banking financing. Financial speculator is a financial specialist who contributes by giving capital and backing to startup's and business people for development of their business who don't approach values markets. Under this type of financing, the

investor partakes in the new business in return for advice and money. Financial speculators are watchful for organizations having high development potential, top-performing supervisory crews and low leverage limit.

Venture capital is also known as risk capital. It is investment made to the start-up companies and involves high risk and expectation for high returns. People investing in these kinds of startups are known as venture capitalists and they invest in the shares of the small businesses with higher expectations. They make speculation for benefit in questionable strategic agreements of new companies that have favorable however yet dubious thought. So as to get subsidized by investment, startup must have a promising business thought which may create high benefits for Venture industrialists according to his desires. In this way, for some, new companies maintaining the ordinary business, funding probably won't be conceivable.

b) Angel Investors

Angel investors or often referred as business angel acts as first category of institutional investment. Business investors are normally those people who possess wealth and are active in business, they always look for scope to provide funding to startups in return expect for a part of equity in the company. An angel investor is somebody who gives vital assets to a business for value in the organization, this implies he would have a say in the day to day affair of an organization. Private backers are consistently proficient financial backers who are resolved to contribute a little part or all out of their abundance and time in the turn of events and development of the startup undertaking. The measure of cash contributed by a private supporter is usually not exceptionally huge, but rather couple of financial backers may consolidate to contribute an enormous sum or just to keep away from the danger of putting resources into a little organization.

For a business, angel investor can play a very constructive role in terms of providing greater veracity and also mentorship. However, process the startups dilute their stake and control of the company. An angel investor also hopes to make a profit from his venture, so the strain to give an ideal exit to the financial backer is consistently a piece of the business. Startup enterprises can find business angels through formal or informal sources. Active angel investor uses their networks to find investment opportunities.

IV. CONCEPTUAL FRAMEWORK

The level of financial acumen affects progress of start-up businesses. Maximizing profit is the ultimate aim of every business and financial awareness can increase the chances of being successful. Financial awareness is necessary for start-up for many reasons. Small business need to retain tempo with constantly changing technologies and also need to face the risk of becoming technologically obsolete. High costs of credit are unidentified major competitive power to match product quality along with standards are some other issues need to be faced by the small enterprises. The growths of these enterprises are determined by the availability and accessibility to the financial Resources.

The issue of financing holes is common in youthful, innovation situated startup endeavors. Because of the financing holes, organizations with colossal development potential are not ready to acquire the fundamental capital for their activity; thus they can't satisfy their development potential. Financing holes develop if there should be an occurrence of new businesses because of their unique attributes. In the seed and beginning periods of their lives these organizations are in the period of item advancement or they have quite recently made their market section.

Much before commencement of business, it is necessary 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. The choice of a particular Data depends upon the advantages and disadvantages associated with that Data. Business finance comprise of the requirement of finance to carry out business operations effectively. Initial capital of the business may not be sufficient to face the financial requirement from time to time. Analysis of other Sources of finance is therefore important to every business. Business need finance to encounter with the fixed capital requirements and working capital requirements. Initial requirement of fixed assets to start the business are involved in fixed capital requirements and funds needed for the day to day operations of a business is involved in working capital requirements.

V. RESEARCH METHODOLOGY

This investigation is led through essential information accumulation where an example of 158 from Startup's situated in the 18 areas of Odisha are picked with

the end goal of this examination. This land zone has been picked as they speak to an enormous number of Startup undertakings in Odisha. The populace edge was drawn from the rundown acquired from the Startup Secretariat, IED Odisha. Every Startup was spoken to with one respondent in particular. The polls were disseminated dependent on the arbitrary testing to guarantee it can speak to the example populace. Information accumulation was practiced by Google structures and individual conveyance. The number of inhabitants in the investigation comprised of advertisers and executives in the startup ventures. The poll contained various classifications to gather data on difficulties and openings looked by startup ventures in financing.

Questions are set up in 5-point Likert Scale. Measurable package IBM SPSS (21) package was utilized to direct all the factual examination. For examination of the information Chi-squared test was done, which is additionally alluded to as Chi-square test and skewness test was conducted to prove the normality of data distribution.

This next section presents the opinion of startup promoters regarding sources of fund. The ranking is taken on venture capital and angel investment. 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 and skewness test was conducted to prove the normality of data distribution.

Kindly Refer Table-III in the Text

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 venture capital as a source of fund.

The χ^2 -values shown against type of enterprise (6.796) is not significant at 5% level ($P > 0.05$) for $DF=4$. Hence, the Null Hypothesis: "there is no association between type of enterprise and rating by startup promoters towards venture capital as a source of fund" is accepted. Accordingly, the response obtained from startup promoters of manufacturing and services on venture capital as source of

fund is uniform. The figure in the Table shows that majority of both manufacturing and service startup promoters are agreed on this issue.

