FUNDING STARTUP ENTERPRISES: PROBLEMS FACED AND SOLUTIONS

Prathibha Samadhinee Hettiarachchi

118707K

Dissertation submitted in partial fulfillment of the requirement for the degree Master of Science in Financial Mathematics

Department of Mathematics

University of Moratuwa

Sri Lanka

October 2015

Declaration of the candidate & the supervisor

I declare that this is my own work and this Dissertation does not incorporate without acknowledgement any material previously submitted for a degree or Diploma in any other university or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

Also, I hereby grant to university of Moratuwa the non exclusive right to reproduce and distribute my thesis, in whole or in part in print, electronic or other medium. I retain the right to use this context in whole or part in future works (such as article or books).

Signature: Date :

The above candidate has carried out research for the Masters dissertation under my supervision.

Signature of the supervisor: Date:

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my supervisor Ms. H.V.S de Silva Senior Lecturer Department of Mathematics, Senior Lecturer Mr. Rohana Dissanayake, and the senior lecturer Mr. T.M.J.A Coorey department of mathematics, University of Moratuwa for the utmost patience, guidance and tremendous support extended to pursue this study.

And also my heartfelt appreciation to my parents and my friends for the constant support and help provided which made me felt motivated and encouraged every time.

Thank You,

P.S Hettiarachchi

Abstract

Startup Enterprises (SE's) are important in an economy as they may be ended as large corporate entities in the future. The researcher defines a SE as a business started within the last five years which is yet to reach scalable markets.

Fresh business ideas expressed to the world as an SE and newer businesses are created by the way of a Start up. This paper is based on quantitative and qualitative research methods to examine the factors behind funding issues faced by a start up enterprise in meeting their capital requirements. Moreover this paper provides recommendations for the issues outlined at the research.

More than 125 questionnaires were distributed and 80 of them have responded and the findings show that there are 3 main factors for SE's to face funding issues namely, Institutional barriers, weakness in the company, and personal barriers to raise capital.

Some of the changes proposed as solutions are national policy changes, however, without doing so startups could never be nurtured to grow up to greater heights added, some of the current banking practices are not in favor of SE's and hence directions from governing authorities needs to be re-evaluated for betterment of SE's.

This paper explains the problems faced by SE's and the corrective measures to be adopted to overcome the said funding issues faced.

Key words : SE's, Start up, Funding

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

Abbreviation	Description
GDP	Gross Domestic Product
SE	Startup Enterprises
SME	Small and Medium Enterprises
POT	Pecking Order Theory
HR	Human Resources
CEO	Chief Executive Officer

LIST OF APPENDICES

1. INTRODUCTION

1.1 Background of the study

Growth rate in the Sri Lankan economy has been one of the fastest among the Asian developing economies in the recent years. The country's recent economic performance has been better than expected with an average Gross Domestic Product (GDP) growth rate stabilizing around 7%. Fueling high growth rates requires support from the industrial sector particularly the startup enterprises which will be a part of the overall industrial sector in the time to come.

Startup enterprises (SE's) tend to be the key to sustain economic growth due to various reasons and this segment of business has been in the focus of the attention of the world economy as well. SE's are essential for their innovative potential and job creation possibilities. Double digit unemployment rate is a crucial factor for developing economies. SE's can provide a partial solution for unemployment and can be a part and parcel of economic development. Enterprises are not only suppliers, but also consumers henceforth large companies tend to outsource their activities to small enterprises as it is cheaper, efficient and fast thus the growth of the large companies depends on how the SE's perform their task.

The European Competitiveness and Sustainable Industrial Policy Consortium has evaluated the support provided for SE's in the western world and the following key services were made available for SE's growth. All the services mentioned below may not be applicable for Sri Lanka, yet it provides an insight on how other countries provide support for SE's. Those include, Member State Seminars, Workshops, Staff training, Trade missions, Trade fairs and matchmaking events, Information on rules and regulations, Information on market opportunities, Identifying and arranging meetings with potential clients, Advice & consultancy, Business cooperation and networking, Sectoral Programmes, Credit guarantee schemes, Subsidies, grants, Tax incentives, Low interest credits, Insurance services.

Startup enterprises may end up being big corporate in the future and it contributes to capital formation and to the knowledge stock of the community. Startup enterprises play an important role in promoting inclusive growth such as developing entrepreneurial skills, innovation, employment and elimination of inequity and poverty.

The studies carried out on the modern economic science and the world experiences undoubtedly confirm that there is no steady and productive economic development without the significant presence of the startup enterprises in the economic structure of any economy; reason being the startup enterprise will contribute towards the economic growth. Added startups represent an important segment of the economic structure of nations and they also represent one of the key components of re-structure in the countries those who are moving in from planned economies to a market economy.

1.2 Research Problem

The usefulness of startup enterprises is an established argument in an economy; However, in Sri Lanka there are no systems available to nurture SE's to their maturity. Investors despite equity or loans will look into minimizing their risks yet capital requirements of a SE are fully ignored.

The SE's in Sri Lanka have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development in the country. This situation has been of great concern for the scholars. The government through its budget allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the Small and Medium Enterprises (SME) sub-sectors of the economy and hence made policies for energizing the same.

Hence the research problem statement is “the funding issues a startup enterprise face and how to overcome them”.

1.3 Research gap

Many researchers have been carried out on Small and Medium Enterprises particularly on the areas such as contribution to the economy, however lesser research has been carried out in relation to startup enterprises in Sri Lanka.

Out of the above most of the researches were focusing on general issues faced by a startup enterprises and yet hardly any researches were done focusing on funding issues faced by startup enterprises.

It was observed that the knowledge available on the SE’s financing is limited in the Sri Lankan context as such there is inadequate information for policy making in the country. This research will provide answers for funding issues a startup faces and having adhered to the recommendations of this research, it will solve an un-touched business issue in an economy.

1.4 Research Objectives

The objectives of this research are:

1. to identify types of barriers SE’s face
2. to study how the above barriers will create funding issues for SE’s.
3. to find the ways and means of overcoming the above problems.
4. to develop a theory to explain the funding problems a startup company is facing and to draw recommendations with supporting business models from developed economies.

1.5 Significance of the Study

The research study provides information on the funding issues a startup enterprise faces particularly with banks, investors, and shareholders. Further, this study would also be a review on the current facilities available for funding, startup enterprises. This study would be beneficial for the National Policy makers as it enhances the knowledge of the startup enterprises and to the possible funders for the startup enterprises. Furthermore, this study would be beneficial to those who are willing to start an enterprise as it clearly explains the problems others have faced and the possible means of overcoming these problems. This study can provide baseline information on the recent status of startup enterprises for future researchers.

1.6 Scope and Limitation of the study

Scope of this research is to find out obstacles faced by startup enterprises when funding and provide a better solution to overcome those issues. This analysis is prepared subject to the following limitations.

- The following characteristics which affect funding startup enterprises.
    - Institutional barriers
    - Weaknesses of the company
    - Personal barriers
- Data collection is limited to Colombo District and does not represent the entire country.
- Choice has been made between equity or loans and combinations of the above have been ignored.
- Difficulties faced at the collection of the data as certain sensitive information is requested in the research.

1.7 Chapter Framework

Chapter 2 is dedicated for the literature review which includes the summary of the previous research findings related to financing startups. It is observed that the funding problem for startups weave around three areas. Hence the literature review is presented on three main headings namely, Institutional barriers, Weakness in the company, and Personal barriers to cover the following dimensions.

Institutional barriers are the problems and restrictions that arise from the funder's perspective, weaknesses of the company are the obstacles from the fund receiver's perspective both of which are technical in nature. Lastly the personal barriers act as a psychological barrier when it comes to receiving finance. This chapter concludes with the development of the conceptual framework. The researcher identifies that there are three types of barriers that will form the funding problem for a start up.

Chapter 3 is about the methodology, which discusses about the type of data used, data sources, and method of collection of data, analysis, and lastly the research procedure.

Chapter 4 is about the data presentation and analysis, chapter 5 is dedicated to discuss the findings of the research, and lastly chapter 6 is reserved for conclusion and recommendations.

2. LITERATURE REVIEW

2.1 Introduction

There is no clear single definition to define a startup, various criteria like number of employees, annual turnover, or net profit are some of the dimensions that could help to differentiate between the definition for large and small startup firms. “Where an individual who thinks, reasons and acts to convert the ideas into commercial opportunities and to create value” (Leach & Melicher, 2012). The researcher defines a startup enterprise as “a business started within the last five years which is yet to reach scalable markets”.

The related literature for this study is mainly taken from the public sources such as research publications. Previous studies of businesses in various countries have identified a large number of difficulties affecting startups. The most important difficulty is the formal barriers such as challenges from the business
Environment for instance, lack of financing (Pissarides et al., 2000) that critically affect the growth of startups.

2.1.1 Pecking Order Theory

Myers & Majluf in 1984 developed the Pecking Order Theory (POT) based on the premise that ‘inside’ management are better informed of the true value of the firm than the ‘outside’ investors. These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt. They propose that firms seek to overcome problems of undervaluation arising from information asymmetries, preferring to finance investment projects with internal funds in the first instance. When internal equity is exhausted, firms use debt financing before resulting to external equity. Authors state that the POT is relevant for the SME’s because of the relatively greater information asymmetries and the higher cost of external equity for SME. Additionally, a common phenomenon in the sector is the desire of the firm owners to retain control of the firm and maintain managerial independence.

These factors suggest that company owners source their capital from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion. Empirical evidence supports applicability of the POT in explaining the finance of SME's. These studies emphasize that small firms rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of firms use external equity. A number of studies report that firms operate under a constrained pecking order, and do not even consider raising external equity.

Adherence to the POT is dependent not only on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, particularly the stage of development of the firm. The most important source of funding for start-up firms are the personal funds of the firm owner, and funding from friends and family. An investigation on the pecking order, although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends (quasi banks) is often essential to unlock support from commercial institutions.

2.1.2 Credit Rationing Theory

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz & Weiss developed in 1981. In their formulation, Stiglitz and Weiss argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs / SE's have constrained access to finance. They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk.

Stiglitz and Weiss explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply. Constrained access to finance derived from financial institutions' credit rationing behavior might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information can explain asymmetric of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, knowing only that this likelihood is positive and therefore choose to increase debts' cost.

