

# Funding Preferences of Young Entrepreneurs of Gujarat: An Empirical Study

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## Abstract

This study makes an attempt to explore the funding preferences of young entrepreneurs of Gujarat towards financing their ventures. For this research, ventures in the knowledge based sector have been selected. The findings revealed that in the initial stages of venture development, these entrepreneurs utilized their personal savings and funds from their family and friends. They have all practiced bootstrapping extensively during the early years. There were not many cases of external funding. The awareness of these entrepreneurs towards risk capital such as angel and venture capital funding was found to be less. The study concludes with various suggestions for better penetrations of early stage financing and support mechanism in Gujarat such as strengthening the role of incubation centres, organizing business plan competitions and raising awareness of the entrepreneurs towards risk (equity) capital options.

**Keywords:** Venture Capital, Angel Investors, Bootstrapping Techniques, Incubation centres, Entrepreneurs

## Introduction

The world is witnessing an entrepreneurial revolution in recent years. The growing economy and the existence of an entrepreneurial eco-system provide supportive environment for emergence of entrepreneurship than before. Still raising start-up capital for a business venture has always been a challenge, particularly for knowledge based and innovative ventures. Since these knowledge based industries often start with just an idea or a prototype,

the asset/collateral-based instruments adopted for the hard core manufacturing industries, are not an option for such firms.

Largely banks shy away from making loans to start-ups, venture capitalists (VCs) become risk averse, and making a public offering remains the viable option only for promising firms with good track records. Hence, there has been a credit crunch for entrepreneurs looking for small to moderate amount of start-up capital. Given the critical importance of the early stage finance, this study makes an attempt to explore the preferences of young entrepreneurs of Gujarat towards financing their entrepreneurial ventures. For this study, ventures with innovations in the knowledge based industries have been selected. It is based upon the primary data collected with the structured questionnaires. The research methodology, analysis and interpretation, discussion and conclusion have been discussed in the following section.

## Literature Review

The significance of start-up capital has been well established in the entrepreneurship literature. Empirical studies on new ventures have attested the fact that sufficiency and size of initial capital resources boost the ability of new firms to; survive, earn higher profits and grow (Yuen and Poh, 2005). In a study conducted by Milagrow Business and Knowledge Solutions in 2008, it was found that 74% of the sick Small and Medium Enterprises (SMEs) in India attribute their sickness to the fact of low availability of funds (Pathak, n.d.). As discussed above, the problem of raising capital is more pronounced for the start-ups in the knowledge based sector as they often start with intangible assets hence the collateral based financing do not suit them. Similarly,

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high quality and useful information on their activities and prospects may be difficult or very costly to obtain externally resulting into lower level of capitalization. All these factors lead to serious moral hazard problems that must be controlled by an outside investor, and that cannot adequately be dealt with pure debt-type contracts (Sagari, 1992; Srinivas, 2005; Seshasayee, 2012; Povaly, 2007).

In order to address the above problems in the Indian context, some innovative instruments of financing have been introduced and institutional set ups have been created. Some of the major initiatives include Credit Guarantee Fund Trust for Small Industries, Risk Sharing Facility, Venture Capital Financing, Micro Credit, Small and Medium Enterprises Fund (Seshasayee, 2012). The outcome of deliberations by various stakeholders on “Risk Capital for Micro Small and Medium Enterprises (MSMEs) in India” also emphasized upon various risk capital options available internationally and in India such as venture capital, angel investors, public listing, loan funds, micro finance, guarantee associations etc (Retrieved April 20, 2012, from [http://www.msmentor.in/SIDBI\\_Publications/Risk%20Capital%20and%20MSMEs%20in%20India.pdf](http://www.msmentor.in/SIDBI_Publications/Risk%20Capital%20and%20MSMEs%20in%20India.pdf)). Actually, during different growth phases, the funding requirements of Small and Medium Enterprises (SMEs) would differ. For SMEs characterized by high-tech information and intellectual property, during the start-up phase, angel or venture capital finance typically meet their funding needs, while during the growth phase, asset backed finance will suit their financing requirements (Mahembe, 2011).

