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# The Impact of Venture Financing on Entrepreneurial Activities: A Survey from Karachiites

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**Abstract**
The purpose of this research is to determine the impact of venture financing on entrepreneurship. This research will assist in bridging the gap between the entrepreneurs who have established their business not more than five years ago & the upcoming entrepreneurs who want to utilize venture financing in establishing their business. For this purpose, the survey method has been opted & data has been gathered from 40 entrepreneurs. Entrepreneurs responded regarding different aspects of the business to determine the present, past & future growth of entrepreneurial Activities to determine how appropriately venture financing could be utilized &, based on their experiences, how newbies can establish their business more effectively. The research is based wholly on the considerations & priorities of entrepreneurs for their business.
**Keywords:** Entrepreneurship, Venture Financing.

## Introduction

Pakistan is amongst Asian countries which are facing issues and problems of unemployment. It is known as the world's sixth most populous country. In 2013, its population was 191 million and had an annual growth rate of 2.2% in 2012. This rate is the highest population growth rate among the South Asian countries. The problem of a considerable population can be a blessing in disguise if it would be converted into a productive workforce and efficient human resources that would help develop the country (Ekpe, Razak, Ismail, & Abdullah, 2015).

According to Lin, Manser, & Picot (1998)and Pfeiffer & Reize(2000), one solution to rising unemployment could be an increase in a new startup. These startups would generate employment and hire new employees; hence a subsequent decrease in unemployment would occur.

The researchers have already established and tested grounds proving the noteworthy Significance of entrepreneurial activities concerning enhancing jobs (Birch, 1987; Davis, HaltiWanger, & Schuh, 1996; Newmark, Wall, & Zhang, 2008). The impression illuminated by these studies is that small-scale firms, irrespective of their size, contribute largely when the expansion of the job market or creation of employment is concerned.

Despite the considerable potential in entrepreneurship in reducing unemployment and creation of jobs, the question thus arrives, and this research caters that is that; what are the hindrances in the road to entrepreneurship or what are the critical factors that could help in the progress of entrepreneurial Activity and thus generating employment subsequently. One of the foremost factors identified for starting a new firm or venture is credit, and access to easy credit plays a vital role not only in Pakistan rather worldwide (Ahmad & Hoffman, 2008; Carney & Gedajlovic, 2002; Claessens, Djankov, Fan, & Lang, 1999; Kristiansen, 2001). The environment where change resistance is expected due to cultural and social factors, where a group of people in the society has control over a factor of production and entrepreneurs' control is less – for example, Indians in East of Africa, Latin America's Levantines, South East Asia's Chinese and Europe's Jews (Mackie, 1992) then in such circumstances credit availability becomes even more decisive factor (Santarelli & Pesciarelli, 1990).

Badal (2010) cited the Gallup results, which indicate the Significance of people's perception that if they could have easy credit available at their disposal, they would undoubtedly indulge in entrepreneurship. This trend can be seen all around the world. The best example of such linkage can be visible in African countries where credit resources fall short for small-scale enterprises. The banking sector provides limited access to their finance. When the banking sector fails to fulfill such credit requirements, another factor that can be used as an alternative is the supplier's credit. Regardless of this, the prevailing ethnicity with the regions also makes this situation even more complex. The suppliers mostly favor and trust the people who belong to their ethnicity or some superior one.

Similar to this, Fafchamps ( 2004), in his studies, disclosed that the businessmen of European background are likely to avail more significant credit from suppliers in the countries where they are found in remarkable minorities, for instance in Zambia, Cameroon, or Zimbabwe as for in different other countries their credit from supplier matches with that of businesspeople of African background.  The same is the case with Asian background entrepreneurs having uncomplicated or easy credit access within Zimbabwe, but the case differs in Tanzania. Gallup's researches develop an outlook to describe access to credit from lens-based cultural and social perspectives (Badal,2010). Thus, this research paper highlights the role of venture financing as a mode of financing that could accelerate Entrepreneurial Activity and subsequently lead to employment generation.