Start-up small firms are more likely to be affected by information asymmetry problems. Some have argued those information asymmetries are more acute in new and technology-based propositions. They argued at an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur. Especially with manufacturing and technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit.

Above two theories form the basis for this research and then it was reviewed for the main types of barriers the SE's face. Having carried out a study on the related literature it was observed that there are three broader types of barriers that will form the "funding issue” for a start up. In short the constraints from the funder to release funds, weaknesses of the company to receive funds and the other (personal) issues impending from the owner to receive funds due to various social and psychological factors.

2.2 Theoretical Framework

A theoretical framework is a product of a qualitative process of theorization which interlinks a concept that together provides a comprehensive understanding of a phenomenon or phenomena. The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships.

The theoretical framework for this study is related to independent variables Institutional barriers, Weakness in the company and Personal barriers to the Dependent variable Funding Problem a startup is facing.

The literature review organized as follows supports the design of the study and hence the related literature will be presented under the following headings.

a. Institutional barriers
b. Weakness in the company
c. Personal barriers

2.2.1 Institutional barriers

In any economy, the major role is played by the banks by way of facilitating the flow of money between investors (cash surplus) to businesses or individuals with deficit cash required by them. In Sri Lanka where institutionalized financial systems comprised with very strong banks and other various types of finance companies, on top of that central bank monitors operations involved in decision making of financial markets. Institutional finance is essential for startup firms since they rarely obtain long term debt or equity, as they must rely on the credit as a major source of finance and they obtain much of the external capital from the entrepreneur's own funds, and informal investors like family members, friends and colleagues (Walker, 1989).

The decision for startup firms to receive institutional finance depends upon different criteria's such as loan tenor, amount of credit availability, credit worthiness of the firm, the level of interference and supervision etc. and this varies across the firms. For the startup firms it is vital to rely on the finance from the institutions because of the financial situation of the startup firms appear to be very oblique for the investors, therefore without the presence of a financial intermediary firm like the banks or finance companies it becomes too costly for the investors to gain information in order to grant credit to the startup firms. Hence institutional funding plays an important role in financial intermediation, solving the problem for the startup firms by generating the information about them, by setting terms on the loan contract to improve the incentives of the startup firms. For any startup firm, ability to acquire bank finance opens up many ways to gain access to finance as banks provide different types of financing options that include trade credit, low finance charges, reduction in transaction cost, protection against credit crunches, and credit risk insurance (Boot, 1999).

Institutional financing provide assistance in terms of renegotiating the contract whenever the startup firms are facing financial difficulty, and by diversifying the risks across many small business units. Banks act to form long term relations with the startup firms and with the passage of time, as the working relationship matures between the two, it results in lowered interest rates and less collateral requirements in terms of further financial assistance.

However the banks on the other hand could impose "migration restrictions" on these startups as well in order to avoid them to opt for other sources of finance. Furthermore banks make sure the fluent availability of finance to the startup firms without any disruptions or discontinuities. Another disadvantage of using banking finance is that they demand monitoring and the controlling rights as compared to other options for finance. They are not interested in the ownership of the firms. Yet the institution will take maximum possible cover to mitigate risks attached to the loan.

Banks mostly monitor the contract violations, worsening performances, or failing the quality of the contract that could endanger their loan (Yerramilli & Winton, 2008). However as far as the question regarding the ease of banking finance for the startup firms is concerned, the researcher hold a different point of view, according to them even after the entrepreneurs run out of their capital in the initial stages of the startup, they still consider the option for banking finance to be still too risky for the banks to consider for providing capital or not. Even if the entrepreneur could somehow manage to obtain financial resources from the banks, the terms of providing those resources are themselves unaffordable for the startups. Added banks are in a continuous need for funds, especially the liquid funds in their course of business. Similar needs can include demanding additional conditions on loans and loan commitments, added increased demands for the repayment from the startups may also act as a barrier. Failure to meet the liquidity needs may have a negative impact over the banks, hence creating costs for the banks will in turn be passed on to the startup.

Having considered on the institutional barriers to entrepreneurship, the researcher point out that gender differences in education, work experience, networks, and access to capital limit the number, size and scope of Start Enterprises. There are three factors which distinguish women-owned businesses (1) concentration in retail and services (2) less focus on growth and (3) lower likelihood of seeking external funding which the researcher finds that as common for startups. Moreover the opportunities are not equally distributed and SE's are less able to use their networks as sources of social capital which limits access to resources for business growth (Cope et al., 2007). This suggests that social differences in the resources and networks of entrepreneurs remain a valid area of study for those concerned with understanding the barriers to start-up more specifically; Marlow et al. (2009) outlined gender and human/social capital, and gender and financial capital as two of the six main research themes associated with gender and entrepreneurship. This debate is important because the level of finance is a strong determinant of a new venture's survival prospects. Inequality or discrimination against FOBs places an unfair additional burden on their business potential.

2.2.2 Weaknesses in the business

The underlying principle behind the financing business is that the credit markets stop high-quality startups with good ideas from growth because they are not able to access enough capital to start a new business. Much of the research has therefore focused on analyzing the nature of these issues, the effect they have on access to finance, and the impact of reduced financing constraints on a startup business.

Perhaps the most important factor governing the ability for startups is to raise sufficient capital for their projects in the depth of the local capital market. This depth is therefore a natural starting point for measuring financial market development for funding new capital-intensive projects, through metrics like Rajan and Zingales (1998) who show that industrial sectors with a greater need for external finance develop faster in countries with deeper capital markets in particular, startup firms struggle with overcoming weaknesses in financial market development, even where established firms are able to use trade credit as a substitute for formal financing. Comin and Nanda (2009) show how the difficulties faced by startups in raising capital might adversely impact the commercialization of new technologies. Using the past data in the development of the banking sector and due to advancement of technology, they find that capital-intensive technologies are adopted much faster relative to less capital-intensive technologies in certain countries.

Proper financial management has been argued to facilitate growth that they have adopted to overcome the limitations of informal management styles that require constant personal interaction. The need for these systems has been argued from agency and information-processing perspectives, which are the main roles of financial management. As companies are small, direct observation becomes the main control approach in the absence of systems. Systems become too costly and motivation and monitoring have to happen through the design of appropriate financial management.

A Company's growth also affects the ability to move information to the right decision makers. Without formal systems, the number of interactions required to move information around the company increases exponentially with the number of employees. Communication becomes too costly if proper financial management is not implemented. These arguments propose the size of the company (in particular, number of employees) as a relevant variable in explaining the phenomenon. The adoption of financial management in startup companies is potentially an important stage in their growth. For the most part, the empirical findings on this question have focused on particular types of systems. Baron et al. (1996, 1999) examine the adoption of human resource (HR) management systems in startup firms. Their objective is to understand the impact of the founder's thinking pattern of the human resource relationships on the speed of adoption of these systems. Venture-backed firms are faster at adopting HR policies and stock-option compensation plans. The size, CEO transition, and presence of venture capital are associated with the adoption of HR systems. Moores and Yuen (2001) map the type of financial management systems throughout the lifecycle of the firms. In particular, they identify the transition from birth to growth as the point at which these systems are formalized. The researcher provides some evidence on the sequencing of adoption of accounting systems. They find that budgeting is the first to be used; additional accounting systems are present only in firms with a strong belief about their future success. The adoption of management accounting systems and of budgets in particular. They find that size, the presence of external funding, financial manager's experience, and how the startup enterprise interprets proper financial management are associated with faster adoption of operating budgets. They also provide descriptive statistics on sequencing, and report that budgets are the first managerial accounting system adopted. They further find an association between the adoption of operating budgets and company growth. Sandino (2007) studies the adoption of an extended set of management accounting systems in a sample of 97 young U.S. retailers. She finds that almost all of these firms adopt a basic set of managerial accounting systems including budgets, pricing systems, and inventory control. But they differ in the adoption of more advanced systems; firms following a cost strategy add managerial tools focused on enhancing efficiencies; in contrast, firms following a differentiation strategy adopt tools to gather customer information. One case study (Cardinal et al. 2004) describes the evolution of control systems, interpreted to include informal as well as formal processes, in moving a company through its crucial early stages. This qualitative study is the first one that looks at a broad range of control mechanisms.

2.2.3 Personal barriers

Banks remain the main supplier of external startup finance (Cosh and Hughes, 2003), though there may be various financing constraints. Access to finance is influenced by funding preferences such as the POT or risk aversion of banks. This risk aversion can lead to a preference to fund less risky ventures or "better borrowers" (Cressy and Toivanen, 2001). There is certainly evidence that ethnic minorities face difficulties raising finance particularly African Caribbean and Bangladeshis (Curran and Blackburn, 1993) and an inclination, especially amongst South Asians, towards obtaining informal finance (Basu, 1998). Other authors have found differences between men and women

(Carter and Rosa, 1998) with evidence of discrimination (Ennew and McKechnie, 1998). Indeed, the UK Government's Policy Action Team 14 articulated the difficulties faced by some businesses in accessing bank finance – due primarily to their age, experience, track record or business structure – though they did not blame it all on personal characteristics.

First, that there is sufficient and readily accessible finance (yet the propositions are perceived as not viable, else the applicants are perceived as incapable of achieving the objectives, or there is insufficient collateral, and so the whole proposition is too risky for the banks). Second, which some people exhibit certain characteristics that make it more likely that they will fail to secure the funding that they need.

Loans from the banks are the predominant source of United Kingdom SME finance (Cosh and Hughes, 2003) and, while financing constraints can lead to business failure, many owner-managers do not wish to use long-term debt finance. It is generally assumed that business owners adopt a "pecking order" of financing preferences where they use personal finance and funding from family and friends, then banks, before approaching equity sources. The seminal literature on entrepreneurial start up suggests that liquidity constraints can hinder or even prevent someone from creating a new venture (Evans and Jovanovic, 1989). It can also impede the growth of a small firm.

First, that there is sufficient and readily accessible finance (but the propositions are perceived as not viable, or the applicants are perceived as incapable of achieving the objectives, or there is insufficient collateral, and so the whole proposition is too risky for the banks). Second, which some people exhibit certain characteristics that make it more likely that they will fail to secure the funding that they need.

Information within credit markets and the impact of asymmetric information upon small business borrowing (Binks et al, 1992), which might lead to impediments to firm performance and growth (Keasey and Watson, 1992).