Similarly, the χ^2 -values shown against age of promoter (7.995) is not significant at 5% level ($P>0.05$) for $DF=8$. Hence, the Null Hypothesis: “there is no association between age of promoter and rating by startup promoters towards venture capital as a source of fund” is accepted. Accordingly, the trend of response obtained from startup promoter’s of different age groups for raising credit through venture capital is uniform. The figures in the Table cite that majority of startup promoters irrespective of their age are agreed on this issue.

Further, the χ^2 -values shown against qualification of promoter (5.770) is not significant at 5% level ($P>0.05$) for $DF=8$. Hence, the Null Hypothesis: “there is no association between educational qualification of promoter and rating by startup promoters towards venture capital as a source of fund” is accepted. Accordingly, the views obtained from startup promoters of different educational qualification groups on venture capital as source of fund is uniform. The figures in the Table highlights that that majority of startup promoters from different educational qualification groups are agreed on this issue.

Also, the χ^2 -values shown against experience of promoter (15.926) is not significant at 5% level ($P>0.05$) for $DF=12$. Hence, the Null Hypothesis: “there is no association between experience of promoter and rating by startup promoters towards venture capital as source of fund” is accepted. Accordingly, the ranking obtained from startup promoters of different experience groups on venture capital as source of fund is uniform. The figure in the Table shows that majority of startup promoters from different experience groups are agreed on this issue.

Kindly Refer Table-IV in the Text

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 angel investment as source of fund.

The χ^2 -values shown against type of enterprise (1.488) is not significant at 5% level ($P>0.05$) for $DF=4$. Hence, the Null Hypothesis: “there is no association between type of enterprise and rating by startup promoters towards angel

investment as source of fund” is accepted. Accordingly, response obtained from startup promoters of manufacturing and services on angel investment as source of fund is uniform. The figure in the Table highlights that majority of both manufacturing and service startup promoters are agreed on this issue.

Similarly, the χ^2 -values shown against age of promoter (12.504) is not significant at 5% level ($P>0.05$) for $DF=8$. Hence, the Null Hypothesis: “there is no association between age of promoter and rating by startup promoters towards angel investment as source of fund” is accepted. Accordingly, the opinion obtained from startup promoters of different age groups on angel investment as source of fund is uniform. The figure in the Table shows that majority of startup promoters irrespective of their age are agreed on this issue.

Further, the χ^2 -values shown against qualification of promoter (4.362) is not significant at 5% level ($P>0.05$) for $DF=8$. Hence, the Null Hypothesis: “there is no association between educational qualification of promoter and rating by startup promoters towards angel investment as source of fund” is accepted. Accordingly, the ranking obtained from startup promoters of different educational qualification groups on angel investment as source of fund is uniform. The figure in the Table highlights that majority of startup promoters from different educational qualification groups are agreed on this issue.

Also, the χ^2 -values shown against experience of promoter (7.849) is significant at 5% level ($P>0.05$) for $DF=12$. Hence, the Null Hypothesis: “there is no association between experience of promoter and rating by startup promoters towards angel investment as source of fund” is accepted. Accordingly, the response obtained from startup promoters of different experience groups on angel investment as source of fund is uniform. The figure in the Table shows that majority of startup promoters from different experience groups are agreed on this issue.

VI. FINDINGS

- From the survey it was found out that startups have major presence in urban areas which accounts to 87.3 % of the total population, followed by 8.2 % in semi-urban and 4.4 % in rural.
- In the constituent of enterprise Pvt Ltd Company has a presence of 94.3 % followed by partnership which has presence of 3.8 % and sole

proprietorship 1.9 In the category of Type of Enterprise Service type of startups account to 74.7 % and Manufacturing type of startups at 25.3 %.

- In case of ownership of startups Male promoters dominate with 89.2 % followed by female 10.8 %.
- The age category of 31-40 Years has major presence with 46.8 % as startup promoters followed by the age category 18-30 Years with presence of 40.5 %, and in the age category 41-50 Years accounts to 12.7 %
- In the Qualification category both Graduates and Postgraduates account to 47.5 % each followed by Professional courses with 5.1 %
- 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
- The Rating obtained from startup promoters on Angel Investment as a source of fund highlights that trend response of different groups for raising credit through angel investors is uniform. In the graphical presentation of data it can be seen that startup promoters from different groups are agreed on this issue. And by which we can say that the startup enterprises look forward to go for investment by way of angel investment as a source of funding in their enterprises.
- On rating of venture capital as a source of fund, the trend of response obtained from startup promoters of different groups is uniform. The figures in the Table cite that majority of startup promoters from different groups are agreed on this issue that they will utilize venture capital as a source of fund. Though, majority of the startup promoters have agreed to use venture capital as source of fund but there were a group of startup promoters who are in the view that they will use venture capital as the last choice. The reasons provided by them for decision are
 - 1) Dilution of ownership
 - 2) External interference in the enterprise
 - 3) Chances of conflict of interest
 - 4) Non fulfillment of due diligence factors