**Literature review**

The central theme of the research paper is whether venture financing, its utilization & its modes affect the success & growth of business hence contributing towards job creation. Brief theoretical literature explains that intellectual, financial decisions for business initiators can alleviate expected difficulties that can come across between independent/institutional investors. While establishing a business, entrepreneurs must know the following financial constraints:

- Personal financial status
- Knowledge regarding the financial position of angel investors or venture capitalists
- Sound knowledge of competitors & their financial status

However, apart from financial constraints, other derives likeability & ambition across the diversity of entrepreneurs also designs the growth path & success of the business (William, Lerner, & Schoar, 2010) but if we look at a broader perspective, venture financing as an independent factor acts as the backbone for a business startup for entrepreneurs. Intellectual financing techniques and ability & strong ambition play a key role for newbie entrepreneurs in the market. Further study of the same literature suggests whether venture capitalists or angel groups both play their part in providing entrepreneurs advice & contacts that can assist them in their business growth & investments.

Another article from Harvard Business School, Financing Constraints and Entrepreneurship, discusses how new ideas created by entrepreneurs will lead to better productivity and economic growth. However, for that, an individual must have a sound knowledge of technology. It is a clear-cut truth that investors with innovative ideas and well aware of technological advancements will replace those having old technology. Secondly, the competition between the financial intermediaries can also affect the terms of credit to entrepreneurs. Another financial market constraint discusses the depth of the financial market that means raising sufficient capital for the project, which also determines the growth & success factor of the newly initiated business of the entrepreneur (Kerr & Nanda, 2009).

Further, the literature review suggests that with the help of descriptive statistics, a duration analysis model, an incumbent can estimate the duration of survival of the business and risks and moral hazards associated with that business. (Praag, 2007).

Vivarelli (2012), in his literature review, discusses the credit constraints that an entrepreneur can face. He further added that lack of financial capital could limit the chances of survival & reduce the rate of entry of new entrepreneurs to enter the market (Vivarelli, 2012). Thus, if they are not provided with the appropriate assistance, it can affect the economic corridor of any developing country.

Another literature review by (Pare, Jean-Redis, & Sahut, 2009, pp. 287-289) suggests that the lines of the research can be linked to the other research to obtain a combination of personal and professional assets. He further suggests that the lack of appropriate knowledge about the nature of business, financing requirements & new firms can create a high degree of risk.

Entrepreneurs are considered the backbone of any state & so as in Pakistan. Therefore, this research will fill the bridge gap between the newbie & the just entered entrepreneurs who can invest their venture capital in business in an efficient & effective way. This research will help the entrepreneurs to choose the most effective mode of venture financing.

It has been seen that the venture capital fund movement has been described mainly by the focus of technology (Bygrave,W.D. and Timmons,J., 1992). According to (Rizzoni, A., 1991) the difficulties regarding investing in highly riskier initiatives with the inclusion of profit in the long run (For example, creative projects of Science) have been solved in the USA through venture capital development.

There are many ways through which venture capital fund managers can add value to an organization (Bygrave,W.D. and Timmons,J., 1992) collected the types of involvement of venture capitalists into three distinct categories. The first one can be the strategic role of the venture capitalist (which means that it can play a sounding panel to management, with the support of the growth of corporate strategy, management, hiring finding finance's alternative sources as well as the management of short term problems (Fredriksen, O., Olofsson, C. and Wahlbin, C., 1992)

Secondly, the venture capitalist can offer a *supportive or social* role, playing the role of mentor. Thirdly, the venture capitalist can give access to a *network* of other tax experts, venture capitalists, patent agents, lawyers, grant agencies, potential customers and suppliers, etc. (Jarillo, J.C., 1989)

Since venture capital has become more competitive, some venture capitalists enforce that value is their most unique competence (Gourlay.R., 1994). (Sapienza, H.J., Manigart, S. and Herron, L., 1992) have researched that venture capitalists of the UK are extensively involved with investees but do not change this involvement highly concerning situations.

Companies are under a tremendous external force to improve their essential product portfolios. They continuously bring new ventures in business like change in technologies, retail product development, low-cost transpiring competitors, turbulent innovations from businessmen, and solid communal customers. SBV is the collective creative planning or policy by which companies can expand their threshold of innovation through achieving high awareness and entrance to new businessman and their products that might in the time ahead generate prospect rental worth for the elective. Excellent knowledge can also occur by an in-depth partnership with young product entrepreneurs and submission to their capability at chance recognition and ill-treatment. This learning behavior can improve the origins' skill to outlook the accountability of exceeding and introduce entrepreneurial product ventures or implement entrepreneurial business models that drive progress and competition. (Deryck J.van rensburg, 2012)

(Samila, Sampsa; Sorenson, Olav;, 2009) Findings infer that venture capital arouses startups. Doubling in the no. of organizations invested by venture capitalists in an area consequences in the establishment of 0.48 percent to 2.21 percent new establishments (an approximately)