A study by Brewer and Genay (1994) has shown that external private debt is more likely to be used to finance tangible assets, while venture capital finance is more likely to be used to finance intangible assets, such as those that would be owned by new firms. Yuen and Poh (2005) concluded that only informal investments significantly influence the propensity to be entrepreneurs. There are many empirical and conceptual studies for risk capital; mainly angel and venture capital; worldwide. Most of the academic research in the area of venture capital relate to decision making process (Silva, 2004). In western countries, the venture capital process has been described in numerous academic studies (Sweeting, 1991; Bygrave and Timmons, 1992; Tyebjee and Bruno, 1984; Fried and Hisrich, 1994). In contrast to the large volume of academic research on venture capitalists, comparatively little work has been done on angel investors. These studies mainly

relate to attitudes, behaviour and characteristics of angels (Brettel, 2003; Hindle and Lee 2002; Hindle and Wenban, 1999; Landstorm, 1993; Reitan and Sorheim, 2000). Besides, there are few studies on decision making process of angels with application of various theoretical concepts like agency theory, social capital, signaling etc (Prasad *et al.*, 2000; Saetre, 2003; Sorheim, 2003; Van Osnabrugge, 2000).

In the Indian context particularly, there are very few studies brought to the notice while reviewing the literature on venture capital investing process. These mainly include studies by researchers; Pandey (1996), Mishra (2005), Kumar and Kaura (2003), Kumar (2002) and Sharma (2002). By and large these studies mainly focus upon the decision criteria used by the Indian VCs for evaluation of the entrepreneurial firms, while there are virtually no studies on angel investors in Indian context yet.

In a nutshell, review of the above mentioned national and international studies revealed that majority of them had taken macro view on funding of start-ups. They highlighted the challenges faced by such ventures and possible financing solutions. Further, these studies on credit availability to SMEs were based on secondary information and were conducted by government agencies or consulting firms. However, funding preferences of start-ups in knowledge sector of Gujarat have not been studied empirically. Hence, the present study attempts to empirically examine the funding choices of such start-ups in Gujarat along with their awareness level for various alternative financing options other than the traditional debt funding.

## Research Objectives

Broadly, the purpose for undertaking this research was to explore the funding preferences of new age entrepreneurs of Gujarat and highlight their familiarity with respect to various early stage financing options. The specific objectives can be described as below:

1. To study demographic and social variables like educational qualification, age, family background and past experience of the entrepreneurs for developing the personal profile of new age entrepreneurs.
2. To check the familiarity of the entrepreneurs towards incubation, angel and venture capital.
3. To examine the perception of these entrepreneurs

towards equity investors.

4. To examine the funding pattern of the start-ups when these entrepreneurs started their ventures.
5. To understand the reasons for not raising external funding in the relevant cases.
6. To analyse the experiences of the entrepreneurs towards bank funding in the relevant cases.
7. Lastly, to find out the preferred sources of funding by such entrepreneurs for expansion in future.

## Research Methodology

This study is based upon the descriptive research design. Both primary and secondary sources of information have been used for this research. The primary data for this study was collected from the entrepreneurs of the knowledge based ventures in Gujarat through a structured questionnaire. As these start-ups form the part of knowledge based or technology based sector, the respondents were more comfortable responding to the survey electronically rather physically. In few of the cases, the interviews were conducted on telephone and the researchers met few entrepreneurs personally in Ahmedabad for survey purpose.

To select the representative sample of the population, various relevant sources were used such as the student database of premier education institutes in Ahmedabad like NIRMA University and Entrepreneurship Development Institute of India (EDI); that are running various courses on entrepreneurship. Further, incubation centres at Centre for Innovation and Entrepreneurship (CIIE) of IIM, Ahmedabad; National Design Business Incubation (NDBI) of National Institute of Design (NID); Mudra Institute of Communications (MICA) and Dhirubhai Ambani Institute of Information and Communication Technology (DAICT); were contacted. For this purpose, incubates who are availing the facilities of the incubation cells at present and those who have already left these incubation centres were contacted.

