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FINANCIAL AND ECONOMIC DEVELOPMENT OF ENTREPRENEURSHIP:
A CASE STUDY USING EMPIRICAL ANALYSIS OF BIKANER

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ABSTRACT

Entrepreneurial finance is the study of value and resource allocation, applied to new ventures. It addresses key questions which challenge all entrepreneurs: how much money can and should be raised; when should it be raised and from whom; what is a reasonable valuation of the startup; and how should funding contracts and exit decisions be structured.

The Problem

Many entrepreneurs discover they need to attract money to fully commercialize their concepts. Thus they must find investors – such as their own employer, a bank, an angel investor, a venture capital fund, a public stock offering or some other source of financing. When dealing with most classic sources of founding, entrepreneurs face numerous challenges: scepticism towards the business and financial plans, requests for large equity stakes, tight control and managerial influence and limited understanding of the characteristic growth process that start-ups experience.

On the other hand, entrepreneurs must understand the four basic problems that can limit investors' willingness to invest capital:

Uncertainty about the future: in terms of start-ups development possibilities, market and industry trends. The greater the uncertainty of a venture or project, the greater the distribution of possible outcomes.

Information gaps: differences in what various players know about a company's investment decisions.

"Soft Assets": these assets are unique and rarely have markets that allow for the measure of their value. Thus, lenders are less willing to provide credit against such an asset.

Volatility of current market conditions: financial and product markets can change overnight, affecting a venture's current value and its potential profitability.

SOURCES OF ENTREPRENEURIAL FINANCING

Financial Bootstrapping

Financial Bootstrapping is a term used to cover different methods for avoiding using the financial resources of external investors. It involves risks for the founders but allows for more freedom to develop the venture. Different types of financial bootstrapping include Owner financing, Sweat equity, Minimization of accounts payable, joint utilization, minimization of inventory, delaying payment, subsidy finance and personal debt.

External Financing

Businesses often need more capital than owners are able to provide. Hence, they source financing from external investors: angel investment, venture capital, as well as with less prevalence crowd funding, hedge funds and alternative asset management. While owning equity in a private company may be generally grouped under the term private equity, this term is often used to describe growth, buyout or turnaround investments in traditional sectors and industries.

Business Angels

A business angel is a private investor that invests part of his or her own wealth and time in early-stage innovative companies. Apart from getting a good return, business angels expect to have fun. It is estimated that angel investment amounts to three times venture capital. Its beginnings can be traced to Frederick Terman, widely credited to be the "Father of Silicon Valley" (together with William Shockley), who invested $500 to help starting up the venture of Bill Hewlett and Fred Packard.

Venture Capital

Venture capital is a way of corporate financing by which a financial investor takes participation in the capital of a new or young private company in exchange for cash and strategic advice. Venture capital investors look for fast-growing companies with low leverage capacity and high-performing management teams. Their main objective is to make a profit by selling the stake in the company in the medium term. They expect profitability higher than the market to compensate for the increased risk of investing in young ventures.

Key differences between business angels and venture capital:

- Own money (BA) vs. other people's money (VC)
- Fun + profit vs. profit
- Lower vs. higher expected IRR
- Very early stage vs. start-up or growth stage
- Longer investment period vs. shorter investment horizon

Buyouts

Buyouts are forms of corporate finance used to change the ownership or the type of ownership of a company through a variety of means. Once the company is private and freed from some of the regulatory and other burdens of being a public company, the central goal of buyout is to discover means to build this value. This may include refocusing the mission of the company, selling off non-core assets, freshening product lines, streamlining processes and replacing existing management. Companies with steady, large cash flows, established brands and moderated growth are typical targets of buyouts.

There are several variations of buyouts:

Leveraged buyout (LBO): combination of debt and equity financing. The intention is to unlock hidden value through the addition of substantial amounts of debt to the balance sheet of the company.

Management buyout (MBO), Management buy in (MBI) and Buy in management buyout (BIMBO): private equity becomes the sponsor of a management team that has identified a business opportunity with a price well above the team's wealth. The difference is in the position of the purchaser: the management is already working for the company (MBO), the management is new (MBI) or a combination (BIMBO).

Buy and built (B&B): the acquisition of several small companies with the objective of creating a leader (highly fragmented sectors such as supermarkets, gyms, schools, private hospitals).

Recaps: re-leveraging of a company that has repaid much of its LBO debt.
Secondary Buyout (SBO): sale of LBO-company to another private equity firm.

Public-to-private (P2P, PTOP): takeover of public company that has been 'punished' by the market, i.e. its price does not reflect the true value.