Much established literature fails to investigate the influence of personal characteristics upon access to finance, but some evidence was found on literature review. As well as operating firms in an intensely competitive milieu (Ram et al, 2000).

Carter and Rosa (1998) found quantifiable gender differences in certain areas of business financing, although intra-sectoral similarities demonstrate that gender is only one of a number of variables that affect the financing process. Ennew and McKechnie (1998) found discrimination while women may pay higher interest rates on term loans than men (Coleman, 2000). Human capital theory explains why women owners who are highly educated or who have more business experience have a greater likelihood of obtaining financial capital (Smith-Hunter, 2006). Social capital theory, on the other hand, suggests that a lack of access to social networks can constrain women's access to finance (Carter 2006). Whilst as highlighted risk as a barrier to women entrepreneurs, cognitive biases, where the true level of risk is not perceived rather than "knowingly accepting high levels of risks" (Simon et al, 2000), imply gender differences in the perception of risk.

Kon and Storey (2003), for example, found cases of potential borrowers from banks who may offer perfectly reasonable business proposals who do not apply for a bank loan because they feel they will be rejected. Marlow and Carter (2006) provided further evidence that many women, fearing refusal, do not ask for finance. More recently, they have drawn the conclusion that many women are rational in not seeking excessive amounts of finance to support a high-risk new venture.

In my opinion, the general finance literatures do not address adequately, if at all, the role of personal characteristics in access to bank finance. In addition, while a number of specific studies do explore either gender or ethnic differentials (and rarely both – except for Smith-Hunter, 2006) in access to finance, we would highlight their limited nature. Many such studies adopt a more qualitative and exploratory methodology, while some utilizes a quantitative approach but have relatively small sample sizes. Most critically, it can be argued that there has not to date been any compelling evidence that personal characteristics influence financial constraints. Therefore, to achieve the aim of the research, the researcher focuses upon human capital (education), ethnicity, and gender in order, first, to examine differences in the sources of finance used and, second, whether these personal characteristics influence credit constraints for such startups.

2.3 Conceptual Framework

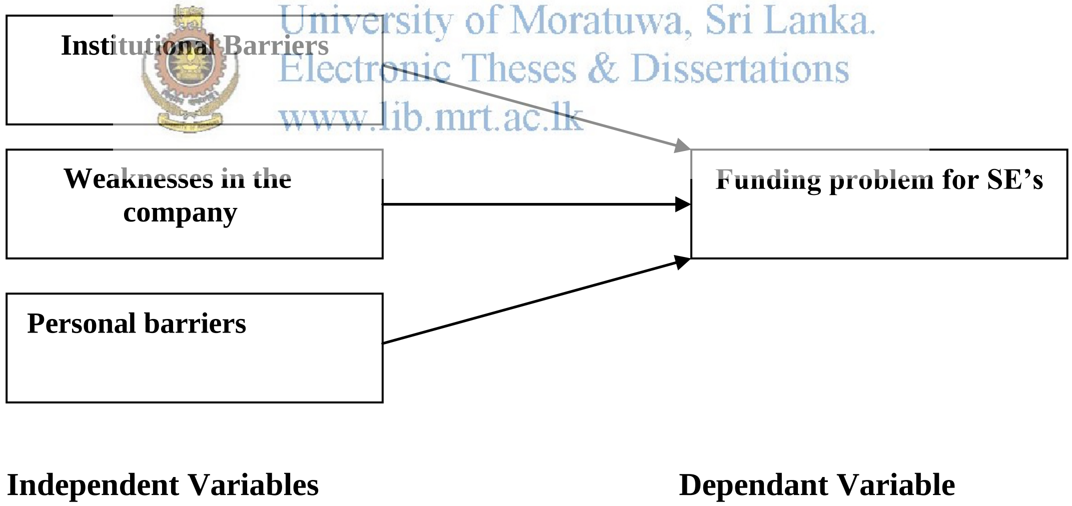

Figure 2.1: Conceptual Framework

The conceptual framework of this study relates to independent variables; Institutional Barriers, Weaknesses in the company and Personal Barriers and the dependent variable, Funding issue faced by the SE's.

2.3.1 Institutional barriers for SE financing

Lack of access to credit facilities is almost universally indicated as key problem for SE's. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because the banks' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank. Credit constraints operate in variety of ways where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small and medium enterprise forces them to rely on high cost short term finance.

2.3.2 Weaknesses of the Company for SE Financing

Researcher has observed that SEs fail to secure loans because of restrictive requirements of the financial institutions, top among them being collateral security. Added inability to furnish audited financial statements, no previous business track record, no bank reference, and no proper books maintained amounts, no proper business network etc has been an issue for SE's to pitch for funding.

2.3.3 Personal Barriers for SE Financing

It was observed that personal characteristics did make some difference to the ability of entrepreneurs to raise finance. Not surprisingly, graduates had the least difficulties raising finance. Education appeared to make difference to sources of finance, except that those educated only to A- levels more frequently used friends and family and mortgaging their personal properties to raise finance for the business.

The researcher focused on the possible psychological barriers as well in assessing this variable.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of how research data were gathered, what were the data collection techniques, target population, sample size and sample techniques. Finally to analyze the gathered data different data analysis methods are to be used. This chapter will be presented under the following headings.

a. Data used
b. Sources of data
c. Data collection
d. Data analysis and Interpretation
e. Research procedure

3.1.1 Data used

A random sampling technique was used to generate a sample size of 80 respondents in Colombo - Sri Lanka. The 80 clients comprises of those who have started an enterprise and or those who have been involved in starting up of a business.

The group was conveniently selected though the researcher's personal contacts using social networking and other methods only those who have actually involved in the business startup was selected for the survey.

The eligibility for participation was decided at the pre screening conducted before the questionnaire was given and this is strictly open only to those who had funding issues in starting a business.

The data for this study categorized under three main topics.

- Institutional barriers
- Weakness of the company
- Personal barriers

Finally the response gathered was discussed with a senior bank official and a possible solution was drafted.

3.1.2. Sources of data

Two sources were considered in meeting the data needs of this study. These sources are:

- 80 different business entities were selected from different sectors and gathered information from the company owners. Particular companies should be started within the preceding 5 years.
- A representative from a bank was used to validate the response received and to obtain better understanding of the possible solutions.
- Personal barriers were discussed in a focus group that included academics, business professionals, couple of owners of startups and a banker.

3.1.3. Data Collection

The two methods were used to collect data as follows:

- Questionnaire were designed to gather information and Questionnaires are administrated as printed papers as well as Google documents and collected as self-filled forms.
- Focus group discussions were held to validate the data gathered and to come up with a solution.

Reference to company owner's questionnaire method was the only means for collecting data.

3.1.4 Data analysis and Interpretation

The researcher uses descriptive statistics to summarize the data collected and there advanced statistical techniques will be used to understand relationships.
Following methods will be used to analyze data.

1. Descriptive Statistics: Commonly used to describe a data set which measures the central tendency and measures of variability or dispersion. Measures of central tendency include the mean, median and mode, while measures of variability include the standard deviation (or variance), the minimum and maximum values of the variables, kurtosis and skewness

2. Non-parametric test: Nonparametric tests are sometimes called distribution-free tests because they are based on fewer assumptions. Parametric tests involve specific probability distributions (e.g., the normal distribution) and the tests involve estimation of the key parameters of that distribution (e.g., the mean or difference in means) from the sample data. Following statistical methods were used.

a. Mann-Whitney test

The Mann-Whitney test is a nonparametric test that allows two groups or conditions or treatments to be compared without making the assumption that values are normally distributed.

Example 1:

Group 1		Group 2	
Score	Rank	Score	Rank
X1	Y1	X3	Y3
X2	Y2	X4	Y4
		X5	Y5

For above example sample size of group 1 (N) is 2 and sample size of group 2 (M) is 3. Sum of rank for the first sample ($\mathbf{Rank}(\mathbf{x_i})$) is equal to Y1+Y2.

$$\mathbf{U} = \boldsymbol{NM} + \frac{\boldsymbol{N}(\boldsymbol{N}+\mathbf{1})}{\mathbf{2}} - \sum_{\mathbf{xi}} \mathbf{Rank}(\mathbf{x_i})$$

U = Mann-whitney u test

$\boldsymbol{N}$=Sample Size one

$\boldsymbol{M}$=Sample Size two

$\mathbf{Rank}(\mathbf{x_i})$=Rank of the Sample size

b. McNemar test

The McNemar test is a test on a 2x2 classification table to test the difference between paired proportions as follows.

Table 3.1: Sample Table of McNemar

	Test 2 Positive	Test 2 Negative	Totals
Test 1 Positive	A	b	$\boldsymbol{n_1 = a + b}$
Test 1 Negative	C	d	$\boldsymbol{n_2 = c + d}$
Totals	$\boldsymbol{m_1 = a + c}$	$\boldsymbol{m_2 = b + d}$	$\boldsymbol{N = n_1 + n_2}$

The null hypothesis is $\boldsymbol{H_0}: \boldsymbol{P_b = P_c}$

The alternative hypothesis is $\boldsymbol{H_1}: \boldsymbol{P_b \neq P_c}$

$$\boldsymbol{x^2 = \frac{(|b-c|-1)^2}{b+c}}$$

b= Value of which test one positive and test two negative

c= Value of which test 1 and test 2 both negative

c. Fisher's exact test

Test has used when members of two independent groups can fall into one of two mutually exclusive categories and fisher's exact test most commonly used for 2 X 2 tables. The test helps to find out whether the proportion of those falling into each category differs by group. Calculation of fisher's exact test involves direct calculation of P for a one-tailed test.

d. Chi-square test

Chi-square test is used to compare observed data with data that expect to obtain according to a specific hypothesis.

Example: expected 12 of 20 from a vehicle drivers to be male and the actual observed number was 10 males, so chi-square test is used to find out the "goodness to fit" between the observed and expected . The chi-square test is always testing what scientists call the null hypothesis, which states that there is no significant difference between the expected and observed result.

The formula for calculating chi-square (x^2) is:

$$\boldsymbol{x^2 = \sum \frac{(Obeserved - expected)^2}{expected}}$$

3. Qualitative analytical methods: to analyze the statements made by the respondents.

4. Focused group discussion : to validate the findings in the research and to reach recommendations & conclusions

   a. Participants :

i.	The researcher	: 1 (as the moderator)
ii.	Business owners	: 3
iii.	Banker	: 1
iv.	Investor (shares etc)	: 1
	Total	: 6

3.1.5 Research Procedure

1. Recruiting participants

   This was done through the researcher's personal contacts and it was mandatory for the participants to either own a start up enterprise or else, to work at one of the start up businesses at a senior decision making level.