To extend the list of such entrepreneurs further, two web sources i.e. The National Entrepreneurship Network (NEN), and Plugged In were used. NEN had introduced TATA NEN Hottest Startup Awards, in association with TATA in 2008. For this study, the start-ups nominated for this competition from Gujarat were selected and

approached for the survey. Like NEN, Plugged In-Learning through Technology; also has a list of start-ups from Gujarat. In addition to these resources, Gujarat Venture Finance Limited (GVFL) which receives many proposals for funding was also approached. And with the help of GVFL's staff executives, some of these relevant cases were contacted for the survey.

The placement cells of management institutes were also approached for enlarging the list of the entrepreneurs. Particularly, IIM-Ahmedabad placement data was very helpful in reaching to those students who have adopted entrepreneurship as a career option. The newspaper articles featuring the success or failure story of entrepreneurs were regularly being tracked and also aided the discovery of many such entrepreneurs from Gujarat. Also, a kind of snowball sampling was followed where the respondents were asked to identify others who belong to the target population of interest. Subsequent respondents were selected based on referrals. Thus, by compiling all these resources together, a gross list of the entrepreneurs/start-ups was prepared.

The survey period was from November 2008 to June 2009. Without exception, majority of the entrepreneurs approached for the survey were forthcoming with their response and displayed significant interest and involvement. In total, it was possible to generate the responses from 43 start-ups from the state. Most of these responses came from Ahmedabad city (91%) of Gujarat which is considered to be an entrepreneurship hub of the state. This fact is quite evident from the list of the nominees available on the website of TAT NEN Hottest 2008 start-ups. They listed 18 high growth-high impact ventures on the website from Gujarat of which 14 were from Ahmedabad city. Further, as mentioned before, all the incubation centres of Gujarat are also located in Ahmedabad. All the premier institutes promoting entrepreneurship and supporting the innovations are situated in Ahmedabad.

## Findings and Discussion

This section presents the analysis of the responses from 43 young and new age entrepreneurs from Gujarat with respect to funding preferences for their ventures.

**Table 1** Personal Details of Entrepreneurs Surveyed

<i>Personal Details of the Entrepreneurs</i>	<i>Observed Statistics in the Research</i>
Gender	Majority of the entrepreneurs covered under this study (39 out of 43) were male, while there were only 4 females.
Age (years)	About 88% of entrepreneurs surveyed belonged to the age group of either below 25 years or 25-35 years. This age distribution facilitated getting valuable insights regarding funding preferences of young and new age entrepreneurs of Gujarat.
Education	Majority of these young entrepreneurs were either post-graduate (58%) or graduate (35%). Education is a pre-condition for starting ventures in knowledge intensive sectors. All these entrepreneurs surveyed had specific business ventures in knowledge intensive areas and as such they were expected to have sound education background for practicing entrepreneurship in these sectors.
State of Origin	Though the survey is conducted in Gujarat, a large number as high as 35% belonged to other states.
Previous Work Experience	Nearly 54% of the entrepreneurs had worked for some time ranging from two months to two years before practicing entrepreneurship to learn intricacies of managing the business.

(Source: Authors' Compilation)

### Family Business

Further, this study reported two kinds of entrepreneurs; entrepreneurs with and without family businesses. Out of total 43 entrepreneurs surveyed, 21 of them were having family business background. Of these, 7 entrepreneurs have joined the family businesses and rest of them (14) had started their own businesses. *Mann Whitney U test* was performed to address differences in the family support extended to these entrepreneurs. The following hypothesis was set for the study.

**H<sub>0</sub> 1:** There is no significant difference in the support of family members to entrepreneurs with and without family business background.

**H<sub>1</sub> 1:** Support of family members differ significantly between the entrepreneurs with and without family business background.

As per the test statistics (table 3), two tailed asymptotic significance value was 0.019, which was less than the significance value 0.05 i.e.  $p < 0.05$ . Hence,  $H_0$  is rejected. Therefore, it may be inferred that there were significant differences between the family supports to those two kinds of the entrepreneurs. The higher mean ranks of the entrepreneurs with family business suggested that their family members were quite supportive as compared to their counterpart.