Key Lessons in Entrepreneurial Finance:-

- ***For most entrepreneurs, seeking outside financing isn't worth your time:-***

  Only a small fraction of new businesses obtain money from someone who is not a founder of the business. Therefore, unless your business has a lot of hard assets that can be used as collateral for a loan, or one of a handful of startups that has the super-high growth potential and exit plan to attract accredited angel investors and venture capitalists, seeking outside money is unlikely to be fruitful. You are better off developing a less capital-intensive business model and financing the startup yourself than you are spending your time trying to raise money.

- ***Your personal credit and personal collateral matter a great deal when financing a startup:-***

  Data from the Federal Reserve's Survey of Small Business Finances shows that the owners of one quarter of corporations less than five years old, and nearly half of sole proprietorships that age, personally guarantee the debts of their businesses. Given that only a minority of businesses borrows externally at all, this means that most of the capital that entrepreneurs borrow is personally borrowed or personally guaranteed. With personal debt, the lender's decision depends less on the potential of the business than on the entrepreneur's credit and collateral. If you don't have great personal credit and you have few assets to pledge against a loan, you will have a hard time borrowing to finance your new business, no matter how great your business idea is. So if you want to start a business, be careful about your personal credit.

- ***You are more likely to get a loan than an equity investment from an outsider:-***

  Because venture capital and angel investments are sexier than bank loans and trade credit, the former gets the lion's share of attention in books and articles about entrepreneurial finance. However, most of the companies that get outside financing obtain debt, not equity.

  Only a tiny percentage of startups are financed by selling equity to accredited angels or venture capitalists. The statistics show that around 1 percent of companies get their financing from these two sources combined. Other informal investors – like friends, family and unaccredited angels – add a few percentage points to the share of businesses that get outside equity, but research shows that these sources are actually more likely to lend money than to take an equity stake. Therefore, unless your business is the type that angels and venture capitalists look for, you shouldn't waste your time seeking equity investors.

- ***Tapping trade creditors is where your odds of obtaining financing for the business itself are highest:-***

According to analysis of the Federal Reserve's Survey of Small Business Finance, next to having a checking account, trade credit is the most common financial tool used by small businesses. Because trade credit is offered by suppliers to help you buy their products, even the newest businesses can obtain it.

In short, unless you have a rare, super-high-growth business with plans to exit through an initial public offering or acquisition within five to seven years, your best bet is to minimize your capital needs and finance your start-up with your own money, money that you borrow personally, and trade credit.

REVIEW OF LITERATURE

Jill S. Taylor, (2006), *"What Makes A Region Entrepreneurial?"* There is a growing body of literature concerning the impact of regional characteristics on entrepreneurial activity. Although the research results vary based on the selection of indicators, time frame being studied, and other methodological issues, the common finding is that macroand micro-economic trends have a considerable impact on new firm formation. However, regions are distinct, dynamic, complex economic systems that respond differently to macro- and micro-level forces. This makes it difficult to generalize about regional factors that influence entrepreneurship and formulate an appropriate policy agenda. Yet, this paper highlights several approaches that have been endorsed by many experts in the field. The conditions that are frequently cited as fostering entrepreneurship may be more a consequence of entrepreneurial activity than a cause, however, the suggested approaches may, at the very least, eliminate barriers and encourage entrepreneurship.

Further research is needed to develop a more complete understanding of what makes a region entrepreneurial. There is still a limited understanding about what conditions lead some regions to develop entrepreneurial clusters. Furthermore, there is more that can be learned about why some regions may be innovative but not entrepreneurial. The role of entrepreneurship in economic growth is another issue that needs further research. It is generally accepted that higher rates of entrepreneurial activity translate to higher rates of economic growth. Acs, et. al. (2006) challenge this assumption, noting that entrepreneurial activity may be endogenous to growth. That is, entrepreneurial activity may be more prevalent during periods of economic growth; therefore, it may be more accurate to attribute increased entrepreneurial activity to economic growth than to attribute economic growth to increased entrepreneurial activity.

Ajagbawa O. Henry, (2014) *"Entrepreneurship, Financial, And Economic Development"* Entrepreneurship is about creating new businesses by employing the other factors of production. New business create employment, generate economic activities and enhance the frontiers of productivity in the economy. We noted that entrepreneurship is one of the few engagements that maximises the often conflicting objectives of maximising social gains simultaneously along with personal gains in terms of contribution to tax revenue to government, community contribution to other stakeholders and profits and dividends to the owners of the business. We also noted some interesting facts that demographic structures may impact on the level of entrepreneurship achieved in a country (Levesque & Minniti, 2006). Entrepreneurs would however require funding to be able to generate these benefits.

