International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

IJIEMR Transactions, online available on 25th Feb 2022.
Link : https://ijiemr.org/downloads/Volume-11/Issue-02

DOI:10.48047/IJIEMR/V11/I02/19

Title: A REVIEW ON THE SOURCES OF WORKING CAPITAL LOANS FOR STARTUPS

volume 11, Issue 02, Pages: 145-151

Paper Authors: **Dr.D.Praveena devi, Dr.S.Geetha**

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

A REVIEW ON THE SOURCES OF WORKING CAPITAL LOANS FOR STARTUPS

Dr.D.Praveena devi Assistant Professor, Management Studies, Koneru Lakshmaiah Education Foundation (Deemed to beUniversity) Guntur, Andhra Pradesh, praveenadevid86@kluniversity.in
Dr.S.Geetha Assistance Professor, Department of Commerce, Mannar Thirumalai Naicker College, Madurai. geetharaja20@gmail.com

ABSTRACT:

In this article, a review has been done on the various sources for the working capital loans for the startup. During the startup, the working capital loan is considered an important issue as it is one of the important parts of the investment that needs an appropriate financing investment. A combination of long-term and short-term funds is important for financing the working capital for the startup. Capitals (equity from owners), as well as long-term debt, are considered as long-term sources of funds. A small portion of the working capital loan is provided by the long-term debt as a percent portion of the loan is provided by the long-term financing. In this article, some of the startup organizations have been taken as a sample to understand the source of working capital loans inside them. The result we get through the review is used in the financial institutions as well as the startup organs ion to develop their policy strategies.

Keywords: working capital, loan, startup, finance, and organization

Introduction

In this article, the working capital loan for the startup has been reviewed. Startup organization faces finance as a major barrier as getting a loan from the startup organization is quite a challenging task. The government has provided various partial solutions to the startup by providing various financing schemes (Kumar 2022). Various traditional sources are present for the startups to get finance such as bank loans, own funds/savings, bank overdrafts, loans from family and friends as well as equity funding. Startup organizations also use non-traditional sources of finance. Trade credit, bank overdrafts, tax provision, and other current liabilities are considered as the short-term sources of working capital (Lefebvre, 2020).

In the case of exceeding the current liabilities as current assets, a working capital deficit exists. In the startup organization, short-term loans are used as a financial part of the non-current assets. For selecting the source of financing, easy accessibility of finance is considered as an important factor for choosing the source financing (Onaepemipo et al., 2019). Working capital management plays an important role in the direct business as well as also helps the startup to manage the current arrests. As per Leitch, Welter and Henry (2018), working capital management helps to manage short-term financing that helps to manage the cash flows and returns on the investments. Myers pecking order theory explains the financing preferences of the firms.

This applies to startup companies and provides cash credit that is used by the organization to finance their working capital needs. The pressure was created on the banks due to using cash credit for the finance by the startup organizations. Cash credit is considered one of the most important factors for long-term sources of funds. One of the spontaneous sources of finance is considered as trade credit (Sehgal et al., 2022). And it is used in finance. Trade credit, owner financing, and short-

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

term bank loans are considered as the main factors on which the long-term capital markets rely for financing their operations. This study aims to analyze the working capital of the startup organization in the various industry groups. The article also helps to identify the various factors that affect the working capital of the transient as understanding the use of informal sources of financing.

Materials and methods

For analyzing the working capital loan for the startup, data has been collected through the comprehensive surveys on the startup and working capital management practices done by those firms. The study only involves the startup firms belonging to the manufacturing sectors and working capital is considered as a significant factor for analyzing the sources of loan by the startup organization (Nayak et al., 2022). Directory of SMEDA has been used for drawing the sample. 420 firms were taken to understand the sources of loans chosen by them during their startup. Representation of the industries was done through stratified sampling.

The finance variable was considered as the important factor for analyzing data. Multiple channels as well as association and other supports are used for collecting the relevant data (Danns and Danns 2019). Numbers of questions were included to measure the severity of the financing problems (Demartini, 2018). Statistical packages for social suits (SPSS) were used to analyze the data. The variables on the source of finance were reduced due to the PCA during the startup, Cluster analysis technique was used to avoid generalization of the results and it also helps to identify the different types of firms. Selections of the case studies were done through rigor in the analysis.

Result and Discussion

Numbers of variables are present in the survey instruments to test the significant differences based on the characteristics of the firms and also depend on the manager's profile. In the given table statistics on the main variables of interest have been provided (Kakti et al., 2021). The conference of the participants increased in the presence of family members and also enhanced the reliability of the information provided.