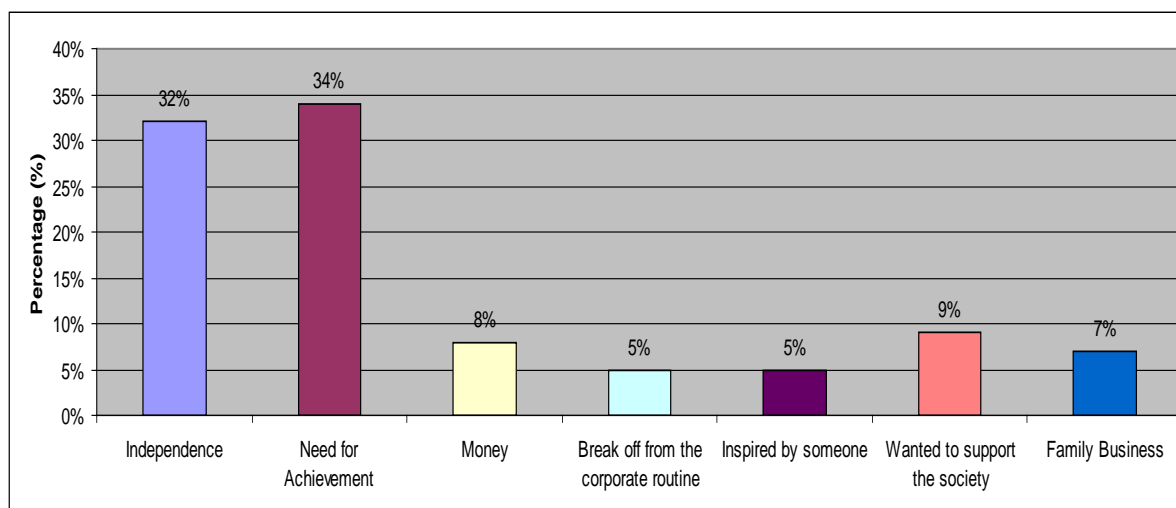
**Table 2** Ranks of Support of Family Members to Entrepreneurs

(As per *Mann-Whitney U Test*)

<i>Particulars</i>	<i>Entrepreneurial Background</i>	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>
	Yes	21	26.36	553.50
Family	No	22	17.84	392.50
Support	Total	43		

(Source: Authors' Compilation)

**Figure 1** Reasons for Being an Entrepreneur



(Source: Authors’ Compilation)

### Reasons for Starting Ventures in Gujarat

As significant number of non-Gujratis has set up their ventures in the state, the reasons for setting up ventures by Gujarati and non-Gujarati entrepreneurs have been analysed. As per the findings, entrepreneurs belonging to other states than Gujarat preferred the state for the availability of the resources (26%) followed by familiarity with the state (21%). The non-Gujarati entrepreneurs had been staying in the state for considerable time period and hence were quite familiar with the state. They also believed that it is less costly to start business in Gujarat as compared to other states (16%); there is presence of target customers (13%), a strategic location (11%), friendly regulations (8%) and less government interference (5%). While entrepreneurs belonging to Gujarat naturally opined that familiarity with the state was more important (49%) among other reasons. These results are presented as under.

**Table 3** Test Statistics of Support of Family Members to Entrepreneurs

(As per Mann-Whitney U Test)

Particulars	Family support
Mann-Whitney U	139.500
Wilcoxon W	392.500
Z	-2.349
Asymp. Sig. (2-tailed)	.019

(Source: Authors’ Compilation)

**Table 4** Reasons for Starting Ventures in Gujarat

Reasons for starting venture in Gujarat	Gujarati	Non-Gujarati
Familiarity with the state	49 %	21%
Availability of resources	14%	26%
Less costly as compared to other states	9%	16%
Presence of target customers	4%	13%
Less government interference	–	5.%
Friendly regulations	5%	8%
Less competition	5%	–
Strategic location	14%	11%

(Source: Authors’ Compilation)

### Reasons for Being an Entrepreneur

There are multiple motivating triggers observed here, for being an entrepreneur. As seen from the figure 1, internal factors such as need for achievement (34%) and independence (32%) accounted substantially among other factors such as supporting the society (9%) and monetary gain (8%).

### Venture Specific Details

The ownership structure of the majority of the entrepreneurs (47%) was tilted towards private limited companies followed by proprietorship (35%) and

partnership (18%). As per the survey result, almost all the entrepreneurs (93%) expressed their willingness to expand their businesses in near future. Hence, the choice of this wider form of ownership structure (i.e. private limited company) would help them in scaling up their businesses successfully in future.