Venture capital is focused in different types of regions: Firstly, those with increased concentrations of financial resources, secondly those with increased concentrations of intensive small businesses based on technology, and thirdly those with both the areas discussed above. Venture capital developments based in financial centers (Florida & Kenney, 1988)

Organizations following an innovator besides follower strategy are more financed by venture capital. Having venture capital comprises a quicker time to market for innovators, especially suggesting that financing of venture capital can influence the growth path of a startup firm, specifically on its product market position. (Hellmann, Thomas; Puri, Manju;, 2000)

As the main target of Islamic financing is to assimilate the developmental perspectives and profitability and according to Islamic law (maqasid as-shari'ah), allocation of resources in such a scenario shadows the rule of developing complementarity through various possibilities. Through the "shuratic" process of the behavior of the organization. In this situation, a substantively new rule of financing of M & M sharing appears. Such an instrument takes along with it the essential target and purpose of shari'ah (Masudul Alam Choudhury, 2001)

## Research Methodology

Since the main aim of this research is to find out the divergent modes of venture financing and their impact on entrepreneurship and their business growth a careful study will lead to the critical areas so that Entrepreneurs can choose the best mode of financing based on screened & succinct information, another key objective of this research is to bridge the gap between the individuals who have recently established their business and the upcoming entrepreneurs who want to utilize venture capital to establish their businesses so that they can make more effective decisions based on the experience and activities of the fresh entrepreneurs who have already entered the market. The following Methodology of research would best address these research objectives.

## Research design

The research is purely quantitative based on a descriptive research design. Information has been gathered through survey questionnaires among entrepreneurs. Quantitative research clearly defines the problem and its objective. It provides an adequate basis for the researcher to plan, investigate, and interpret the data correctly and skillful reporting.

## Data

Since the survey research method was adopted, Primary data was collected via Questionnaires. Questionnaire Analysis was conducted among 40 individuals. The questionnaire was filled up by the entrepreneurs who have established their business not more than five years ago. The questionnaire is the best way to respond to the general public in minimal possible time to complete the work efficiently and effectively.

**Inclusion Criteria**

The research will be conducted among individuals who have recently started their business and not more than five years ago. Data will be gathered from the entrepreneurs who have established their businesses in the marketing sector. Eligibility conditions to fill up the questionnaire apply to the individuals who are over 18 and must be business graduates.

**Sampling and sampling technique**

The database of the study consists of Forty entrepreneurs. Further, non-probability sampling used the snowball sampling method for data collection because it does not require random selection as probability sampling does. First, the research was initiated by identifying the key participants who meet the inclusion criteria. They were then asked to recommend other entrepreneurs who meet the inclusion criteria. Thus, the snowball sampling technique was used in this research.

**Model/ Statistical Technique**

Descriptive and inferential statistics were computed for the data. For this, Statistical Package for Social Science (SPSS) was used. Data were processed by using simple editing & coding procedures. Simple tabulations & cross-tabulation methods will be followed to analyze and evaluate the data.

**Results**

The first part of the research describes some general information about the individuals in terms of their gender and qualification to ensure the reader about the authenticity of the research report. Survey respondents' demographic information was collected to recognize the distribution pattern and signify a degree of difference in response due to demographic distinctions. The demographic section of the questionnaire consisted of their name, age, gender, qualification, work, designation, experience, contact number, and email address. Multiple-choice questions were used to obtain clear responses. Respondents were inquired to put a tick in one of the appropriate boxes to point out their answers for each question. Some general information of the respondents is described below in a tabulated and graphical manner.

**Table 3.1 Gender**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Male | 26 | 65.0 | 65.0 | 65.0 |
| Female | 14 | 35.0 | 35.0 | 100.0 |
| Total | 40 | 100.0 | 100.0 | |

More male respondents are i-e 26 than female respondents, which are only 35% of our data set. The above histogram is also highlighting the exact figures.