   Only those who can fulfill the above requirement were requested to participate in the research.

2. Dissemination of questionnaires

   Questionnaires were disseminated online (as an online form) and one to one instruction was given until completion of the questionnaire.

3. Data Transmission and summary

   Data will be transmitted automatically and researcher is able to download summary of the datasheet.

4. Manual collection of data

   Some respondents have asked for the questionnaire in printed form and they were given assistance as required and these data will be coded in to electronic form by the researcher.

5. Data Analysis
   Collected data will be analyzed and interpreted as explained in chapter 4.

4. DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The first section of this chapter is to present the data collected by the researcher and the second half is dedicated for analysis of the data gathered.

4.2 Data Presentation

4.2.1 Demographical data – Sample Characteristics No table of figures entries found.

Table 4.1: Sample characteristics

	N	Range	Mean	Std. Deviation
How long in business	80	3.00	2.8375	1.04873
Educational Qualification	80	4.00	4.6750	1.43001
Age of the owner	76	31.00	34.7368	9.25976

The researcher has selected a sample of 80. According to the data the business is 2.8 years old on average. Having given reference to the questionnaire the average educational qualification is either professional qualification or Diploma or Graduate degree holder. Average age of the business owner is 35 years on the sample collected by the researcher.

4.2.2 Years of experience in business

Table 4.2: no of years in business

N	Valid	80
	Missing	0
Mean		2.8375
Mode		4.00
Std. Deviation		1.04873
Range		3.00

The researcher identifies that on the average the respondent has been in business for 2.8 years

Table 4.3: Experience in Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	11	13.8	13.8	13.8
	1-2years	18	22.5	22.5	36.3
	2-3 years	24	30.0	30.0	66.3
	3-4years	27	33.8	33.8	100.0
	Total	80	100.0	100.0	

This is the frequency table and it shows the How long the business has been in operations in each of the groups. As per the table 3 & 4 above, on average the business is 2-3 year old and valid percentage is 30%. Furthermore the most of the businesses own 3-4 years of business experience and it is exactly 33.8%.

4.3 Data Presentation – Institutional Barriers

4.3.1 Preferred method of financing

Table 4.4: Most preferred method of financing to the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loan	14	8.8	17.5	17.5
	Equity (Own Capital)	66	41.3	82.5	100.0
	Total	80	50.0	100.0	
Missing	System	80	50.0		
Total		160	100.0		

Choice has been made between equity and loan .According to the Table 5, 17.5% has selected loan and 82.5% has selected equity. Majority of the respondents prefer equity.

4.3.2 Respondent facing delays in receiving loans

Table 4.5: Respondents facing delays in receiving loans

		How Many Months		Total
		1.00	1.50	
FacedDelays_loan	Yes	6	5	11
Total		6	5	11

It is evident that more than 83% of the respondents have preferred equity and the out of the 14 mentioned above 11 respondents have faced delays with the loans.

It has taken 1 month to get a loan for 5 respondents and for the rest its 1.5 months.

4.3.3 Equity based financing- Time taken to convince shareholders

Table 4.6: Time taken to convince shareholders

	N	Minimum	Maximum	Mean	Std. Deviation
Convince_duration	62	1.00	4.00	2.4194	1.13871
Valid N (listwise)	62				

Out of preferred method of financing 62 respondents has selected equity and its takes some time to convince shareholders. As an approximation it has taken 1-1.5months to convince shareholders to obtain funds.

4.3.4 Demanding shareholders in the business

Table 4.7: Demanding shareholders

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	50	31.3	80.6	80.6
	No	12	7.5	19.4	100.0
	Total	62	38.8	100.0	
Missing	System	98	61.3		
Total		160	100.0		

Having demanding shareholders may be problematic to manage the business for People who have selected equity & 80.6% of the population have concluded that there were demanding shareholders.19.4% have said that there were no demanding shareholders.

4.3.5 Dividend Payout

Table 4.8: Dividend Payout Ratio

N	Valid	64
	Missing	16
Mean		20.8125
Median		20.0000
Std. Deviation		5.78140

The proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage. According to the Table 9 average dividend payout ratio amounts to 21% p.a.

4.3.6 Cost Efficiency in financing

Table 4.9: Comparing the cost efficiency between the Loan vs. Equity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	35	43.8	49.3	49.3
	No	36	45.0	50.7	100.0
	Total	71	88.8	100.0	
Missing	System	9	11.3		
Total		80	100.0		

The loan interest has to be paid same as for the shareholders dividend has to be paid. When comparing cost efficiency between loan and equity 49.3% respondent say that the issuing shares is more cost efficient and 50.7% recognize that the loan financing is more cost efficient.

4.4 Data Presentation- Weaknesses in the Company

4.4.1 Business Plan

Table 4.10: Respondents with a proper business plan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	76	95.0	95.0	95.0
	No	4	5.0	5.0	100.0
	Total	80	100.0	100.0	

Banks considers having a business plan is important to grant a loan and Majority (95%) of the respondents concludes that their having a Business plan.

4.4.2. Average head count in the business

Table 4.11: Total head count in the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5	36	45.0	45.0	45.0
	6-10	34	42.5	42.5	87.5
	11-15	6	7.5	7.5	95.0
	More than 15	4	5.0	5.0	100.0
	Total	80	100.0	100.0	

Table 12 is the frequency table showing the total available head count in business. 88% of the respondents have confirmed that the head count in the business is less than 10 with a mean of 6.6.

4.4.3 Having a separate department to manage financial matters

Table 4.12: Having a separate department to manage financial matter

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	41	51.3	51.3	51.3
	No	39	48.8	48.8	100.0
	Total	80	100.0	100.0	

51% of the respondents have confirmed that they have a well established finance department.

4.4.4 having professional to manage finance in the business

Table 4.13: Qualifications of the people at the finance department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Professional	14	17.5	20.3	20.3
	Graduate	34	42.5	49.3	69.6
	Diploma	3	3.8	4.3	73.9
	None	18	22.5	26.1	100.0
	Total	69	86.3	100.0	
Missing	System	11	13.8		
Total		80	100.0		

70% of the respondents have confirmed that the finance manager is qualified at least up to graduate level.

4.4.5. Relationship with the banks

Table 4.14: Number of years that company has dealt with the banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1Year	23	28.8	29.9	29.9
	1-2 years	26	32.5	33.8	63.6
	2-3 years	14	17.5	18.2	81.8
	More than 3 years	14	17.5	18.2	100.0
	Total	77	96.3	100.0	
Missing	System	3	3.8		
Total		80	100.0		

All the respondents have dealt with the banks 35% has confirmed that they have a relationship with the bank for over 2 years.

4.4.6 Maintaining proper accounting records in the company

Table 4.15: Maintaining Proper Accounts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	73	91.3	91.3	91.3
	No	7	8.8	8.8	100.0
	Total	80	100.0	100.0	

92% of the respondents have been maintaining proper accounts which are a good business practice.

4.4.7 Auditing accounts

Table 4.16: Auditing accounts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	36	45.0	45.0	45.0
	No	44	55.0	55.0	100.0
	Total	80	100.0	100.0	

Majority of the respondents do not get their accounts certified by an Auditor. Audited accounts are important for both raising equity and obtaining loan financing.

4.4.8 Most valuable assets in the company & ability to furnish them as collateral

Table 4.17: Most valuable asset in the company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Landing and Building	17	21.3	21.3	21.3
	Vehicles	7	8.8	8.8	30.0
	Machines	21	26.3	26.3	56.3
	Stock	8	10.0	10.0	66.3
	Other	27	33.8	33.8	100.0
	Total	80	100.0	100.0	

The respondents have concluded that they have various assets and most of them have invested in land and machinery. As per financing practice land and machinery are accepted as collateral.

4.4.9 Use of control methods in business

Table 4.18: Use of control methods in the company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	58	72.5	72.5	72.5
	No	22	27.5	27.5	100.0
	Total	80	100.0	100.0	

More than 70% of the respondents have used control mechanics in business management.

4.4.10 Biggest Assets in the company

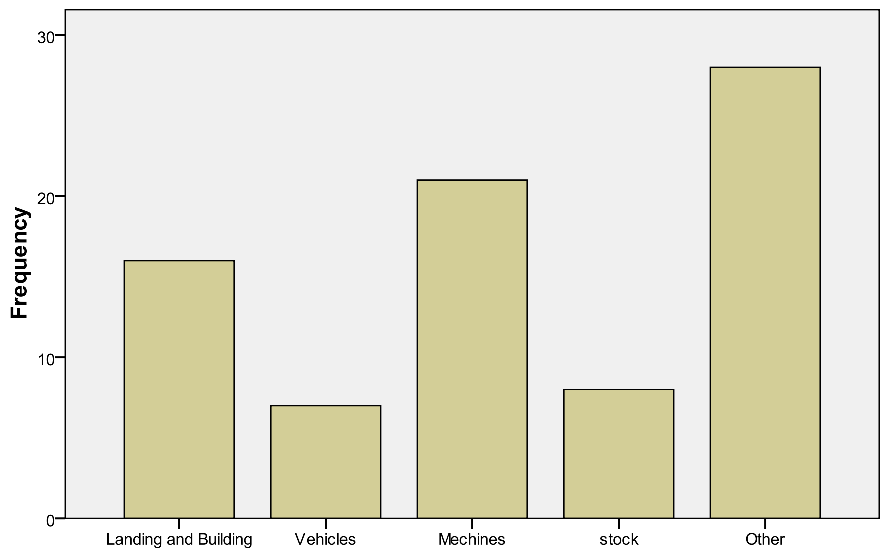

Figure 4.1: Biggest Assets in the company

Banks Accepts, Land and building, Vehicles & Machinery as collateral (67%) where as others 30% (brand, knowledge etc.) are not accepted by the banks as collateral.