Majority of the entrepreneurs surveyed under this study, about 79%, had taken up their very first dream projects, while there were instances of entrepreneurs (21%), in their early age of thirties, who were already on their second, third or fourth venture, after having established successful businesses earlier.

Regarding the nature of innovation, majority of the entrepreneurs surveyed had service innovation (70%) in various sectors mainly into IT and ITES (43%) followed by hospitality (20%) and education (10%). There are few cases of service innovation noticed in other areas like event management, designing, food and beverage etc. Product innovations were mainly observed in areas such as manufacturing (23%), textile (15%) and IT/ ITES (15%). The cross tabulation of the nature of the innovation and the industry is reported as under:

**Table 5** Cross Tabulation Count of Nature of Innovation and Sector/Industry

Sector/ Industry	Nature of Innovation		Total
	Product	Service	
Education	0	3	3
Bio-Tech	1	0	1
Textile	2	0	2
IT/ITES	2	13	14
Hospitality	0	6	6
Automobile	1	0	1
Construction	1	0	1
Event Management	0	2	2
Manufacturing	3	0	3
Social events	0	1	1
Retailing	1	0	1
Food and Beverage	1	1	2
Designing	0	1	1
Agriculture	1	0	1
Waste Management	0	1	1
Media	0	1	1
Gems and Jewellery	0	1	1
<b>Total</b>	13	30	43

(Source: Authors' Compilation)

Further, the stage of development of the venture is monitored closely with the sources of funding being used. Here, majority of the ventures about 81%, were at their initial stage of venture development i.e. either seed, start up or at the early expansion stage. The study of source of funding used by these entrepreneurs revealed that most of the ventures had used personal savings and loan from family and friends across various stages of venture development.

On a closer examination of the sources of financing and stage of development, it was observed that majority of the self funded ventures were at the start-up or the early expansion stages. This could be a reflection of a greater confidence of today's young entrepreneurs in their own abilities as well as crucial significance of the socio-cultural support system of family and friends. In this study, there were only seven ventures which are supported through bank loans and there were two ventures at the start up stage that were supported by government subsidy. While, there was not a single venture in the sample which had availed equity funding.

Entrepreneurs were also asked to specify the ratio between the promoter's contribution vis-à-vis the other sources of financing used. As this was believed to be confidential information, the response rate was less than 100%. From the responses received, it can be analysed that the average promoter's contribution was about 68% in all the cases, while for other funding sources, the average investment by friends and relatives was noted to be 20%, average bank holding was 8% and the average government subsidy was 4%. The high standard deviation highlighted the fact the holdings by the promoters and other investors varied widely among the different ventures. The descriptive statistics highlighting the contribution of the promoter and other sources are presented in the following table.

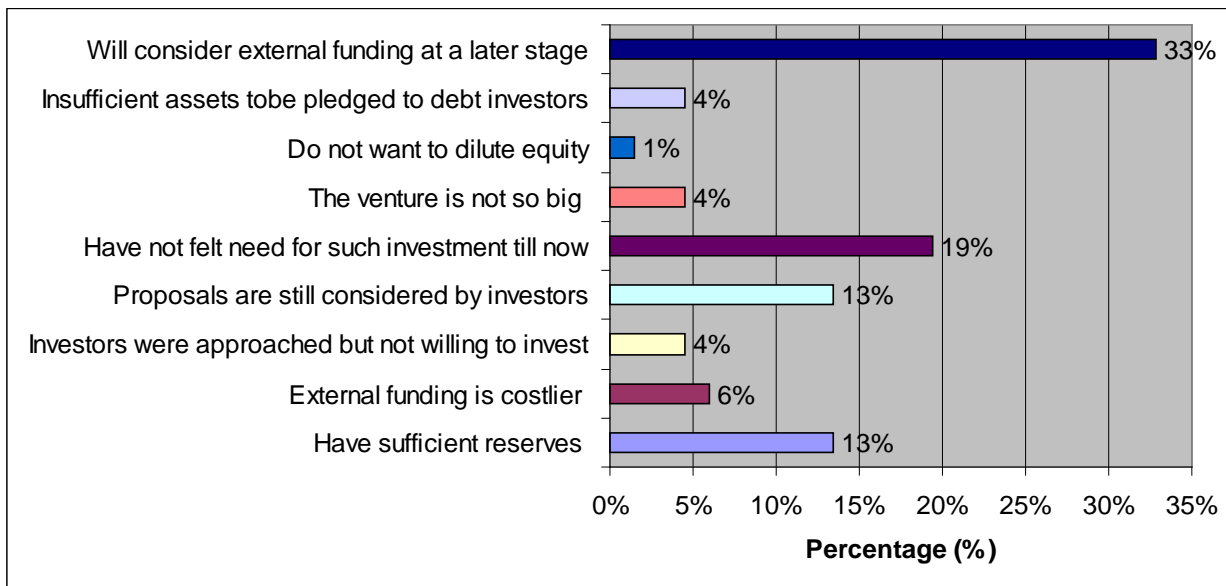
As observed above, only nine ventures out of total forty three ventures surveyed (7-bank loans and 2-Govt. Subsidy), had received external funding. To extend the survey results, the entrepreneurs who had not availed any sort of external funding yet, were asked to mention the reasons for the same. Most of the entrepreneurs stated that they would consider this option at a later stage (33%) and they have not felt the need for it till now (19%). This may be because many of these ventures were at the initial stages of development and would like to use their own money to achieve intermediate milestone before considering outside investors (debt/equity).

