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STUDY OF FINANCING PATTERN BY ENTREPRENEURS OF SMALL SCALE SECTOR

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Abstract: The paper examines the financing pattern of entrepreneurs of small scale sector. To analyze the financial pattern in small scale sector, data has been classified on the basis of age, education, nativity and generation of entrepreneurs. A sample of 250 enterprises has been taken from the state of Haryana and responses have been taken on likert five degree scale. Analysis of data highlights that there exists a significant variation between the profile variables of entrepreneurs and variables relating to financial pattern taken for the study. Majority of entrepreneurs have used owned sources to finance their businesses. The level of awareness about various sources of finance available is very high amongst entrepreneurs but they do not use these sources to fund their businesses. There is a need to provide more guidance to entrepreneurs so that they may be able to utilize the sources available with financial institutions more intensively. Liberal finance should be provided to this sector keeping in view its relevance in the economy.

Keywords: entrepreneurship, small scale, financing pattern, education and finance

INTRODUCTION

Entrepreneurship is the lifeblood of economic development (Benneworth, 2004; Grilo and Irigoyen, 2006). Governments of various countries have set out different policies to promote entrepreneurship for small businesses (Carsrud, 1991; SBS, 2002). Entrepreneurial finance has come up as a widely researched area because of government initiatives related to it (Fletcher, 1995; Cowling and Westhead, 1996; Hamilton and Fox, 1998; Cassar, 2004; de Bettignies and Brander, 2007; Franke *et al.*, 2008).

Growth of small scale sector is the indicator of development of the developing economies as these economies do not have adequate resources to built strong industrial base by setting up large scale industries. Moreover, developing economies have strong human capital base and the manpower available in the country can be better utilized in small scale sector. Small scale sector helps generating gainful employment opportunities in these economies. This sector contributes towards exports and helps solving the problem of balance of payment in the economy. Small scale sector maintains better rapport between employer and employees thereby maintaining better industrial relations in the economy.

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Keeping in view the significance of small scale sector, this paper attempts analyse the financing pattern of small scale sector. This paper covers besides introduction review of related literature, objectives and methodology, results and discussion, and conclusions.

REVIEW OF RELATED LITERATURE

The literature cites the various studies conducted in this area. Some of the studies conducted in this area have been discussed in the following paragraphs:

Mambula, C. (2002) analysed major constrains faced by SMEs in Nigeria. A sample of 32 small business entrepreneurs was taken. Analysis of data revealed that majority of SMEs faced the problem of finance and infrastructure while managing their businesses. The author recommended that small business entrepreneurs should collaborate with each other to sort out the various problems faced by them. There is a need to form alliance of Government, research institutions and financial institutions to create appropriate training for prospective small business. All these measures will go a long way to strengthen the growth of small scale sector.

Alagappan, V. and Nagammai, R. (2003) have examined the entrepreneurs' perception towards financial institutions. A sample of 120 SSI units was selected from Madurai district. The study has observed that the entrepreneurs have average level of satisfaction towards the lending practices of financial institutions. The reason to this has been attributed to more margin money requirements and higher services charges taken by them. The authors have suggested various measures to remove all these hurdles for speedy growth of entrepreneurship in SSI sector. It has also been observed that financial and supporting measures are essential for the growth of small scale sector.

Tagoe *et al.* (2005) has examined the financial challenged facing by urban SMEs under financial sector liberalisation in Ghana. Main challenges faced by urban SMEs are access to affordable credit over a reasonable period. To manage this challenge SMEs should manage record keeping in an effective manner. Moreover, availability of collateral improves SMEs access to formal credit. But better availability of investment avenues further reduces the accessibility of credit to SMEs.

Kuruba, G. (2006) has analysed issues in the promotion of small business enterprises in Botswana. The author has observed that Botswana economy has congenial atmosphere for growth of small business enterprises. There is a need to provide training, financial and institutional support for these enterprises.

Dubey, A. R. and Shukla, O. P., (2007) have reviewed various issues and challenges faced by SSI under WTO regime. The study has suggested that there should be easy accessibility of technology to this sector. R & D at local level be encouraged. There should be co-ordination between Government, industry and institutes of higher learning in this direction. Technology development fund should be further strengthened in this direction.