4.4.11 Biggest Assets other

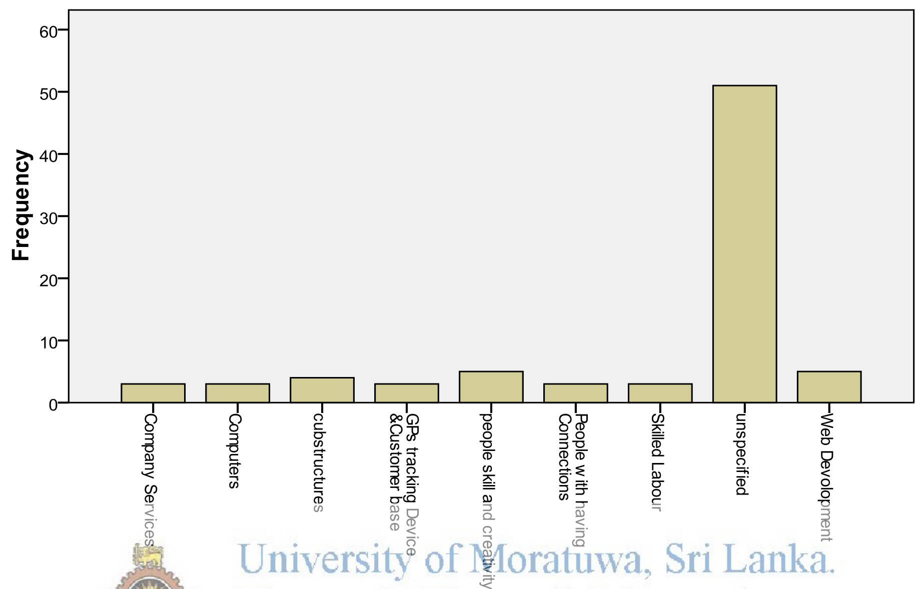

Figure 4.2: Biggest Assets other

In the growing knowledge based economies (Esp. IT companies) find it difficult to approach banks as they do not accept their valuables (e.g. knowledge) as collateral. Therefore obtaining a loan from a bank on traditional terms is a challenge.

4.5 Data Presentation - Personal Barriers

4.5.1 Raising new capital in to the business

Table 4.19: Raising new capital in to the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	32.5	32.5	32.5
	No	54	67.5	67.5	100.0
	Total	80	100.0	100.0	

As per the research data 68% have confirmed that they have not raised new capital for business. This means the remaining 32% do have, and there can be various reasons to not being able to raise capital.

4.5.2 Facing Bad experiences in raising equity

Table 4.20: Facing Bad experiences in raising equity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	28	35.0	36.4	36.4
	NO	49	61.3	63.6	100.0
	Total	77	96.3	100.0	
Missing	System	3	3.8		
Total		80	100.0		

63% of the respondents have not faced bad experiences in raising equity. The nature of the "bad experience" can be varied however researcher tests whether is it difficult to raise equity.

4.5.3 Banks rejecting the request to provide funding

Table 4.21: Banks rejecting the request to provide funding

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	28.8	51.1	51.1
	No	22	27.5	48.9	100.0
	Total	45	56.3	100.0	
Missing	System	35	43.8		
Total		80	100.0		

When it comes to loan financing, 51% of the instances the banks have rejected the loan application reasons for which are different in nature.

4.5.4 Considering the loans as a Burden

Table 4.22: Considering the loans as a Burden

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	47	58.8	61.8	61.8
	No	29	36.3	38.2	100.0
	Total	76	95.0	100.0	
Missing	System	4	5.0		
Total		80	100.0		

58% of the respondents consider the loan as a burden. It is the personal factor i.e the fear factor to raise loan capital in to the business.

4.5.5 Most critical risks of business downturn

Table 4.23: Most critical risks of business downturn

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unable to Service Debt	53	66.3	75.7	75.7
	Litigation	7	8.8	10.0	85.7
	Solvency	4	5.0	5.7	91.4
	Other	6	7.5	8.6	100.0
	Total	70	87.5	100.0	
Missing	System	10	12.5		
Total		80	100.0		

Almost all foresee the above & 75% consider that they'll not be able to service debt. As per the Sri Lankan financial system, there is no "fall back" and if the business is not able to service the debt, there is no other support.

4.5.6 Reason for rejection bank request

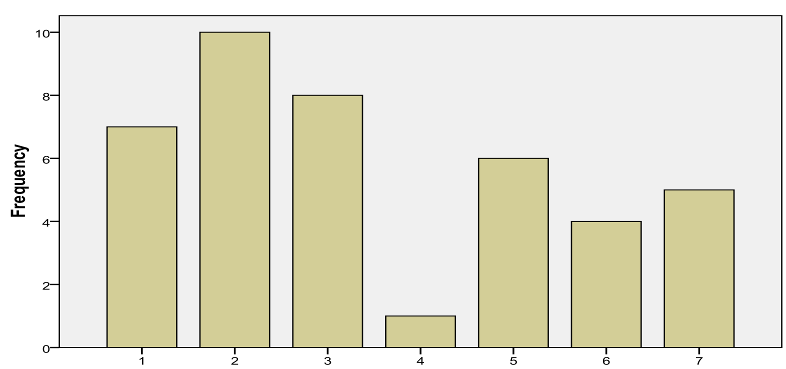

Figure 4.3: Reason for rejection bank request

1: Insufficient collateral

2. Poor documentation

3. Too small equity base

4. Lack of experienced management

5. Proposal not accepted

6. Previous credit record

7. Other

Banks tend to reject the request for loans on various grounds as mentioned above.

4.5.7 Loan will dilute your control in your business

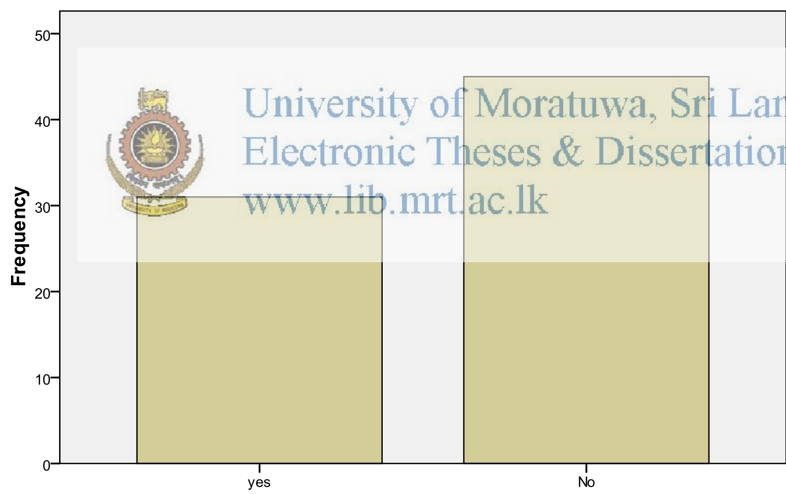

Figure 4.4: Loan will dilute your control in your business

Loans do not pass on an ownership to the providers. This fact has been recognized by the respondents.

4.5.8 Partnership/shareholders will dilute your ownership control in your company

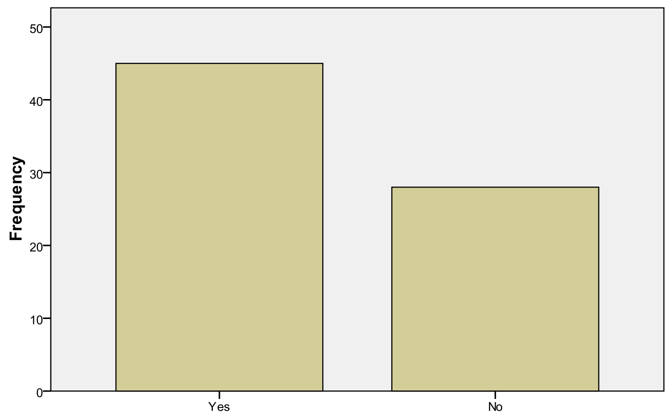

Figure 4.5: Partnership/shareholders will dilute your ownership control in your company

Inviting new shareholders / partners means the ownership is getting diluted and as a result the promoters' stake / control will get depleted.

4.5.9 Ownership vs Growth

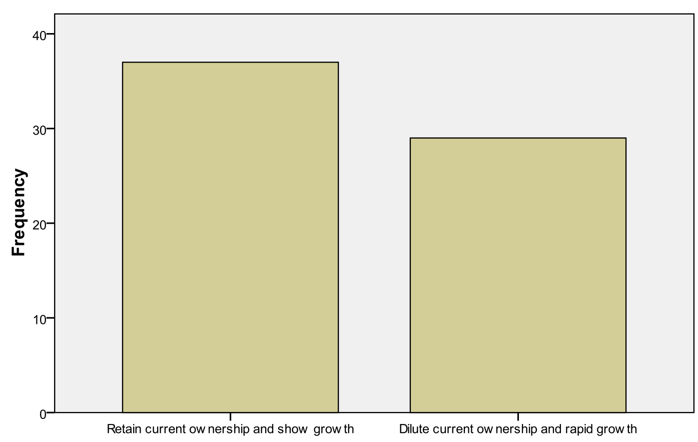

Figure 4.6: Ownership vs Growth

Majority of the respondents prefer to retain ownership. Rapid growth is not sought after.

4.6 Data Analysis

4.6.1 Comparing time taken to process a loan with time duration taken to convinces shareholders.

In this case there are two independent groups (loan & equity) with a dependent variable called duration. Therefore Mann Whitney test were used to analyze whether there is a difference between time duration of the two groups.

H_0: There is no difference between time durations of the two groups (loan & equity).
H_1: There is a difference between time durations of the two groups (loan & equity).

Table 4.24: Ranking the duration to process loan and equity

	Group_duration	N	Mean Rank	Sum of Ranks
Duration	1.00	62	36.59	2268.50
	2.00	11	39.32	432.50
	Total	73		

Group 1: Months taken to convince a shareholder
Group 2: Months taken to process the loan application

Table 4.25: Test statistic of the duration to process loan and equity

	Duration
Mann-Whitney U	315.500
Wilcoxon W	2268.500
Z	-.412
Asymp. Sig. (2-tailed)	.680

Level of significance 5% (P=0.05), the test statistic had a **p value 0.680** the p-value based on the normal approximation ("Asymp Sig (2-tailed").

0 .680 > 0.05 since there is no evidence to reject null hypothesis. There is no difference between time durations of the two groups (equity and loan).

4.6.2 Comparing the significance between having a legal bond (loan) vs. demanding major share holders (equity).

There are two nominal variables such as preferred method (equity or loan) and difficulty to process a loan (having legal bond) or having equity (demanding major share holders). Therefore to see the proportions of one variable is different depending on the value of the other variable fisher's exact test were used.