Family members	percent	Legal entity	Percent	Main role	Percent
Nobody	24.4%	Partnership	35.2	Purchasing and Production	48.5
Close Family members	39.3%	Sole proprietorship	8.3	Overall Responsibility	2.7
Friends	22.3%	Societe	53.5	Managing Director	3.4

International Journal for Innovative Engineering and Management Research
A Peer Reviewed Open Access International Journal
www.ijiemr.org

Table 1: Main role of owner-manager as well as the involvement of family members

(Source: created by author)

The table given below shows the ownership structures of involved family members in the three most important factors: decision making, owner manager's primary role, and business legal entity in three respective columns. From the table and graph given below, it has been clear that 62% of the startups are family-owned businesses whereas 24% of the businesses don't involve anyone in the business (Almahirah et al., 2021). The table also shows that 51% of the owner-managers manage the overall responsibility of the business and 425 of the startups need the help of the managing

director to manage the business. In most cases, the operational aspect of the firm is overseas by the manager as they don't have time to do the financial management (Belas, Gaurova & Toth, 2018) .

	N	Min	Max	Mean	Median	Std Dev.	Skewness
Employees	130	0	80	13	8.00	16,129	2.081
Size of organization			48	94	11.00	9450	1.098
Net assets	50	200,000	80.000	12.55	6,323.134	1.700E5	2.301
			51,000		4,500,000	1.078E7	1.909

The startup organization was asked regarding their sources of loans during the start-up phase. Various sources were provided by the firms that are used for providing loans to them. The response provided by them helps to understand the financing pattern followed by them (Chen et

al., 2020). Most of the start-up companies borrow from the bank to finance their current requirements. In the table given below the source of funds which is considered as the working capital requirements have been shown. Lowe score shows that this source is not preferred by the organization (Godke & McCahery, 2019).

	Mean rank
Get a long term loan	1.82
Sell some of the fixed assets	3.61
Trade discounts for customers to make prompt payments	3.40
Delay the payment of the supplies for goods and services	4.09

Table 3: Ranking of finance sources used by the startup for their loan
(Source; created by author)

The table given below shows the information regarding the startup organization tackling loans from the banks. Maximum respondents agreed that financial institutions considered short-term

borrowing Only 20 percent of the respondents used tangible assets for the loan (Roland et al., 2021). The startup which has more intangible assets as well as low fixed assets faces difficulties

in getting loans from the bank (Dsanns & Danns 2019). Therefore these organizations use cash credit, From the findings, it has been found profitability is

not associated with long-term debt however it is strongly related to collateral.

	Mean %
Bank overdraft facilities are provided by the banks	74
Borrowing requirement is an important part of the bank	84
Security for finance is considered as tangible assets	19
Frequency of the use of bank loans	3.71

Table 4; Status on the use of bank finance
(Source; created by author)

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

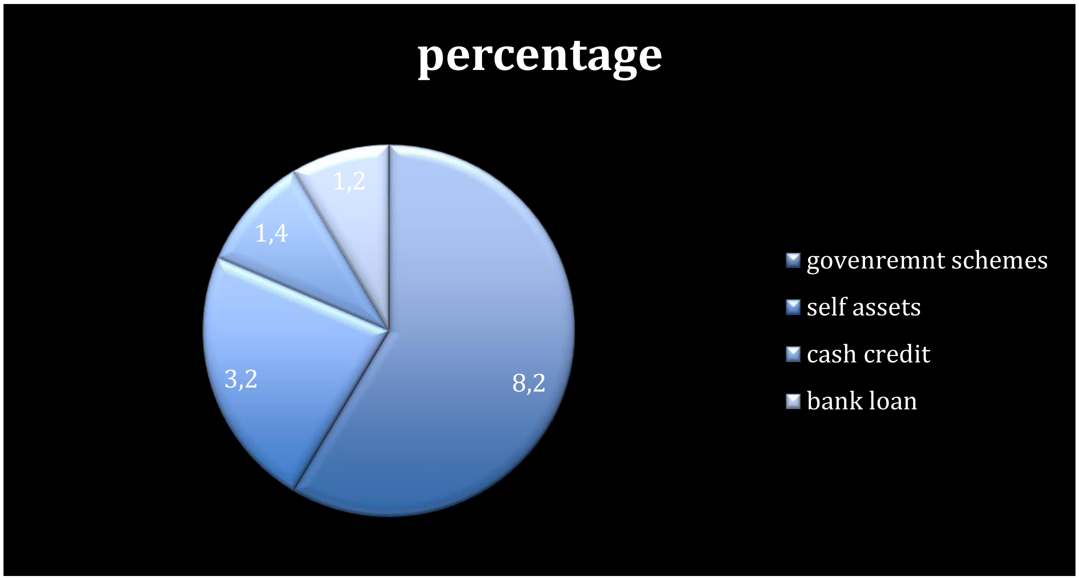

Figure 1: Startup takes loan through different sources
(Source: created by author)

Internal and external sources are considered as the traditional source of finance that is used by the startup. The theoretical framework of transaction cost theory; agency theory and credit rationing are used as fiancé supply to discriminate the finance. Own savings, bank loans, and bank overdrafts are the main sources of loans for the startup. Government financing schemes, short-term sources, bootstrap finance, and cash credit are some of the sources of funds taken by the startup (Fathonih et al., 2019). Cronbach's Alpha reliability was used to verify the constraints of the items present in each component.