**Table 3.2 Education**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Matriculation or equivalent | 1 | 2.5 | 2.5 | 2.5 |
| High school/ College | 1 | 2.5 | 2.5 | 5.0 |
| Bachelors | 14 | 35.0 | 35.0 | 40.0 |
| Masters | 21 | 52.5 | 52.5 | 92.5 |
| Doctorate | 3 | 7.5 | 7.5 | 100.0 |
| Total | 40 | 100.0 | 100.0 | |

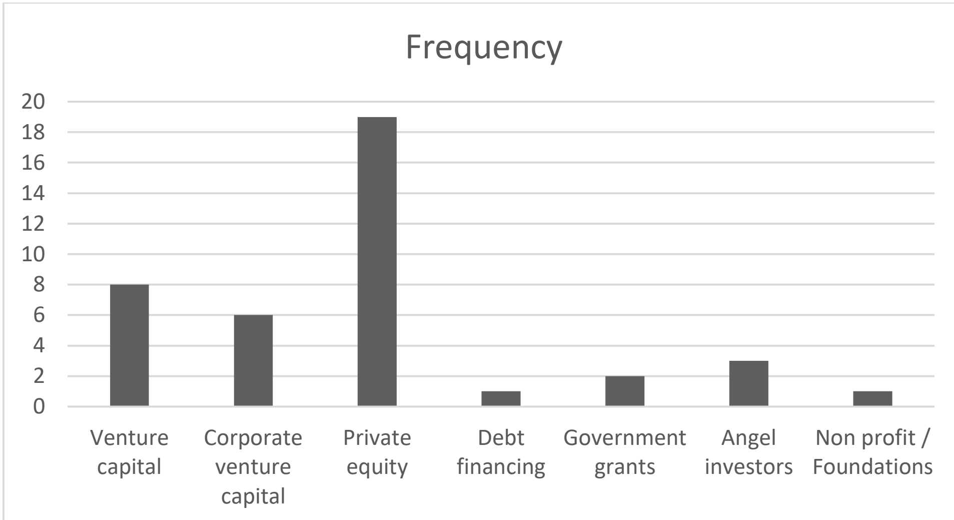
The majority of the respondents possess a Master's degree (52%), a bachelor's degree is also possessed by 35%, 7.5% are doctoral degree holders, and 2.5% possess matriculation or higher school college as last education.

**Table 3.3: Problem for Establishing & Running Business**

| **Problems in business** | shareholders | Family or entrepreneurs (more than one) | Other firms or business associate | venture capital firms or business angels | Male owner | Female Owner | Other | (DK/NA) | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Finding customers | 0 | 3 | 0 | 0 | 1 | 2 | 1 | 0 | **7** |
| Competition | 0 | 0 | 0 | 0 | 1 | 2 | 0 | 0 | **3** |
| Access to finance | 1 | 4 | 2 | 1 | 3 | 1 | 0 | 1 | **13** |
| Cost Of production of labour | 0 | 3 | 0 | 0 | 3 | 0 | 0 | 0 | **6** |
| Availability of skilled staff or experienced managers | 0 | 1 | 2 | 0 | 2 | 1 | 0 | 0 | **6** |
| Regulation | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | **1** |
| Other | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | **2** |
| DK/NA | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | **2** |
| **Total** | **1** | **12** | **5** | **2** | **10** | **7** | **1** | **2** | **40** |

In the current era of entrepreneurs, 32.5% think that access to finance is the most pressing problem for establishing & running a business, while the other 17.5% found difficulty finding customers. Rest 15% said that non-availability of skilled staff is a hurdle in the progress of the business. Other 15% faced difficulties because of the high costs of production of labor. From the interpreted data, we can generalize that the most pressing problem for entrepreneurs is access to finance.

The above table & bar chart shows the cross-tabulation between the owners of the firm & the problems they think creates hurdles in business. The table shows that the most common problem they all faced is access to finance irrespective of whether they are the single owners, more than more, business associates, shareholders, venture capital firms, or business angels.