VII. CONCLUSION

Sources of business finance can be bifurcated into three depending on time, ownership and source of generation. Various sources of finance available to business need to be appraised effectively to achieve the objectives of business. Financing sources should be selected on the basis of cost, financial stability, market risk, tax benefits and easiness of availability of funds. A business owner has a number of options to finance their business at the start-up stage. Every entrepreneur should have a great knowledge on the funding options available for the operation of the business.

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List of Tables

Table-I Sample Data Demographic profile of 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

Data: Field Survey

Table-II Sample Data Social profile of 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

Data: Field Survey

Table –III: The Percentage frequency distribution of all Background Variables of respondents with respect to respondents opinion on venture capital as source of fund for startup and the results derived from chi-square test are represented in the table below followed by skewness test results.

Venture Capital as a source of finance							
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	X ² (DF)
Type of Enterprise	Manufacturing	42.5%	37.5%	7.5%	12.5%		6.795 ^{ns} (4)
	Service	22.9%	53.4%	9.3%	11.9%	2.5%	
Age of Promoter	18-30 Years	29.7%	45.3%	10.9%	10.9%	3.1%	7.995 ^{ns} (8)
	31-40 Years	29.7%	52.7%	4.1%	12.2%	1.4%	
	41-50 Years	15.0%	50.0%	20.0%	15.0%		
Qualification of Promoter	Graduate	28.0%	48.0%	9.3%	13.3%	1.3%	5.770 ^{ns} (8)
	Post Graduate	25.3%	50.7%	9.3%	12.0%	2.7%	
	Professional	50.0%	50.0%				
Experience of Promoter	Below 1 Year	34.3%	42.9%	17.1%	5.7%		15.926 ^{ns} (12)
	3-5 Years	21.4%	50.0%	9.5%	14.3%	4.8%	
	6-10 Years	30.3%	51.5%	1.5%	15.2%	1.5%	
	Above 10 Years	20.0%	53.3%	20.0%	6.7%		

Data: Field Survey

Table –IV: The Percentage frequency distribution of all Background Variables of respondents with respect to respondents opinion on angel investment as source of fund for startup and the results derived from chi-square test are represented in the table below followed by skewness test results.

Angel Investment as a source of finance							
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	χ^2 (DF)
Type of Enterprise	Manufacturing	42.5%	37.5%	12.5%	5.0%	2.5%	1.488 ^{NS} (4)
	Service	39.0%	44.1%	9.3%	6.8%	0.8%	
Age of Promoter	18-30 Years	45.3%	39.1%	10.9%	4.7%		12.504 ^{NS} (8)
	31-40 Years	40.5%	44.6%	5.4%	8.1%	1.4%	
	41-50 Years	20.0%	45.0%	25.0%	5.0%	5.0%	
Qualification of Promoter	Graduate	38.7%	44.0%	6.7%	9.3%	1.3%	4.362 ^{NS} (8)
	Post Graduate	40.0%	41.3%	13.3%	4.0%	1.3%	
	Professional	50.0%	37.5%	12.5%			
Experience of Promoter	Below 1 Year	42.9%	42.9%	5.7%	8.6%		7.849 ^{NS} (12)
	3-5 Years	45.2%	35.7%	11.9%	7.1%		
	5-10 Years	37.9%	45.5%	10.6%	4.5%	1.5%	
	Above 10 Years	26.7%	46.7%	13.3%	6.7%	6.7%	