**Table 6** Cross Tabulation of Venture Development Stage and Source of Funding

Stage/Source of funding	Personal Savings	Spouse Income	Loan From Family and Friends	Bank Loan	Govt. Subsidy	Total
Seed	1	0	0	0	0	1
Start-up	19	1	6	2	2	30
Early expansion	13	0	6	4	0	23
Expansion	8	0	5	1	0	14
Total	41	1	17	7	2	68

(Source: Authors' Compilation)

**Figure 2** Reasons for Not Availing External Funding



(Source: Authors' Compilation)

**Table 7** Descriptive Statistics of Promoters' Contribution and Other Funding Sources

Contribution (%)	Mean	Std. Deviation
Promoters' contribution	68.51	33.70
Loan from friends and relatives	20.29	31.38
Loan from bank	8.33	21.74
Government subsidy	4.12	16.48

(Source: Authors' Compilation)

### Use of Self Financing/Bootstrapping Techniques

Here, the entrepreneurs were asked to specify the use of bootstrap financing methods by them during the initial

stages of venture development. The findings of the study indicated that loan from family and friends (15%), renting physical space (13%), partnering (9%) and working from home (9%) were some of the most popular methods among others such as hiring temporary personnel, leasing, buying used equipment, discounting, use of credit cards, sharing the office space etc.

### Business Plan Competition

Here, 28% of the entrepreneurs had presented their plans in various business plan competitions and their opinions with respect to the role of such competitions in starting their ventures were equally distributed among the three categories i.e. low, medium and high.

**Table 8 Descriptive Statistics of Entrepreneurs' Familiarity about Incubation**

Particulars	Mean	Median	Mode	Std. Deviation
Familiarity towards incubation centres	3.12	3.00	5.00	1.53

(Source: Authors' Compilation)

**Table 9 Ranks of Entrepreneurs' Familiarity for Angel and Venture Capital**

(As per Wilcoxon Signed Rank Test)

Particulars	Ranks	N	Mean Rank	Sum of Ranks
Familiarity with venture capital – angel capital	Negative Ranks	0	.00	.00
	Positive Ranks	22	11.50	253.00
	Ties	21		
	Total	43		

(Source: Authors' Compilation)

**Table 10 Test Statistics of Entrepreneurs' Familiarity for Angel and Venture Capital**

(As per Wilcoxon Signed Rank Test)

Particulars	Familiarity with Venture Capital – Angel Capital
Z	-4.193
Asymp. Sig. (2-tailed)	.000

(Source: Authors' Compilation)

### Familiarity with Incubation Centres

The growth of incubation centres in Gujarat specifically, incubation centres promoted in Ahmedabad by premier education centres like IIM, NIRMA University, NID, MICA, DAICT etc.; have played a very crucial role in nurturing the ventures and supporting them with physical places, mentoring, shared office facilities etc. Hence, this study checked upon the familiarity of the entrepreneurs for the concept of incubation in entrepreneurship and whether they had availed such facilities during the initial stages of the venture development.

