

**Original Research Article****A study of financial sources and challenges for start-ups****Unnati Atkotiya<sup>1\*</sup>, Khushbu Thakker<sup>2</sup>**<sup>1</sup>Christ Institute of Management, Rajkot, Gujarat, India**Abstract**

The main goal of the study is to know the sources that people utilize for funding and to know the participation of people in raising funds by government schemes. Additionally, it was to study the challenges such as market access, legal documentation, mentorship, operations, financial management, etc. faced by the startups. This study takes a quantitative approach to study people's perception in adopting to the sources of finance for funding.

**Keywords:** Funding, Entrepreneurs, Government schemes, Financial management, Job providers.

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**1. Introduction**

Finance will help you to start, operate, and expand your business. Whether starting a new business or running an existing one, finance is important. When starting a new business, finding the sources to finance the business is most important. Finance can mainly be obtained in 2 ways namely formal and informal finance, formal is obtained through legal contracts and sources which include commercial banks, venture capital, government subsidies, etc. whereas informal finance is obtained without any legal procedure, sources include family, friends, money lenders, crowdfunding, etc. Apart from it there is other source of funding the business that is adopting to government schemes for funding the business. The Department for Promotion of Industry and Internal Trade (DPIIT) have started an initiative of Start-Up India under which it executes various projects and schemes in order to provide tax benefits, easy compliance etc. Starting the business in such a competitive environment is not easy, there are numerous challenges faced by startups such as market access, legal documentation, mentorship, operations, financial management, etc. faced by the startups. Understanding various sources available along with the challenges faced in acquiring finance for startups is important.

**2. Literature Review**

In this study, the researcher used a stratified random sampling method to collect the data, and used descriptive survey research. Findings say that finance procurement and lack of skilled labor are major challenges among challenges faced by startups.<sup>1</sup>

In-depth interviews were conducted with 20 startups in the Peshawar region to understand the challenges. As a result of the study, the main challenges identified by the startups include unrealistic requirements by external fund providers such as demand for collateral, equity sharing, and huge returns on investments. These are hard to satisfy by startups.<sup>2</sup>

This paper presents the development of start-up companies, their types, and potential sources of financing. They collected 391 samples from startups and used a questionnaire as an instrument. Most of them enter the startups with their financial sources those who don't have it, use traditional methods of financing by friends and families, and the next priority is given to bank loans.<sup>3</sup>

Data are collected from the respondents based on structured interviews. Nowadays businessmen prefer new sources of finance over conventional sources of finance for

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funding startup businesses in Kerala and more of them choose debt financing instead of owner funds.<sup>4</sup>

The objective of this study is to challenges and issues faced by startups. Access to capital has been a major problem. Most startups are not aware of the risk, and the level of technology is also a problem faced by startups in addition consumer behavior changes also make it difficult to have and make a marketing strategy.<sup>5</sup>

### 3. Statement of Problem

In recent years, people have shifted their interest from job seekers to job providers due to ownership and leadership opportunities as well as abundant growth opportunities. In this highly competitive environment starting a business is not easy, there are numerous challenges faced by startups, finance is crucial for starting, growing, and sustaining the business. This study is to know various sources of finance used by entrepreneurs to attain funding for business and knowing the challenges faced will help to develop a supportive environment for startups. For the same, I have chosen the topic, “A study of Financial sources and challenges for start-ups”

## 4. Materials and Methods

### 5.1 Objectives of research

1. Identify financial sources for startups
2. To know the barriers and challenges for startups
3. What structure do people choose for a startup
4. To know whether people are aware of and use government schemes

### 5.2 Scope of research

Persons who want to start a business, and face such problems can use this research to know which funding option people select for their enterprise and on which basis the funding options are selected. This research can also be used by various government intuitions to know their startup schemes effectiveness.

### 5.3 Sampling method

The sampling method used for the research is non probability convenience sampling with the sample size of 55 respondents.

### 5.4 Methods of data collection

The primary data was collected by using questionnaire as the instrument to know the choices of owners for funding their businesses and knowing the challenges the questionnaire carries 14 questions including 3 demographic questions and other questions includes dichotomus, multiple choice and likert scale questions. The secondary data was collected through websites, journals and research papers.