H_0: The proportions having legal bonds do not differ from those demanding major holders.

H_1: The proportions having legal bonds differ from those demanding major holders.

Table 4.26: legal bond (loan) vs. demanding major share holders (equity)

			Answer		
			Yes	No	Total
Group_Legalbond_Shareholder	1.00	% within Group_Legalbond_Shareholder	80.6%	19.4%	100.0%
		% within Answer	94.3%	66.7%	87.3%
	2.00	% within Group_Legalbond_Shareholder	33.3%	66.7%	100.0%
		% within Answer	5.7%	33.3%	12.7%
Total		% within Group_Legalbond_Shareholder	74.6%	25.4%	100.0%
		% within Answer	100.0%	100.0%	100.0%

Those who have selected equity shows by 1.00 and loans mentioned as 2.00 and according to the Table 26 , 80.6% has conclude that there were demanding share holders and 33.3% respondents confirm there was a legal bond when obtaining a loan.

Table 4.27: chi-square test of legal bond (loan) vs. demanding major share holders (equity)

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	9.296[a]	1	.002		
Continuity Correction[b]	6.964	1	.008		
Likelihood Ratio	8.014	1	.005		
Fisher's Exact Test				.006	.006
Linear-by-Linear Association	9.165	1	.002		
N of Valid Cases	71				

Level of significance 5% (P=0.05), the test statistic had a **p value 0.006** and the p-value based on the normal approximation ("Asymp Sig (2-tailed").

0 .006 < 0.05 There is no evidence to accept the null hypothesis. Therefore the proportions having legal bonds differ from those demanding major holders.

4.6.3 Comparing the cost of funds (loan vs equity)

In this case, there are two groups (loan and equity) and need to analyze two groups which have different averages. Therefore T-test was used to examine data.

H_0: There is no difference between dividend payout ratio and loan interest rate
H_1: There is a difference between dividend payout ratio and loan interest rate

Table 4.28: Group statistics _Cost of funds

	Group_Divi_Interest	N	Mean	Std. Deviation	Std. Error Mean
Divi_Interest	1.00	64	20.8125	5.78140	.72268
	2.00	9	13.5000	1.45774	.48591

1.00 depicts equity & 2.00 depict loans & the cost of funds will be dividend payout & interest respectively.

Average cost of funds is mentioned for the two types of finacing methods are 20% & 13.5% respectively.

Table 4.29: Cost of funds

		Levene's Test for Equality of Variances.		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Divi_Interest	Equal variances assumed	8.786	.004	3.757	71	.000	7.31250	1.94657	3.43115	11.19385
	Equal variances not assumed			8.397	50.905	.000	7.31250	.87084	5.56413	9.06087

The t value is 3.757 and there are 71 degree of freedom. Level of significant 5% (P=0.05), the test statistic had a **p value 0.000 the** p-value based on the normal approximation ("Asymp Sig (2-tailed").

0 .000 < 0.05 There is no evidence to accept null hypothesis. Therefore there is a difference between dividend payout ratio and loan interest rate.

4.6.4 Analyzing whether there is significance between preferred methods (loan and equity) vs maintaining proper accounts for recording transaction

Fisher's exact tests were used because there are two nominal variables called preferred method (loan or equity) and whether the mentioned preferred methods maintain proper accounts for recording transaction. Therefore fisher's exact test helps to analyze the proportion of one variable which is different depending on the value of the other variable.

H_0: The proportions maintaining proper accounts for recording transaction do not differ for the two preferred methods.

H_1: The proportions maintaining proper accounts for recording transaction differ for the two preferred methods.

Table 4.30: Preferred methods vs. maintain proper account

			Proper_accounts		
			Yes	No	Total
PreferredMethod	Loan	Count	14	0	14
		% within PreferredMethod	100.0%	.0%	100.0%
		% within Proper_accounts	19.2%	.0%	17.5%
	Equity (Own Capital)	Count	59	7	66
		% within PreferredMethod	89.4%	10.6%	100.0%
		% within Proper_accounts	80.8%	100.0%	82.5%
Total		Count	73	7	80
		% within PreferredMethod	91.3%	8.8%	100.0%
		% within Proper_accounts	100.0%	100.0%	100.0%

Out of those who have obtained loans, 19.2% have been maintaining proper accounts and the same among those who have obtained equity the proportion is 91.3%.

Table 4.31: Chi-Square test of preferred method vs maintain proper accounts

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.627[a]	1	.202		
Continuity Correction[b]	.570	1	.450		
Likelihood Ratio	2.832	1	.092		
Fisher's Exact Test				.344	.245
Linear-by-Linear Association	1.607	1	.205		
N of Valid Cases	80				

Level of significance 5% (P=0.05), the test statistic had a **p value 0.344** the p-value based on the normal approximation ("Asymp Sig (2-tailed").

0.344 > 0.05 There is no evidence to reject the null hypothesis. Therefore the proportions maintaining proper accounts for recording transaction do not differ for the two preferred methods.

4.6.5 Analyzing whether there is an occurrence certifying accounts by an auditor.

There are two nominal variables such as preferred method (equity or loan) and accounts certified by an auditor for above methods. Therefore to see the proportion of one variable is different depending on the value of the other variable fisher's exact test were used.

H_0: The proportions of accounts certified by an auditor do not differ for the two preferred methods.

H_1: The proportions of accounts certified by an auditor differ for the two preferred methods.

Table 4.32: Preferred method vs accounts certified by an auditor

			Certified_Auditor		Total
			Yes	No	
PreferredMethod	Loan	Count	3	11	14
		% within PreferredMethod	21.4%	78.6%	100.0%
		% within Certified_Auditor	7.7%	26.8%	17.5%
	Equity (Own Capital)	Count	36	30	66
		% within PreferredMethod	54.5%	45.5%	100.0%
		% within Certified_Auditor	92.3%	73.2%	82.5%
Total		Count	39	41	80
		% within PreferredMethod	48.8%	51.3%	100.0%
		% within Certified_Auditor	100.0%	100.0%	100.0%

Equity financiers get their accounts audited 54.5% of the instances whereas loan financiers does the same only on 21.4% times.

Table 4.33: Chi-square test of preferred method vs accounts certified by an auditor

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.070[a]	1	.024		
Continuity Correction[b]	3.831	1	.050		
Likelihood Ratio	5.356	1	.021		
Fisher's Exact Test				.038	.024
Linear-by-Linear Association	5.007	1	.025		
N of Valid Cases	80				

Level of significant 5% (P=0.05), the test statistic had a **p value 0.038** the p-value based on the normal approximation ("Asymp Sig (2-tailed").

0 .038 < 0.05 There is no evidence to accept the null hypothesis. Therefore the proportions of accounts certified by an auditor differ for the two preferred methods.

4.6.6 Analyzing whether there is an occurrence between preferred method (loan and equity) vs. maintain proper control methods.

In this case two independent groups can fall into one of two mutually exclusive categories. The fisher's exact test is used to determine whether the proportions of those falling into each category differ by group whereas Fisher's exact test returns exact one-tailed and two-tailed p-values for a given frequent table.

H_0: The proportions maintaining proper control methods do not differ for the two preferred methods

. H_1: The proportions maintaining proper control methods differ for the two preferred methods.

Table 4.34: Preferred method (loan and equity) vs maintain proper control methods

			Proper_control_method		
			Yes	No	Total
PreferredMethod	Loan	Count	11	3	14
		% within PreferredMethod	78.6%	21.4%	100.0%
		% within Proper_control_method	18.3%	15.0%	17.5%
	Equity (Own Capital)	Count	49	17	66
		% within PreferredMethod	74.2%	25.8%	100.0%
		% within Proper_control_method	81.7%	85.0%	82.5%
Total		Count	60	20	80
		% within PreferredMethod	75.0%	25.0%	100.0%
		% within Proper_control_method	100.0%	100.0%	100.0%

.

Equity financiers use proper control methods in business 74.2% of the instances whereas loan financiers do the same 78.6% of the instances.

Table 4.35: Chi square test of preferred method (loan and equity) vs maintain proper control methods.

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.115[a]	1	.734		
Continuity Correction[b]	.000	1	1.000		
Likelihood Ratio	.119	1	.731		
Fisher's Exact Test				1.000	.515
Linear-by-Linear Association	.114	1	.736		
N of Valid Cases	80				

Level of significant 5% (P=0.05), the test statistic had a **p value 1.00** the p-value based on the normal approximation ("Asymp Sig (2-tailed").

1.00 > 0.05 There is no evidence to reject the null hypothesis. Therefore the proportions maintaining proper control methods do not differ for the two preferred methods.

4.6.7 Relationship between obtaining new capital to the company vs having a bad experience.

H_0: The proportions of obtaining new capital do not differ for having a bad experience.

H_1: The proportions of obtaining new capital differ for having a bad experience.

In this case there are paired binary response data and McNemar test were used because, to determine whether there is a different in obtaining new capital to the company vs having a bad experience.

The SPSS gives the difference between the proportions (expressed as a percentage) with 95% confidence interval.

Table 4.36: Obtain new capital to the company vs having a bad experience.

			Bad_experience		
			Yes	NO	Total
New_capital	Equity	Count	14	10	24
		% within New_capital	58.3%	41.7%	100.0%
		% within Bad_experience	53.8%	19.6%	31.2%
	Loan	Count	12	41	53
		% within New_capital	22.6%	77.4%	100.0%
		% within Bad_experience	46.2%	80.4%	68.8%
Total		Count	26	51	77
		% within New_capital	33.8%	66.2%	100.0%
		% within Bad_experience	100.0%	100.0%	100.0%

Equity financiers faced bad experiences 58.3% of the instances whereas loan financiers it is 22.6% of the instances.

Table 4.37: Chi-square test of obtain new capital to the company vs having a bad experience.

	Value	Exact Sig. (2-sided)
McNemar Test		.832[a]
N of Valid Cases	77	

Level of significant 5% (P=0.05), the test statistic had a **p value 0.832** the p-value based on the normal approximation (“Asymp Sig (2-tailed”).

0.832 > 0.05 There is no evidence to reject the null hypothesis. Therefore the proportions of obtaining new capital do not differ on having a bad experience.