Ismail, *et al.* (2006) has analysed motivation in business start up among Malayi entrepreneurs and problem faced by these entrepreneurs. The study has concluded that there is large number of motivational factors but chief among them are personal development and financial security. Insufficient finance and tough competition from others are the main problems faced by entrepreneurs.

Wu, *et al.* (2008) has examined an empirical evidence of small business financing in China. A sample of 60 small businesses from three cities of china was taken. The study has revealed that at the initial stage SMEs in China have used own sources and finances from relatives and friends. But at the later stage, SMEs in China have used bank finance. The reason being, banks in China require various formalities to be fulfilled by SMEs such as taxation submission reports, accounting and credit rating scores documentations, etc.

Bruder *et al.*, (2011) has analysed that ethnic minority-owned businesses are more likely to be credit constrained in the start-up process than are native-owned businesses in Germany. Persons who are older have more experience and wealth so are able to make better investment decisions and are able to overcome perceived financial constraints (Baum and Silverman, 2004). Individuals who know a recent business starter will be better able to recognise whether finance is actually available and from which sources (Hoanga and Antoncic, 2003; Jones-Evans and Thompson, 2009).

The other studies indicate that despite the evidence that more than 90 per cent of new ventures are financed by informal sources of finance, and more than 60 per cent of the start-up capital is financed by the promoters (GEM, 2004), it is interesting to note that the vast majority of studies focus on the supply of formal sources of finance, mainly in the area of equity finance (De Clercg and Sapienza, 2001; Freear *et al.*, 2002; Bruton and Ahlstrom, 2003; Lehmann, 2006; Macht and Robinson, 2009) and debt finance (Fletcher, 1995; Binks and Ennew, 1997; Honig, 1998). The number of studies on informal source of finance indicates that there is a focus on sources of finance from the entrepreneurs' family and social networks (Bates, 1997; Basu and Parker, 2001). Some studies have also attempted to explore the role of financial bootstrapping (Carter and van Auken, 2005; Brush *et al.*, 2006; Ebben, 2009; Jones and Jayawarna, 2010) in the process of entrepreneurship.

In case of micro and small enterprises, usually the owner must have both technical and managerial skills (Neuberger and Ra¨thke, 2009). Many researchers have also shifted their focus from mainstream financial institutions to microfinance institutions which mainly deal with micro enterprise borrowers who do not have access to formal or mainstream financial markets (Servon, 1997; Pollinger *et al.*, 2007).

Bank credit is the most important formal source of debt finance, with more than 91 per cent of cases where firms were successful in obtaining finance (Smallbone *et al.*, 2003). This includes the availability of bank credit (Black and Strahan, 2002) or the factors related to bank lending criteria and decisions (Mason and Stark, 2004; Burke and Hanley, 2006). The key factors that attract attention of financial institutions while lending to entrepreneurs include gender (Verheul and Thurik, 2000; Bruin and Flint-Hartle, 2005; Marlow and Patton, 2005; Wilson *et al.*, 2007), business characteristics (Fabowale *et al.*, 1995) and ethnicity (Ram *et al.*, 2003).

The above studies have touched the various aspects relating to entrepreneurs in small scale sector but none of the studies seems to have touched the area relating awareness of sources of finance. The present study proposes to fill the gap in existing literature.

RESEARCH METHODOLOGY

The main objective of the study is to analyze the financing pattern of entrepreneurs of small scale sector. A sample of 250 entrepreneurs has been taken from the state of Haryana. A well designed questionnaire was prepared and administered to the entrepreneurs of the small scale sector. Data has been classified on the basis of age, education, nativity and generation of entrepreneurs. To analyze the financial pattern of entrepreneurs of small scale sector, Likert type five degree scale has been developed for awareness. Simple percentages, one way analysis of variance,T-test and chi-square test have been used to analyse the data.