As per the descriptive statistics, the mean of the familiarity of such entrepreneurs was 3.11 (knew a little bit) on a Likert scale of 1 to 5. And only 7 out of 43 ventures have availed the facility of the incubation centre.

### Familiarity and Perception of the Entrepreneurs for Angel Capital and Venture Capital

As mentioned in the research methodology, for conducting this study ventures with specific innovations in the

knowledge based sectors have been selected. All these ventures qualified for equity funding by the investors i.e. angels or VCs. As many of these ventures are at the initial stages and have expressed their willingness to raise external funding in future, there is a considerable potential for these equity investors for investing their funds in Gujarat. Therefore, the study checked upon the familiarity of the entrepreneurs with respect to the angels and VCs.

In order to study the differences in their familiarity for such equity funding, the *Wilcoxon Signed Ranks test* was performed. The following hypothesis was set for the study.

**H<sub>0</sub> 2:** There is no significant difference in familiarity of the entrepreneurs for angel capital and venture capital.

**H<sub>1</sub> 2:** Familiarity of the entrepreneurs differs significantly for angel capital and venture capital.

As per the test statistics (table 10), the 2-tailed significance value was 0.00 which was less than the significance value 0.05, i.e.  $p < 0.05$ . Hence, H<sub>0</sub> is rejected. Higher mean ranks for the positive differences indicated that

**Table 11** Descriptive Statistics of Perception of Entrepreneurs towards Equity Investors

<i>Perceptions</i>	<i>Mean Score</i>	<i>Std. Deviation</i>
It is difficult to approach them	3.15	.97
Fund raising is difficult	3.67	.85
They demand large stake in the company	3.42	.79
They interfere with the management	3.36	.78
They are eager to exit	2.88	.81
They put restrictive covenants	3.46	.79
It is costly as compared to other sources	3.30	.98
It is time consuming to raise the finance	3.55	1.03
They share financial and business risk	3.58	.83
Their involvement results in better corporate governance	3.82	.88
They bring financial discipline	4.00	.82
They provide networking support	3.88	.78
They help in marketing the product	3.39	.89
They provide managerial support	3.33	.85
They help in further fund raising	3.70	.84

(Source: Authors' Compilation)

the entrepreneurs knew a fair amount regarding venture capital while they knew a little bit about angels.

To further investigate the positive and negative perceptions of the entrepreneurs towards these equity investors, those who were aware about this source of funding were asked to rate their perceptions on a scale of 1 to 5 (*agreement/disagreement*). Mean and standard deviation values for the same are shown in the following table.

From the mean score as stated above (table 11), it may be concluded that entrepreneurs' responses with regard to the positive as well as negative perceptions followed a symmetric pattern. It means that these responses for almost all the statements were between indifference and agreement (Mean score between 3 and 4), with the exception of only one perception (i.e. they are eager to exit) with a mean score between 2 and 3. So, overall it may be said that these entrepreneurs agreed with the financial and non-financial value addition by the said equity investors. While for negative statements, their responses were more towards indifference point. The standard deviation values range between 0 and 1 reflecting less variability among the opinions of the entrepreneurs.

The survey further asked the entrepreneurs whether they had approached angel investors or VCs for investment purpose. The results showed that only 24% entrepreneurs

had approached these investors. But none of those who had approached these investors could raise the funding. In most of the cases, the proposals were still being considered (64%). In other cases either the business plan was not acceptable (18%) or promoter's contribution was less (9%) or, the management team lacked sufficient experience or expertise (9%).

### Bank Debt

As reported before, there were seven (out of forty three) start-ups with bank loans in the sample surveyed. The study focused upon the reasons for approaching banks for funding. The analysis of the results showed that they considered mainly insufficient equity of their own (40%) and less complexity involved (30%) in raising the same as compared to other sources of funding as the major reasons for approaching these debt investors.