4.6.8 Assessing relationship between obtaining new capital vs considering new shareholder/partner as a burden.

There are two nominal variables such as obtaining new capital and considering new shareholder/partner as a burden. Therefore to see the proportion of one variable is different depending on the value of the other variable fisher's exact test were used.

H_0: The proportions obtaining new capital do not differ on considering new shareholder/partner as a burden.

H_1: The proportions obtaining new capital differ on considering new shareholder/partner as a burden.

Table 4.38: Obtaining new capital vs considering new shareholder/partner is a burden

			Loan_burden		
			Yes	No	Total
New_capital	Yes	Count	14	10	24
		% within New_capital	58.3%	41.7%	100.0%
		% within Loan_burden	29.2%	35.7%	31.6%
	No	Count	34	18	52
		% within New_capital	65.4%	34.6%	100.0%
		% within Loan_burden	70.8%	64.3%	68.4%
Total		Count	48	28	76
		% within New_capital	63.2%	36.8%	100.0%
		% within Loan_burden	100.0%	100.0%	100.0%

Table 4.39: Chi square test of obtaining new capital vs considering new shareholder/partner is a burden.

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.351[a]	1	.554		
Continuity Correction[b]	.113	1	.736		
Likelihood Ratio	.348	1	.555		
Fisher's Exact Test				.614	.366
Linear-by-Linear Association	.346	1	.556		
N of Valid Cases	76				

Level of significance 5% (P=0.05), the test statistic had a **p value 0.614** the p-value based on the normal approximation ("Asymp Sig (2-tailed").

0.614 > 0.05 There is no evidence to reject the null hypothesis. Therefore the proportions obtaining new capital do not differ considering new shareholder/partner as a burden.

4.6.9 Summary of the analysis carried out

Table 4.40: Summary of the analysis carried out

Test No	Test	Statistical Method	Test Variable	Conclusion
4.6.1	Comparing time taken to process a loan with time taken to convince shareholders.	Mann-Whitney Test	Institution Barriers	The time consumed to process a loan application is no different to that of the convincing shareholders. Both methods consume a long time duration and it act as a barrier for funding SE.

Test No	Test	Statistical Method	Test Variable	Conclusion
4.6.2	Comparing the significance between having a legal bond (loan) vs. demanding major share holders (equity).	Fisher's Exact Test	Institution Barriers	The proportions having legal bonds differ for demanding major holders. Majority of the loans attract bonds yet a minority of the investors are demanding.
4.6.3	Comparing the cost of funds (loan vs equity)	T test	Institution Barriers	There is a difference between dividend payout ratio and the loan interest rate. Dividend pay out rate is higher than the loan interest rate.
4.6.4	Analyzing whether there is a significance between preferred methods (loan and equity) vs maintaining proper accounts for recording transaction	Fisher's Exact Test	Weaknesses of the company	The proportions maintaining proper accounts for recording transaction do not differ for the two preferred methods. This is not a major factor for deciding SE financing.

4.6.5	Analyzing whether there is an occurrence certifying accounts by an auditor.	Fisher's Exact Test	Weaknesses of the company	The proportions of accounts certified by an auditor differ for the two preferred methods. Certified accounts are important for equity financing and therefore the preference is higher.
4.6.6	Analyzing whether is there an occurrence between preferred method (loan and equity) vs. maintain proper control methods.	Fisher's exact test	Weaknesses of the company	The proportions maintaining proper control methods do not differ for the two preferred methods. This factor is not a major deciding factor for SE financing.
4.6.7	Relationship between obtaining new capital to the company vs having a bad experience.	Mc Nemar Test	Personal barriers	The proportions obtain new capital do not differ for having a bad experience. Equity investors face more bad experiences than loan funders. This factor remains as a personal barrier for SE financing.
4.6.8	Assessing relationship between obtaining new capital vs considering new shareholder/partner is a burden.	Fisher's exact test	Personal Barriers	The proportions obtaining new capital do not differ considering new shareholder/partner is a burden. This does not act as a part of the personal barriers.

5. CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

Financing constraints are one of the biggest concerns which have impacts on startup enterprises in Sri Lanka. This issue has been addressed in advanced economies, however in the Sri Lankan context it is an untouched area. Academic literature has focused on understanding several dimensions of financing constraints. In this paper the researcher outlines the sphere of the problems faced by SE's and their interrelatedness to funding SE. This chapter is dedicated towards summarizing the findings and to provide conclusions on the research carried out.

5.2 Institutional Barriers

The researcher checks the most preferred method of financing between equity and loans 82% of the respondents confirm that they prefer Equity. Next the researcher connects the finding with those who have faced delays in receiving loan facilities. It was confirmed that 78% of the respondents have faced delays in obtaining their loans. There are various reasons for the delay and one of which is requesting unnecessary documentation. It was noted at the literature review that the banks mostly monitor the contract violations, worsening performances, or failing the quality of the contract that could endanger their loan (Yerramilli & Winton, 2008). Thus documentation is obtained to verify and minimize the risks attached.

As per the research observations there is no difference between the times taken to process a loan vs. the time taken to convince shareholders. This means that though the loans are less risky, the time taken to obtain the loan is equally long as much as the time taken to convince shareholders.

Hence, the various documentation requirements of the banks act as a barrier for meeting funding requirements of a company (particularly SE).

The researcher test the significance of having a Legal Bond Vs. having major shareholders in a company and it reveals that having demanding shareholders is more beneficial than legal bonds.

The clarification for the above was made at the focus group discussion where the business owners explained that shareholders demands are a higher profit which is for the betterment of the business. Where as a legal bond is taking charge of company asset or guarantee from a director that is to mitigate the risk of the bank on the loans issued from the bank.

SE's considers this fact when it comes to obtaining the loan finance from banks. In other words equity is preferred as it exerts pressure on the business to grow where as the loans are not so.

The researcher compares the cost of funds of two methods of financing. i.e. Loan Vs. Equity and the findings say that loans are of low cost than equity. However it contradicts with the preferred method of financing where the 82% have confirmed that they prefer the expensive equity over loans.

This finding was verified at the focus group where it was revealed that the equity is preferred over loans as it does not form a burden on the business and the company is not suppressed by means of on time loan installment payments and bonds and so on. Hence forth the cost is not a concern in a startup where the dividends are paid only if the company makes substantial profits else directors can opt to refrain from declaring dividends whereas the loan installments need to be settled to the bank despite the amount of profits made by the SE.

5.3 Weaknesses of the Company

95% of the respondents have a proper business plan and 87.5% of the respondents have confirmed that the total number of heads in the business is less than 10. 51% of the respondents have confirmed that they have a separate department to manage financial matters added same percentage have confirmed that the finance manager is either a professional or a graduate.

90% of the instances the respondents have confirmed that they maintain proper control methods for recording transactions yet only 55% audits their accounts.
Lastly more than 70% of respondents have accepted the fact that they use proper control methods at day to day business management.

The researcher checks whether is there significance between preferred methods (loan and equity) vs maintaining proper accounts for recording transactions and it confirms that there is no such difference. Both groups (those who prefer loan finance and those who prefer equity finance) tend to maintain proper accounts for recording transactions. This may be because of the availability of the infrastructure and facilities in the country such as accounting software and availability of knowledge across regions.

However, obtaining the accounts certified by an auditor is higher among those who opt for equity finance.

This finding was discussed at the focus group and the suggested phenomenon behind was that the directors need to disclose earnings to the shareholders at the annual general meeting and the accounts need to be audited in order to convince shareholders.

In contrast, banks prefer if there are audited accounts yet more prominence is paid to the repayment capability of the loan installments. Hence it can be concluded that SE's finding equity funding requires their accounts audited on the true and fair view of what is disclosed on the income statement.

The two preferred methods do not have a bearing towards maintaining proper control methods. The researcher points out that control methods are required to convince the shareholders and the funding institutions. Moreover in the absence of proper control methods the business will not be able to run. The proportions maintaining proper control methods do not differ for the two preferred methods.

5.4 Personal Barriers

As per the summary measures, 36% of the respondents have raised equity and all of them have faced bad experiences.

More over those who have asked for a financial facility in the past, 51% of the instances, the bank have rejected the loan application. 62% of the respondents believe the loan as a burden and whereas 38% believe that new shareholders as a burden. They foresee that they will not be able to service debt in a business downturn (75%).

The researcher tests the relationship between obtaining new capital to the company vs having a bad experience and finds that the proportions tally and hence respondents have faced some kind of bad experience in raising new capital.

Added the researcher checks is there a relationship between obtaining new capital vs. considering new shareholder/partner is a burden and the statistics finds that respondents consider that new partner / shareholder is a burden.

Researcher points out that the personal barriers will also form a part of the SE’s funding issue as their requests are not entertained by the banks and the fear factor needs to be addressed to encourage SE’s funding.

5.5 Recommendations

Following recommendations were drawn at the focus group discussion.

5.5.1 Institutional Barriers

The recommendations on the institutional barriers are of two types. For equity seekers the barriers will be convincing shareholders to obtain funds. The recommended course of action will be development of a network of business angels or venture capitalists by pooling excess funds of large firms.

However, for the loan seekers, the course of action is different where new control framework has to be developed to lower the bar to enable SE’s to meet their requirement easily.

5.5.2 Weaknesses of the firm

In fact, this is an area of improvement however by and large the respondents were savvy with the basic requirements of a business. Maintaining proper accounting systems, auditing, having a suitable finance manger were more or less fulfilled however there were identified gaps at maintaining a suitable asset base.

Following recommendations were drawn at the focus group discussion

1. To introduce entrepreneurial development program for SE’s to upgrade the quality of the business conducted.

2. To introduce a package of services for SE's at the point of business registration that includes secretarial services, business consultancy, IT system, and a lecture series on business management and so on.

5.5.3 Personal Barriers

It is the fear factor and the resistance to change that governs the personal barriers and following recommendations can be drawn in order to overcome the issue in focus.

1. Government involvement is required to educate the general public on the SE's funding and the avenues available.
2. Direction to banks on lowering requirements to be fulfilled to apply for SE's funding.

5.6 Further Research

Following topics are forwarded for further research.

1. How the depth of the capital market in Sri Lanka affect SE's funding.
2. The association between SE's funding and local bond, stock market volume changes.
3. Possibility of introducing overseas finance directed through government institutions needs to be studied as a means to improving availability of funding for SE's.
4. The extent of knowledge available on the local capital market among entrepreneurs and how it affects SE's funding.