RESULTS AND DISCUSSION

Table 1 shows major sources of finance used by entrepreneurs of small scale sector. 16.4 per cent of the entrepreneurs have used the personal accumulated wealth in setting up their enterprises. 44.8 per cent of the entrepreneurs have used bank loan to finance their businesses, whereas slightly more than one third (35.6 per cent) entrepreneurs have used family wealth to finance their small scale units. Only small proportion (3.2 per cent) entrepreneurs have used private finance in their business.

Age-wise information further shows that entrepreneurs in the lower age groups have used personal accumulated wealth relatively more as compared to entrepreneurs in the higher age groups. 23.7 per cent entrepreneurs in the former case have used personal accumulated wealth, whereas this ratio is 15.4 per cent in the latter case. Entrepreneurs in the higher age groups have used bank loan relatively more as compared to entrepreneurs in the lower age groups. More than 52 per cent entrepreneurs in the age groups of 41-45 years and 46 and above years have used bank loan. Entrepreneurs in the lower age group have used family wealth more than entrepreneurs in the higher age groups. 44.7 per cent entrepreneurs in the age group of upto 30 years have used family wealth to finance their business, whereas this ratio is 26.9 per cent in case of entrepreneurs in age group of 46 and above years. Only 3 per cent to 7 per cent entrepreneurs in different age groups have used private sources of finance in their business. The F-value is statistically insignificant. The hypothesis of no significant difference between these two variables stands accepted.

Education-wise information further shows that entrepreneurs possessing low level of education have used personal accumulated wealth relatively less as compared to entrepreneurs possessing high level of education. Only 10 per cent entrepreneurs possessing upto +2 level of education have used personal accumulated wealth, whereas this ratio is 29.6 per cent in case of entrepreneurs possessing post graduate level of education. 50 per cent entrepreneurs possessing upto +2 level of education have used bank loan to finance their business. On the other hand 29.6 per cent entrepreneurs having post graduate level of education have used bank loan to finance their business. Almost same proportions of entrepreneurs possessing different levels of education have used family wealth to finance their business. On the other hand only small proportion of entrepreneurs (upto 5 per cent) has used private finance in their business. The analysis reveals that entrepreneurs even possessing high level of education has failed to utilize bank loan in their businesses. The F-value is statistically insignificant. The hypothesis of no significant difference between these two variables is accepted.

Nativity-wise information shows that entrepreneurs hailing from urban areas have used bank loan relatively more as compared to entrepreneurs coming from rural areas. 46.2 per cent entrepreneurs in the former case have used bank loan to finance their business, whereas this ratio is 41.8 per cent in the latter case. Almost same proportions of entrepreneurs coming from rural and urban areas have used family wealth to finance their business. 15 per cent to 17 per cent entrepreneurs hailing from rural and urban areas have used personal accumulated wealth in their business. The T-value is statistically insignificant. The hypothesis of no significant difference between these two variables stands accepted.

Generation-wise information shows that entrepreneurs coming from first and second generations have used personal accumulated wealth to finance their business. Number of entrepreneurs using family wealth to finance their business is found to be more among the entrepreneurs of first and second generation. Private finance has been used exclusively by entrepreneurs coming from first generation only. Similarly bank loan have been used by entrepreneurs coming from first and second generations. 48.4 per cent entrepreneurs coming from first generation have used bank loan to finance their business. The F-value is statistically insignificant. The hypothesis of no significant difference between these two variables stands accepted.