RESEARCH METHODOLOGY

Primary Data: The Primary data has been collected through 100 respondents.

Secondary Data: The secondary data have been collected through journals, books, surfing from internet, etc.

Collection of Data: The primary data has been collected through structured questionnaire from entrepreneur of Bikaner city. Simple random sampling technique were used for collection of primary data.

Sampling Design: Sampling design is imperative in nature. Hence, the researcher decided to collect the data through multi stage sampling.

OBJECTIVES OF THE STUDY

1. The foremost objectives of the present study are:
2. To determine an awareness regarding Entrepreneurial Finance in Bikaner city.
3. To understand the perception of entrepreneur of Bikaner city, while investing into startup project.
4. To know the observation of entrepreneur regarding choosing of owned capital or borrowed capital of Bikaner city.

5. To determine an allocation ratio into fixed assets and current assets.

6. To verify the available resources for Entrepreneurial Finance in Bikaner city.

RESULT ANALYSIS AND INTERPRETATION OF DATA

Gender wise classification of respondents:- Gender plays a very important role in determining the investment through entrepreneurial finance. Here out of 100 respondents 93 were male and 07 respondents were female. In Bikaner city the majority of respondents were male for this study.

Table 1: Gender wise distribution of respondents

Sr No	Gender wise distribution	Total number of respondents	
		Numbers	**Percentages**
1	Male	93	93
2	Female	7	7
Total		**100**	**100**

Age wise classification of respondents:- The researcher has classified the respondents on the basis of age. In this case total numbers of respondents were 100 and out of 100 respondents 39 respondents were in the age group of 30-45 years. 31 respondents were in the age group of 18-30 years. 27 respondents were in the age group of 45-60 years and 3 respondents whose age was above 60 years and none of the respondents in the age group of below 18 years.

Table 2: Age wise distribution of respondents

Sr No	Age wise distribution	Total number of respondents	
		Numbers	**Percentages**
1	Below 18 years	0	0
2	18-30 years	31	23
3	30-45 years	39	39
4	45-60 years	27	27
5	Above 60 years	3	3
Total		**100**	**100**

Marital status wise classification of respondents: While interpreting the Marital status of respondents it can be analyzed that 77 respondents were married and 20 respondents were unmarried and remaining 03 respondents were came under other category i.e. Divorcee .

Table 3: Marital status wise distribution of respondents.

Sr No	Marital status wise distribution	Total number of respondents	
		Numbers	Percentages
1	Married	77	77
2	Unmarried	20	20
3	Other	3	3
Total		**100**	**100**

Qualification wise classification of respondents: Education is a fundamental factor for the success of any entrepreneurship. Independent identity of respondents is proved only through education. In this survey, researcher found that 57 respondents were graduate. 24 respondents were postgraduate. 17 respondents were HSC and 02 respondents were SSC.

Table 4: Qualification wise distribution of respondents.

Sr No	Qualification wise distribution	Total number of respondents	
		Numbers	Percentages
1	SSC	2	2
2	HSC	17	17
3	Graduate	57	57
4	Post Graduate	24	24
Total		**100**	**100**

Occupation wise classification of respondents: This research paper will throw light on occupation of respondents. Out of 100 respondents 56 respondents runs family business, 23 respondents were professionals, 18 respondents were works as a salary basis and 03 percent respondents were worked in other category like real estate broker and stock broker.

Table 5: Occupation wise distribution of respondents

Sr No	Occupation wise distribution	Total number of respondents	
		Numbers	Percentages
1	Service	18	18
2	Family Business	56	56
3	Profession	23	23
4	Other	3	3
Total		**100**	**100**

Annual Income wise classification of respondents: Generally the people who earn more will invest more in business and the person who earns less will invest accordingly. So income of respondents was one of the primary factors for survey.

This income was an annual income of respondents and earn in INR. 32 percent of respondents were earning between 05-10 lakhs. 21 respondents were earned more than 10 lakhs. 19 percent of respondents were earned between 01-03 lakhs. 15 numbers of respondents were earning between 03-05 lakhs and 13 percent of respondents have earning up to 01 lakhs.

Table 6:- Annual income wise distribution of respondents

Sr No	Annual Income wise distribution (In INR)	Total number of respondents	
		Numbers	Percentages
1	Up to 1 Lakhs	13	13
2	1 Lakhs -3 Lakhs	19	19
3	3 Lakhs – 5 Lakhs	15	15
4	05 Lakhs – 10 Lakhs	32	32
5	More than 10 Lakhs	21	21
Total		**100**	**100**

Requirement of entrepreneurial finance by respondents :
The information on investment of respondents is available with available table.