Data: Field Survey

List of Figure

Figure- I: Graphical presentation of Demographic profile of the start-ups

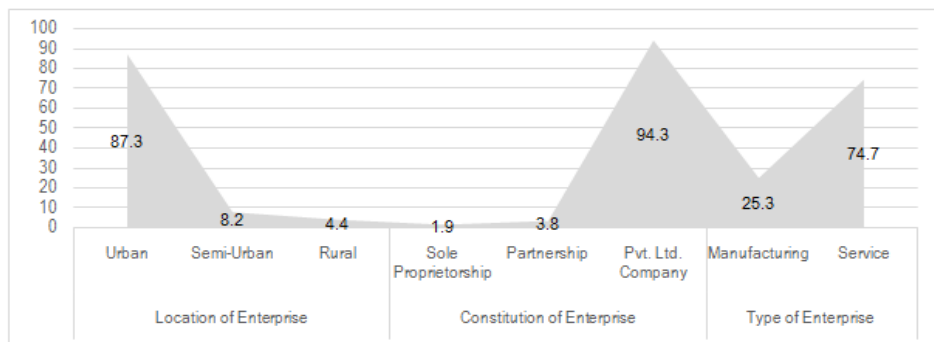


Figure- II: Graphical presentation of Social profiles of the start-ups

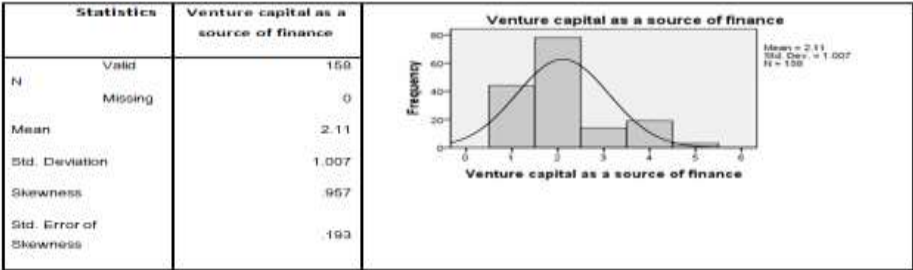
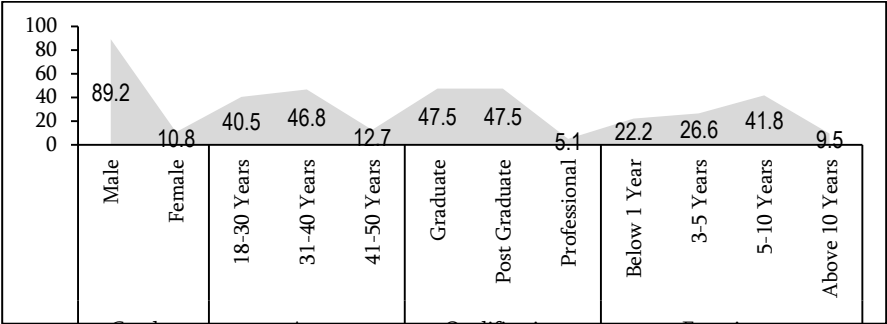


Chart-III: Self Developed

Figure-III: Venture Capital as a Source of finance.

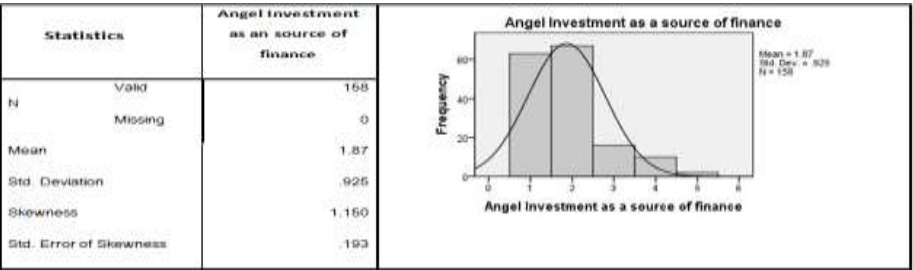
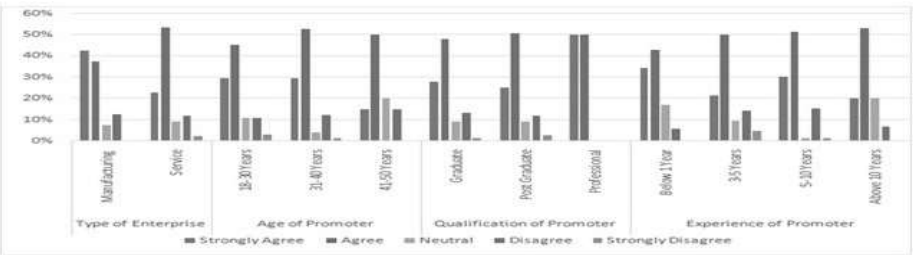
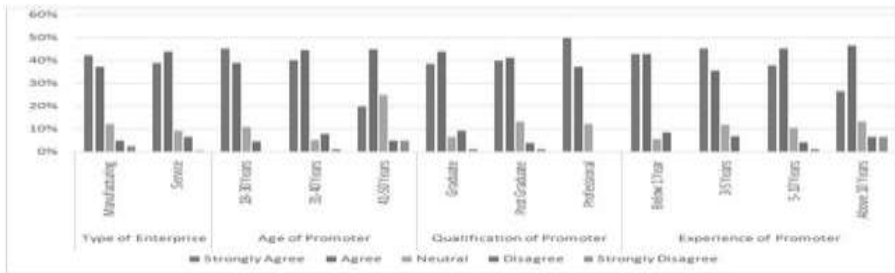


Chart-IV: Self Developed

Figure-IV: Rating on Angel Investment as a Source of finance.

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