REFERENCES

Baron, J. N., D. M. Burton, and M. T. Hannan. 1996. The road taken: Origins and evolution of employment systems in emerging companies. Industrial and Corporate Change 5: 239–275

Engineering bureaucracy: The genesis of formal policies, positions, and structures in high-technology firms. The Journal of Law, Economics, and Organization 15: 1–41.

Binks, M.R., Ennew, C. and Tand Reed, G.V. (1992), "Information asymmetries and the provision of finance to small firms", International Journal of Small Business, Vol. 11, No. 1, pp. 35-46.

Cardinal, L. 2001. Technological innovation in the pharmaceutical industry: The use of organizational control in managing research and development. Organization Science 12 (1): 19–36.

Carter, S. and Rosa, P. (1998), "The financing of male- and female-owned businesses", Entrepreneurship & Regional Development, Vol. 10, No. 3, pp. 225-241.

Coleman, S. (2000), "Access to capital and terms of credit: a comparison of men- and women-owned small businesses", Journal of Small Business Management, Vol. 38, No.3, pp. 37-52

Comin, D. and R. Nanda (2009), 'Finance and the diffusion of technologies', Working Paper.

Cope, J., Jack, S. & Rose, M. 2007. Social Capital and Entrepreneurship: An Introduction. International Small Business Journal, 25(3): 213–220.

Cosh, A. and Hughes, A. (Eds) (2003), Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002, ESRC Centre for Business Research, Cambridge.

Cressy, R. and Toivanen, O. (2001), "Is there adverse selection in the credit market?", Venture Capital, Vol. 3, No. 3, pp. 215-238

Ennew, C. and McKechnie, S. (1998), "The nature of the banking relationship: a comparison of the experiences of male and female small business owners", International Small Business Journal, Vol. 16, No. 3, pp. 39-55.

Ennew, C. and McKechnie, S. (1998), "The nature of the banking relationship: a comparison of the experiences of male and female small business owners", International Small Business Journal, Vol. 16, No. 3, pp. 39-55.

Evans, D.S. and Jovanovic, B. (1989), "An estimated model of entrepreneurial choice under liquidity constraints", Journal of Political Economy, Vol. 97, No. 4, pp. 808-827.

Keasey, K. and Watson, R. (1992), Investment and Financing Decisions and the Performance of Small Firms, National Westminster Bank, London.

Kon, Y. and Storey, D.J. (2003), "A theory of discouraged borrowers", Small Business Economics, Vol. 21, No. 1, p. 37-49.

Leach, C, J; & Melicher, W, R; (2012), Entrepreneurial Finance.

Marlow, S. & Carter, S. 2006. Access to Finance: Women are Enterprise and the Role of the Accountant. Research Report No. 90. London: ACCA.

Pissarides, F., M. Singer and J. Svejnar, (2000), 'Objectives and constraints of entrepreneurs: Evidence from small and medium-sized enterprises in Russia and Bulgaria', London: European Bank for Reconstruction and Development.

Rajan, R. G. and L. Zingales (1998), 'Financial dependence and growth', American Economic Review, 88 (3), 559-586.

Ram, M., Abbas, T., Sanghera, B. and Hillin, G. (2000), "Currying favour with the locals: Balti owners and business enclaves", International Journal of Entrepreneurial Behaviour and Research, Vol. 6 No. 1, pp. 1355-2554.

Ram, M., Smallbone, D., Deakins, D. and Jones, T. (2003), "Banking on „break-out": finance and the development of ethnic minority businesses", Journal of Ethnic and Migration Studies, Vol. 29, No. 4, pp. 663-681.

Sandino, T. 2007. Introducing the first management control systems: Evidence from the retail sector. The Accounting Review 82 (1): 265–293.

Simon, M., Houghton, S.M. and Aquino, K. (2000), "Cognitive biases, risk perception and venture formation – Implications of interfirm (mis)perceptions for strategic decisions", Journal of Business Venturing, Vol. 15, No. 2, pp. 113 – 34.

Smith-Hunter, A.E. (2006), Women Entrepreneurs Along Racial Lines: Issues of Human Capital, Financial Capital and Network Structures, Edward Elgar, Cheltenham

Walker, A, D; (1989) "Financing the small firm" journal of small business economics, pp. 285- 296.

Yerramilli, V; & Winton, A; (2008), "Entrepreneurial finance: Banks versus venture capital", Journal of Financial Economics 88.

APPPENDIX -A

Funding a start-up enterprise: Problems faced& a way out

Questionnaire

This questionnaire is distributed in order to gather information regarding problems of funding a startup enterprise. Through your participation the study will be able to make possible recommendations to overcome them.

Please answer the questions as honestly as possible. Thank you very much for your cooperation.

Demographical Data

- Company Name (optional):……………………………………………………………...
- Owner's Age(years):………………………………………………
- Business category eg: Tourism/Travel/Garment etc: ……………………………………………………………..

Please circle the appropriate answer.

- What is your highest level of educational qualification?

I. Below G.C.E O/L? II. G.C.E O/L III. G.C.E A/L

IV. Professional /vocational qualification (ex: ACS, C&G, AAT V. Diploma / University Graduate VI. Post graduate

- Nature of your company/business?

I. Sole Proprietor II. Partnership III. Limited Liability Company

IV. Franchise V. Others (please specify)………………………………………..

- How long your business has been in operations?

I. Less than 1 year II. 1-2 years III. 2-3 years

VI. 3-4 years

Section [A]:

1.) What is your preferred method of financing in your business?

I. Loan II. Equity(Own Capital)

2.) With regard to "loan" above,

2.1) Have you faced delays in processing your loan application?

I. Yes II. No

2.2) How many months/weeks did it take to process the loan application?

I. 0.5 month II. 1 month III. 1.5 months

IV. 2 months

2.3) Do you feel that your financial institution is requesting for unnecessary documentation?

I. Yes II. No

2.4) Was there a legal bond?

I. Yes II. No

2.5) If "yes" in question (2.4) what are they? (eg: exit clause, penalty fees etc.)

……………………………………………………………………………………

……………………………………………………………………………………

2.6) What is the interest rate applicable on your loan?

…………………………………………………………………………………….

2.7) Was the staff helpful and responsive toward your loan requirements?

I. Very much II. Some what III. Neutral

IV. Not at all

2.8) Please select the category of Institution/Bank.

I. Finance company II. Foreign Bank III. Local Bank

IV. Development Bank

3.) With regard to the Equity (own capital) question (1);

3. 1.) How many months did it take to convince your shareholders?

I. 0.5 month II. 1 month III. 1.5 months

IV. 2 months

3.2) Were there any demanding major shareholders?

I. Yes II. No

3.3) What was the cost of the new share issue (percentage)? $\frac{\text{cost of the issue}}{\text{Capital raised}}$ x100

……………………………………………………………………………………………………

3.4)What is the dividend payout ratio promised your shareholder (percentage)?

………………………………………………………………………………………

3.5) Did you obtain services of an issuing house to facilitate your share issue?

I. Yes II. No

4.) Do you think issuing shares is more cost efficient comparing to loan financing?

I. Yes II. No

Section [B]

5.) Do you have a business plan?

I. Yes   II. No

6.)What is the head count in your company?

I. Less than 5   II. 6-10   III. 11-15

IV. More than 15

7.) Do you have a separate department to handle financial matters?

I. Yes   II. No

7.1) How many people are there in your finance department?

I. 1   II. 2   III. 3

IV. More than 3

7.2) What is their highest level of qualification?

I. Professional membership   II. Graduate   III. Diploma

IV. None

8.) How long the company has been dealing with banks/financial institutions for daily requirements?

I. Less than 1 year   II. 1-2 year   III. 2-3 year

IV. More than 3 years

9.) Do you maintain proper accounts for recording transaction?

I. Yes   II. No

10.) Do you obtain your accounts certified by an Auditor?

I. Yes   II. No

11.) Do you make statutory payment to the government on time?
Eg: Employee EPF/ETF return, income tax returns, VAT, other taxes etc
I. Yes II. No

12.) What is your biggest asset in your business?
I. Land and building II. Vehicles III. Machines
IV. Stock V. Other (Please Specify): …………………………………………………………………..

13.) Does the bank accept above as collateral?
I. Yes II. No

14.) Does the above asset in Question No (11) fulfill the requirement of the bank to approve a loan facility?
I. Yes II. No

15.) Do you maintain proper control methods (such as budgetary control) in day to day operations?
I. Yes II. No

Section [C]:

16.) Have you obtained new capital in to your business (Introducing new partner, new shareholders)?
I. Yes II. No

17.) Were there any bad experiences?(bad)
I. Yes II. No

18.) Have you ever ask for a financial facility (loan) in the past?

I. Yes II. No

19.) If yes, in question No (18) has the bank rejected your request?

I. Yes II. No

19.1) what were the reasons for rejection? (Please circle all that apply)

I. Insufficient collateral
II. Poor documentation
III. Too small equity base
IV. Lack of experienced management
V. Project proposal not accepted
VI. Previous credit record
VII. Other (please specify)……………………………………………………………………………………

20.) Do you consider "a loan" as a burden?

I. Yes II. No

21.) What are the reasons if you are not applying a financial facility (loan) from a financial institution? (Please circle all that apply)

I. I'm scared of loans.
II. I can't trust them.
III. Short Duration
IV. High monthly repay amount
V. High interest rate
VI. Low turnover
VII. Difficulty in obtainin loans
VIII. Others (specify) ……………………………………………

22.) Do you consider new shareholders/partners as a burden?

I. Yes II. No

23.) Say you are having a financial facility (loan), and what are the risks that you foresee in case of a business downturn?

I. Unable to service debt II. Litigation III. Solvenc

IV. Other (Please specify 1 or more)
…………………………………………………………………………

24.) What is your general opinion towards loans?(Positive/Negative ,Explain)
………………………………………………………………………………………
……………………………………………………………………………………….
……………………………………………………………………………………….

25.) Do you consider "loans" will dilute your control in your business?

I. Yes II. No

26.) Do you consider new partners/shareholders will dilute your ownership central in your company?

I. Yes II. No

27.) Between "ownership" vs "growth", what do you consider as more important in growing your business?

I. Retain Current ownership and slow growth II. Dilute current ownership and rapid growth

27.1) justify your answer above.
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

Thank you for your support!