Table 1
Major Sources of Finance

Age				
Age (years)	*Personal Accumulated Wealth*	*Bank Loan*	*Family Wealth*	*Private Finance*
Up to 30	9 (23.7)	12(31.6)	17(44.7)	-
31-35	8(15.4)	20(38.5)	22(42.3)	2(3.8)
36-40	9(15.5)	26(44.8)	19(32.8)	4(6.9)
41-45	7(14.0)	26(52.0)	17(34.0)	-
46 and above	8(15.4)	28(53.8)	14(26.9)	2(3.8)
F-value = .441;		df =4		Insignificant
Education				
Upto 10+2	10(10.0)	50(50.0)	35(35.0)	5(5.0)
Graduation/Technical	23(18.7)	54(43.9)	44(35.8)	2(1.6)
Post Graduate	8(29.6)	8(29.6)	10(37.0)	1(3.7)
F-value = 1.320		df =2		Insignificant
Nativity				
Rural	12(15.2)	33(41.8)	28(35.4)	6(7.6)
Urban	29(17.0)	79(46.2)	61(35.7)	2(1.2)
T-value=1.386		df=248		Insignificant
Generation				
First	29(15.4)	91(48.4)	60(31.9)	8(4.3)
Second	10(18.5)	21(38.9)	23(42.6)	-
Third	2(25.0)	-	6(75.0)	-
F-value =0.422;		df =2		Insignificant
Total	41(16.4)	112(44.8)	89(35.6)	8(3.2)

Table 2 shows the level of awareness of various sources of finance used by entrepreneurs of small scale sector. 74.4 per cent entrepreneurs are aware up to good extent for various sources of finance available to them. On the other hand 7.6 per cent entrepreneurs have below average awareness about various sources of finance to finance their businesses. Age-wise information shows that entrepreneurs in the higher age group are more aware of various sources of finance as compared to entrepreneurs in the lower age groups. 84.6 per cent entrepreneurs in the age group of 46 and above years are aware of various sources of finance, whereas this ratio is 65.8 per cent in case of entrepreneurs in the age group of up to 30 years. It reveals that entrepreneurs in the different age groups are aware of various sources of finance available to them. The F-value is statistically significant at 5 per cent level of significance. The hypothesis of no significant difference between these two variables is rejected.

Education-wise information further shows that entrepreneurs possessing higher level of education are relatively more aware of various sources of finance as compared to entrepreneurs possessing lower level of education (Vos *et al.* 2007). 85.2 per cent entrepreneurs in the former case are aware of various sources of finance, whereas this ratio is 66 per cent in latter case. It reveals that education enhances the level of awareness of various sources of finance available to them. The F-value is statistically significant at 5 per cent level of significance. The hypothesis of no significant difference between these two variables stands rejected.

Nativity-wise information reveals that entrepreneurs hailing from urban areas are relatively more aware of various sources of finance available to them as compared to entrepreneurs of rural areas. 76.7 per cent entrepreneurs coming from urban areas are aware of various sources of finance available to them, whereas this ratio is 69.6 per cent in case of entrepreneurs coming from rural areas. The T-value is statistically insignificant. The hypothesis of no significant difference between these two variables is accepted.

Generation-wise information further shows that entrepreneurs coming from first generation are relatively more aware of various sources of finance available to them as compared to entrepreneurs coming from second generation (Hoanga and Antoncic, 2003; Jones-Evans and Thompsons, 2009). All the entrepreneurs hailing from third generation are aware of various sources of finance available to them. 73.9 per cent entrepreneurs coming from first generation are aware of various sources of finance available to them. On the other hand 72.2 per cent entrepreneurs coming from second generation are aware of various sources of finance available to them. The F-value is statistically insignificant. The hypothesis of no significant difference between these two variables stands accepted.

Table 2
Level of Awareness of Various Sources of Finance

Age					
Age (years)	*Outstanding*	*Good*	*Average*	*Below Average*	*Poor*
Up to 30	6(15.8)	19(50.0)	11(28.9)	2(5.3)	-
31-35	2(3.8)	31(59.6)	12(23.1)	4(7.7)	3(5.8)
36-40	6(10.3)	40(69.0)	8(13.8)	2(3.4)	2(3.4)
41-45	6(12.0)	32(64.0)	9(18.0)	3(6.0)	-
46 and above	9(17.3)	35(67.3)	5(9.6)	3(5.8)	-
F-value=2.537	df =4		Significant at 5 per cent level		
Education					
Upto 10+2	6(6.0)	60(60.0)	23(23.0)	7(7.0)	4(4.0)
Graduation/Technical	17(13.8)	80(65.0)	20(16.3)	5(4.1)	1(.8)
Post Graduate	6(22.2)	17(63.0)	2(7.4)	2(7.4)	-
F-value=5.316	df =2		Significant at 1 per cent level		
Nativity					
Rural	6(7.6)	49(62.0)	19(24.1)	3(3.8)	2(2.5)
Urban	23(13.5)	108(63.2)	26(15.2)	11(6.4)	3(1.8)
T-value=1.025	df=248		Insignificant		
Generation					
First	19(10.1)	120(63.8)	35(18.6)	10(5.3)	4(2.1)
Second	8(14.8)	31(57.4)	10(18.5)	4(7.4)	1(1.9)
Third	2(25.0)	6(75.0)	-	-	-
F-value = 1.522	df =2		Insignificant		
Total	29(11.6)	157(62.8)	45(18.0)	14(5.6)	5(2.0)