Conclusion

In this study sources of working capital loans for startups have been reviewed. It has been found that startups face difficulties in getting finance through traditional sources.

It has been found that startups are not well organized on informal networks. To meet working capital requirements different degrees of difficulty were faced by the organization. Shareholder loans, bootstrap finance are some of their informal; sources through which the organization supports its working capital.

References

1. Kumar, S. (2022). Risk rationalization of OTC derivatives in SOFR (secured overnight funding rate) transition: evidence from linear interest rate derivatives. Academy of Accounting and Financial Studies Journal, 26(3), 1-22.
2. Sehgal.P, Kumar.B, Sharma.M, Salameh A.A, Kumar.S, Asha.P (2022), Role of IoT In Transformation Of Marketing: A

3. Quantitative Study Of Opportunities and Challenges, Webology, Vol. 18, no.3, pp 1-11
4. Nayak, N. R., Kumar, S., Gupta, D., Suri, A., Naved, M., and Soni, M.

5. (2022). Network mining techniques to analyze the risk of the occupational accident via bayesian network. International Journal of System Assurance Engineering and Management.Vol.1, no.1, pp. 01-09
6. Kakti, A., Kumar, S., John, N. K., Ratna, V. V., Afzal, S. and Gupta, A. das. (2021). Impact of Patients Approach towards Healthcare Costs on their perception towards Health: An Empirical Study. *Tobacco Regulatory Science*, Vol.*7, no.* 6–1, pp. 7380–7390.

7. Almahirah, M. S., S, V. N., Jahan, M., Sharma, S., & Kumar, S. (2021).

8. Role of Market Microstructure in Maintaining Economic Development. Empirical Economics Letters, Vol.20, no.2, pp. 01-14

9. Fathonih, A., Anggadwita, G., & Ibraimi, S. (2019). Sharia venture capital as financing alternative of Muslim entrepreneurs: Opportunities, challenges and future research directions. *Journal of Enterprising Communities: People and Places in the Global Economy*.

10. Chen, Y., Diaz, E., Sensini, L., & Vazquez, M. (2020). Working Capital Management and Quality Management Systems: evidence from an emerging economy. *International Journal of Business Management and Economic*

11. *Research*, *11*(4), 1861-1868.*11*(4), pp.1861-1868.
12. Danns, D. E., & Danns, G. K. (2019). Financing youth entrepreneurship in a developing country. *Quarterly Review of Business Disciplines*, *6*(2), 193-217., *6*(2), pp.193-217.
13. Onaepemipo, E., Zubairu, U., Abubakar, B., Araga, S., Umar, H., & Ochepa, A. (2019). Factoring as an effective working capital option: a critical review.
14. Roland, G., Kumaraperumal, S., Kumar, S., Gupta, A. das, Afzal, S. and Suryakumar, M. (2021). PCA (Principal Component Analysis) Approach towards Identifying the Factors Determining the Medication

15. Behavior of Indian Patients: An Empirical Study. Tobacco
16. Regulatory Science, Vol. 7, no. 6-1, pp 7391-7401

17. Leitch, C., Welter, F., & Henry, C. (2018). Women entrepreneurs' financing revisited: taking stock and looking forward: New perspectives

18. on women entrepreneurs and finance. *Venture Capital*, *20*(2), 103-114.

19. Lefebvre, V. (2020). Performance, working capital management, and the liability of smallness: A question of opportunity costs?. *Journal of Small Business Management*, 1-30.

20. Danns, D. E., & Danns, G. K. (2019). Financing youth entrepreneurship in a developing country. *Quarterly Review of Business Disciplines*, *6*(2), 193-217.

21. Godke Veiga, M., & McCahery, J. A. (2019). The financing of small and medium-sized enterprises: an analysis of the financing gap in Brazil. *European Business Organization Law Review*, *20*(4), 633-664.

22. Demartini, P. (2018). Innovative female-led startups. Do women in business underperform?. *Administrative Sciences*, *8*(4), 70.

23. Belas, J., Gavurova, B., & Toth, P. (2018). Impact of selected characteristics of SMES on the capital structure. *Journal of Business Economics and Management*