## 5.5 Data analysis

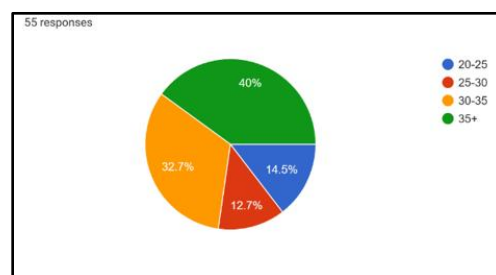


Figure 1: What is your age

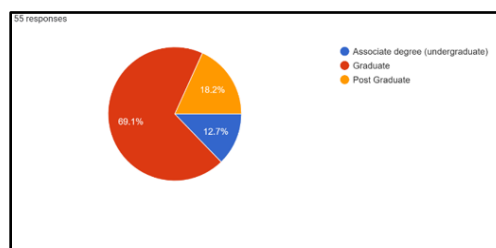


Figure 2: Whats is your education background

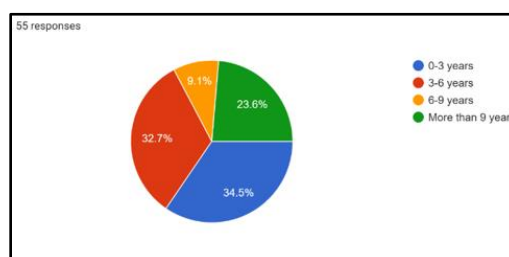


Figure 3: How long has your start-up been operational

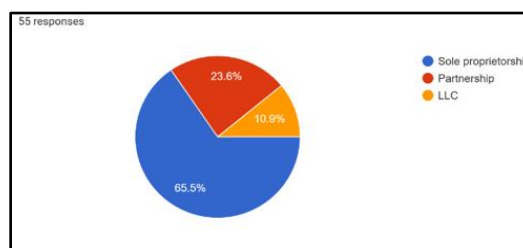


Figure 4: What is the legal structure of your start-up

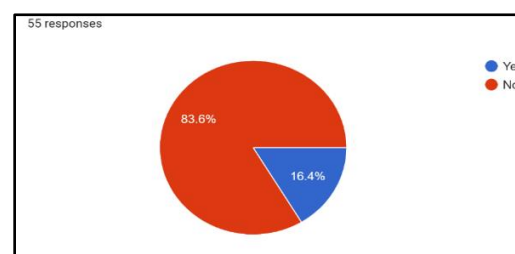
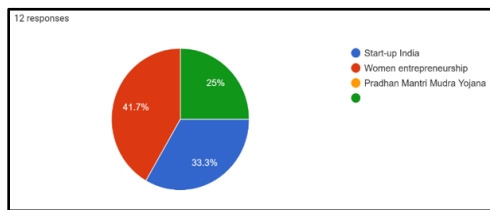
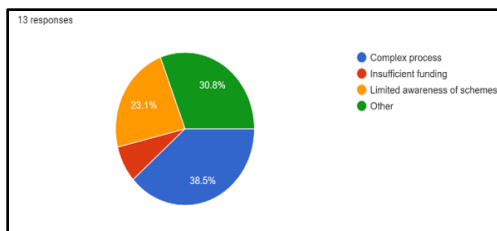


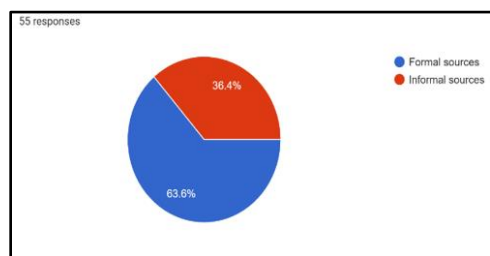
Figure 5: Have you utilized any government schemes for your start-up



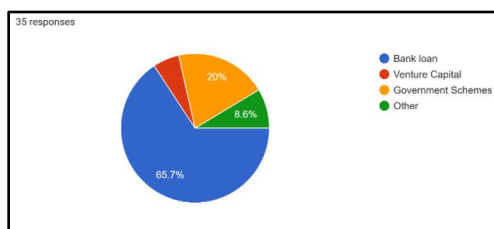
**Figure 6:** Yes specify government schemes you utilized you utilized for your start-up



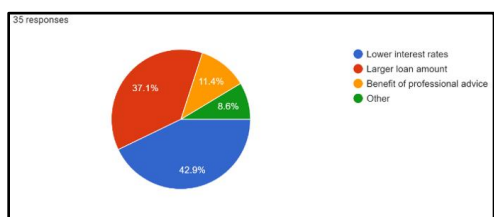
**Figure 7:** If yes what were the main challenges faced in accurant government start-up schemes