Table 3 shows the financial assistance taken by the entrepreneurs of small scale industries from financial institutions. 59.2 per cent entrepreneurs have taken assistance from financial institutions and 40.8 per cent entrepreneurs have not availed financial assistance. Age-wise information further shows that the proportion of entrepreneurs availing financial assistance from financial institutions is found to be more in the higher age groups as compared to entrepreneurs in the lower age group. Only 47.4 per cent entrepreneurs in the age group of up to 30 years have availed assistance from financial institutions. On the other hand 67.3 per cent entrepreneurs in the age group of 46 and above years have availed assistance from financial institutions. Similarly this ratio varies from 53.8 per cent to 65.5 per cent among the entrepreneurs in the age groups of 31-35 years to 41-45 years. The value of chi-square is found to be statistically insignificant. It shows that these two variables are independent.

Education-wise information further reveals that more than 60 per cent entrepreneurs possessing education up to graduation/ technical level have taken assistance from financial institutions. On the other hand, 40.7 per cent entrepreneurs possessing post graduation level of education have taken assistance from financial institutions. The value of chi-square is found to be statistically insignificant. It shows that these two variables are independent.

Table 3
Financial Assistance Taken from Financial Institutions

Age		
Age (years)	*Yes*	*No*
Up to 30	18(47.4)	20(52.6)
31-35	28(53.8)	24(46.2)
36-40	38(65.5)	20(34.5)
41-45	29(58.0)	21(42.0)
46 and above	35(67.3)	17(32.7)
Chi-Square = 5.223;	df =4	Insignificant
Education		
Upto 10+2	60(60.0)	40(40.0)
Graduation/Technical	77(62.6)	46(37.4)
Post Graduate	11(40.7)	16(59.3)
Chi-Square = 4.425;	df =2	Insignificant
Nativity		
Rural	47(59.5)	32(40.5)
Urban	101(59.1)	70(40.9)
Chi-Square = .004;	df =1	Insignificant
Generation		
First	113(60.1)	75(39.9)
Second	33(61.1)	21(38.9)
Third	2(25.0)	6(75.0)
Chi-Square = 4.020;	df =2	Insignificant
Total	148(59.2)	102(40.8)

Almost same proportion of entrepreneurs hailing from rural and urban areas has taken assistance from financial institutions. The value of chi-square is found to be statistically insignificant. It shows that these two variables are independent. Almost same proportions of entrepreneurs hailing from first and second generations have taken assistance from financial institutions. The value of chi-square is found to be statistically insignificant. It shows that these two variables are independent.

CONCLUSION

The foregoing analysis reveals that there exist significant variations between the profile variables of entrepreneurs and various sources of finance used by them to finance enterprises. Majority of entrepreneurs have used owned sources of finance to fund their businesses. Only entrepreneurs hailing from higher age groups have used formal sources of finance in their businesses. Awareness amongst entrepreneurs about various sources of finance is high, but they do not use these sources to finance their businesses. There is a need to provide more guidance to entrepreneurs so that they may be able to utilize the services of these institutions more intensively. Financial institutions should provide finance to younger generation of entrepreneurs on liberal terms and conditions. The entrepreneurs coming from rural areas should be given more preference while providing loans and other facilities. More incentives should be given to entrepreneurs possessing higher level of education as these entrepreneurs possess different skills to generate more employment opportunities.

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