Further, for those who employed bank debt, the study made an attempt to understand their experience with respect to various parameters like speed of processing loan, disbursement process, reporting relations, sharing information etc. The entrepreneurs were asked to rate their experiences on a scale of 1 (*satisfactory*) to 5 (*excellent*). As per the mean score in table 12, overall the experience of the entrepreneurs with respect to all these parameters

can be considered as between fair and good (Mean Score between 2 and 3) except reporting relationship with the banks which is rated as very good (mean score 3.85). Normally, banks are passive investors and do not actively involve themselves in company management as angels or VCs do. This fact is supported here by the survey.

**Table 12 Descriptive Statistics of Entrepreneurs' Experience for Bank Funding**

Parameters	Mean Score
Speed of processing the loan	3.00
Loan disbursement process	2.86
Reporting relations with the bank	3.86
Sharing of information	2.57
Schemes offered	2.43
Involvement of the bank in company's operations	2.00

(Source: Authors' Compilation)

## Willingness to Expand and Preferred Sources of Funding

As majority of the ventures surveyed (81%) were at the initial stage of the venture development (seed, start-up and early expansion), many of them (about 93%), had expressed desire to expand their ventures in near future. For scaling up, they may use a combination of various options of funding. As per the survey result, internal reserves (36%) would be preferred mostly followed by venture capital (30%), bank loans (22%) and angel capital (12%).

## Conclusion

Based upon the survey results of entrepreneurs in Gujarat, the following findings emerged.

Personal demographics of the new age entrepreneurs suggested that majority of them were males in the age groups of below 25 and 25-35 years. They all had good professional educational background with relevant working experience. Even though half of the entrepreneurs had back up of family businesses, many of them preferred starting their own businesses with novel ideas in the knowledge based areas. The family members were also quite supportive and accepted their decision of becoming

entrepreneur whole heartedly. The higher acceptance of entrepreneurship again shows the changing nature of the social structure where risk taking is not suppressed due to fear of failure.

These young entrepreneurs were primarily driven towards entrepreneurship by internal motivators such as high independence and achievement need rather than the materialistic attitude of making money. This means they plunged into entrepreneurship with a matured mindset and understand the challenges of becoming entrepreneur. Though the survey was conducted in Gujarat, there were many entrepreneurs belonging to other states who had started their businesses here in Gujarat for variety of reasons.

The nature of their innovations spread across various sectors like IT and ITES, bio-tech, health-care, education, retailing and other sectors where there was a wide scope practicing knowledge based entrepreneurship. These entrepreneurs had ventures into mainly service sectors as opposed to product based innovations. Further, most of these ventures were at their initial stage of venture development. These entrepreneurs have a definite approach towards financing their ventures. At the initial stage where the risk is very high, they generally preferred to practice bootstrapping and using their own money.

For encouraging the use of incubation centres and better penetration of equity capital in the state, it may be suggested to set up an exclusive education cum training centre in Gujarat, which can work closely with existing incubation centres in the state, consultants, private equity specialists and other development institutions that can nurture the new ventures in knowledge sector. The centre may also perform other activities like business consulting and information disseminating for knowledge based enterprises in the state.

Various management schools in the state can also play a significant role in inculcating risk taking and entrepreneurial attitude among the youth of today by designing exclusive courses on *Entrepreneurship* and *Venture Development*. Venture fairs may be organized in developed cities of the state to bring together investors and entrepreneurs. The business plan competitions organized by management schools in Gujarat from time to time, particularly by IIM-A, is a step in the right direction.

Thus, there is an urgent need to provide financial literacy to start-ups and increase awareness on the activities of angel/VC financing through greater involvement with educational, research institutions, and incubation centres. Venture funds like GVFL, other financing institutions and incubation centres like CIIE, should encourage entrepreneurship promotion and education schemes designed to find, assist and train new technology entrepreneurs. There is a need to significantly increase the number of the business incubation opportunities for entrepreneurship by comprehensively exploring various policy options.

Further, banks may capitalize upon entrepreneurship as a major business opportunity. The entrepreneurs surveyed had favourable attitude towards bank funding and many of them would consider this source of funding for future expansion.

Findings of this study will help the investors understand the familiarity and the awareness level of the aspiring entrepreneurs operating at seed and start up stages; towards early stage financing options. The funding preferences of these entrepreneurs for future expansion will help the investors explore the scope for this risk capital options.

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