Table 7: Requirement of finance to start business

Sr No	Finance required	Total number of respondents	
		Numbers	Percentages
1	Up to 1 Lakhs	7	7
2	1 lakhs to 5 lakhs	11	11
3	5 lakhs to 10 lakhs	17	17
4	10 lakhs to 50 lakhs	61	61
5	More than 50 Lakhs	4	4
Total		**100**	**100**

Sources opted by respondents to raise finance : This section will bring the details regarding sources of finance which were opted by respondents of Bikaner city. It can be seen that some respondents uses owned finance, some respondents uses borrowed. The detailed analysis is available below.

Table 8: Sources to raise finance by respondents

Sr No	Sources for finance	Total number of respondents	
		Numbers	Percentages
1	Owned only.	12	12
2	Borrowed only.	14	14
3	Combination of both.	74	74
Total		**100**	**100**

Only owned finance arrangement:- It had seen that out of 100 respondents, 74 respondents uses owned as well as borrowed finance. 14 respondents were opted for borrowed finance only to start new business. Remaining 12 percent of respondents choose to go for owned finance only for their businesses. All these 12 percent respondents had uses own saving and investment to start up their businesses.

Borrowed finance arrangement by respondents:- In the available survey, it had seen that out of 100 respondents only 12 respondents want to use only their own fund to startup new venture. Remaining 88 percent (74 respondents and 14 respondents) of respondents went for borrowed fund as well as combination of both i.e. owned and borrowed. Table no 9 has gave a clear idea about respondents, that goes for borrowed only and combination of both. The detailed analysis is available below:-

Table 9: Borrowed finance arrangement by respondents

Sr No	Borrowed Finance arrangement	Total number of respondents	
		Numbers	Percentages
1	Loan from family and friends	14	15.91
2	Loan from Bank and FII	69	78.41
3	Loan from Money Lenders	5	5.68
Total		**88**	**100**

Forms of business of respondents:- Form of business is vital part in this study. From the available data it can be found that most of the respondents want to start their business through partnership. The available graph will give more clear idea regarding this.

Table 10: Forms of business organization to be opted by respondents

Sr No	Forms to select of business organization	Total number of respondents	
		Numbers	Percentages
1	Sole Proprietor	44	44
2	Partnership	56	56
3	Co-operative Society	0	0
4	Joint Stock Company	0	0
Total		**100**	**100**

Allocation of finance by respondents:- After arranging the entrepreneurial finance by the respondents of Bikaner city, they are diversifying their finances into two categories namely, Fixed Asset and Current Asset.

The table explains in brief the allocation of finance in Fixed as well as Current assets:-

Table 11: Allocation of finance in Fixed assets and Current assets

Sr No	Allocation of Finance	Allocated in Fixed Asset by respondents		Allocated in Current Asset by respondents	
		Numbers	Percentages	Numbers	Percentages
1	Up to 24 %	17	17	16	16
2	25- 49 %	29	29	38	38
3	50- 75 %	38	38	29	29
4	More than 75 %	16	16	17	17
Total		**100**	**100**	**100**	**100**

FINDINGS

Top findings in this study are as follows:-

1. From the above study, it has been found that majority of respondents were male, married and educated.

2. It has been analyzed that most of the entrepreneur of Bikaner city belonged to 30-45 years of age group, family business and rich class.

3. It has also been found that majority of respondents has the requirement of Entrepreneurial finance between 10 lakhs to 50 lakhs.

4. Majority of respondents were familiar to get an entrepreneurial finance through Banks and other Financial Institutions and go for partnership firm.

5. It has observed that majority of respondents allocate 50-75 % of their funds in fixed assets and remaining up to 25% of funds wanted to allocate in current assets.

SUGGESTIONS

Some suggestions for this study, which are as follows:-

1. Entrepreneur has to go for owned capital first. If it's not available then go through borrowed one.

2. Entrepreneur also has to understand the risk for non-paying an EMI to banks from which they had bought Entrepreneurial finance.

CONCLUSION

It can be concluded that Entrepreneur of Bikaner city adopted Entrepreneurial finance, to startup new venture. They go for owned capital as well as borrowed capita, if there is the non availability of funds in business. All the entrepreneurs must have to abide by the rules of the issuing banks and other financial institutions. It can also be observed that some entrepreneur uses their own capital, so they were not gone towards any bank or any other medium.

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