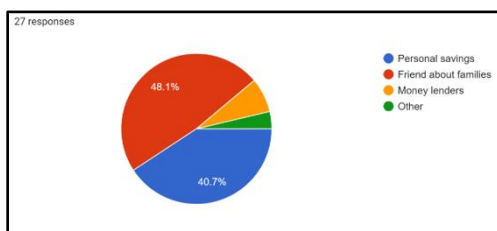
**Figure 8:** Which sources of finance do you prefer for funding



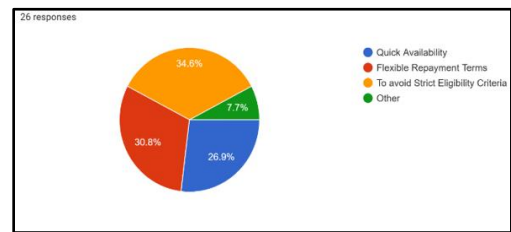
**Figure 9:** If fomal, what sourcedo you prefer to choose



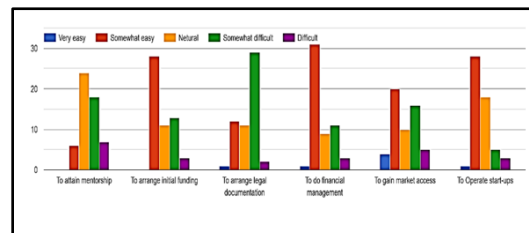
**Figure 10:** Formal, what reason makes you choose it



**Figure 11:** If informal, what source do youpreferto choose



**Figure 12:** If informal, what reason makes you choose it



**Figure 13:**

### 5.6 Test

#### Step 1

Educational qualifications and utilizing government schemes.

Educational Qualification	Attained Government Scheme		Total
	Yes	No	
Undergraduate	0	7	7
Graduate	6	32	38
Post Graduate	3	7	10
Total	9	46	55

#### Step 2

Ho: There is no significant relation between the education of a person and utilizing government schemes

H1: There is a significant relationship between the education of a person and utilizing government schemes

#### Step 3

This test has been used to test the null hypothesis.

#### Step 4

Alpha=0.05

#### Step 5

Degree of Freedom  $(r-1) * (c-1) = 3-1 * (2-1) = 2$

When, Alpha=0.05,

df = 2

X<sup>2</sup>Tabulated value= 5.991

## Step 6

Educational Qualification	Attained Government Scheme		Total
	Yes	No	
Undergraduate	1.1455	5.8545	7
Graduate	6.2182	31.7818	38
Post Graduate	1.6364	8.3636	10
Total	9.0001	45.9999	55

Observed requency(fo)	Expected Frequency(fe)	Difference (fo-fe)	(fo-fe) <sup>2</sup>	(fo-fe) <sup>2</sup> /fe
0	1.1455	-1.1455	1.31217025	1.1455
6	6.2182	-0.2182	0.04761124	0.007656756
3	1.6364	1.3636	1.85940496	1.13627778
7	5.8545	1.1455	1.31217025	0.224130199
32	31.7818	0.2182	0.04761124	0.001498066
7	8.3636	-1.3636	1.85940496	0.222321125

X2 Calculated Value=2.737383927

## Step 7

X tabulated value is 5.991 and x calculated value is 2.737383927, as x tabulated is > we accept the null hypothesis.

We can interpret that there is no significant difference between education qualification and utilization of government schemes.

### 5.7 Findings

1. It can be observed from the above test, there is no significant relation between the education level and utilization of government schemes. This challenges the common assumption that education directly affects the utilization of government-given benefits.
2. It suggests that factors other than education also affect the utilization of schemes. The factors might include eligibility criteria, socioeconomic background, etc.
3. We also found that people with higher educational levels have slightly more likelihood to utilize government benefits.
4. This research also indicates that the majority of people choose formal sources of finance for funding and prefer bank loans over government schemes.

### 5.8 Limitations

1. The data could only be collected from a limited number (55) of startups.
2. Limited time available to conduct the study.
3. The data was collected only from Rajkot city, which lacks generalizability.
4. Language barrier as the questionnaire was in English only which could affect the accuracy of the answers.

## 5. Conclusion

Based on the analysis conducted education is not the only factor that influences the adoption of government schemes there can be various other factors such as accessibility, socioeconomic background, etc. It is also observed that most of them choose formal finance as bank loans for funding startups due to lower interest rates and choose informal finance from friends and families and personal savings to avoid strict eligibility criteria and the benefit of flexible repayment terms. The data also reveals majority finds arranging legal documentation most difficult hence improvements can be made to simplify the process.

## 6. Source of Funding

None.

## 7. Conflict of Interest

None.

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