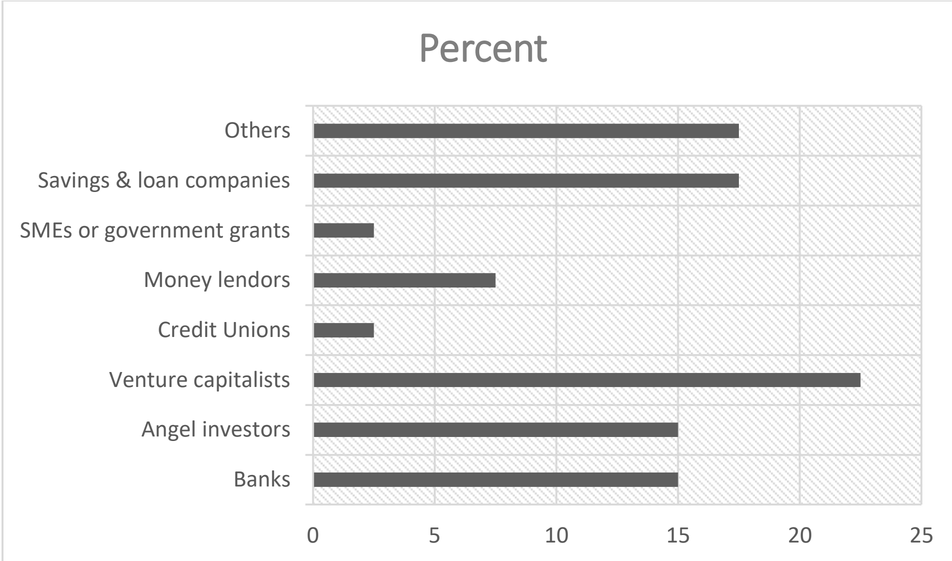



During the survey, it was noted that 19 out of 40 entrepreneurs consider private equity as the most crucial financing model whereas, eight respondents said that they consider venture capital as most important. Therefore, findings reveal that private equity & venture capital can be contemplated as newly entering entrepreneurs in the market.

Table 3.4: Impact of the size of Business on Mode of Financing

| **Likelihood Ratio** | **Value** | **df** | **Asymp. Sig (2-Sided)** |
|---|---|---|---|
| Bank loans | 38.199 | 24 | 0.033 |
| Trade credit | 27.149 | 24 | 0.298 |
| Equity investments in your firm | 34.703 | 24 | 0.073 |
| Debt securities issued | 31.022 | 24 | 0.153 |
| Other [loan from a related company/shareholders, loan from family and friends] | 15.17 | 18 | 0.65 |

The above model shows that the number of years of business does not directly impact trade credit, equity investments, debt securities, & others as the value of sig lies greater than 0.05. However, the bank loan is found associated with the age of business, as the value of sig is found to be 0.033




Further, 22% of respondents in another question submitted their response that they raised their business by venture capitalists. 17.5% of entrepreneurs received their investments through banks, whereas another 17.5% raised their investments by others like private investments, relatives, family members, etc. Few 15% were provided investments through banks & 15% by angel investors.

**Table 3.5: Impact of Size of Investment on Overall Business**

| Likelihood Ratio | Value | df | Asymp. Sig (2-Sided) |
|---|---|---|---|
| Turnover | 13.706 | 15 | 0.548 |
| Labor cost | 15.611 | 15 | 0.408 |
| Other cost (material, energy & other) | 17.611 | 15 | 0.284 |
| Net interest expenses | 10.504 | 15 | 0.787 |
| Profit | 13.048 | 15 | 0.599 |
| Markup | 20.711 | 20 | 0.385 |

To determine the impact of the size of investment on the overall business, different aspects were compared to the investment size. However, the overall model was highly insignificant as all the values are more significant than 0.05, which means that the size of investment does not have any association with different aspects of business like; turnover, labor cost, expenses, profits, markup & other costs.

**Table 3.6: Preference Regarding External Financing**

| | Who provided the last investment? | | | | Total |
|---|---|---|---|---|---|
| **What type of external financing would you prefer most?** | Bank | Private individual (family or friend) | Other sources (e.g. microfinance institutions, government-related sources) | [DK/NA] | |
| Bank loan | 4 | 3 | 0 | 0 | **7** |
| A loan from other sources (e.g. trade credit, a related company, shareholder, public sources) | 1 | 4 | 1 | 2 | **8** |
| Equity investment | 3 | 7 | 0 | 2 | **12** |
| Subordinated loans, participation loans or similar financing instruments | 0 | 1 | 0 | 1 | **2** |
| Other | 1 | 4 | 0 | 2 | **7** |
| [DK/NA] | 1 | 2 | 0 | 1 | **4** |
| | **9** | **21** | **1** | **8** | **40** |

During the survey, entrepreneurs were asked about their preferences regarding external financing. The table above shows that 30% of the respondents responded for equity financing, 20% for the loan from other sources, 17.5% preferred bank loans, other 17.5% for others like private financing, etc. On the other hand, when respondents were asked about the source from where they had received their last investment, more than half of the total respondents revealed that they were provided investments by private individuals.

### Conclusion, Recommendations, and Future Research

## Discussion and Conclusion

With the growing trend of entrepreneurship, competition is rising day by day. It is so for venture capital managers. These managers can add value to their organization by opting for different ways. The most common pressing problem found among entrepreneurs is access to finance, whether they are unaware of how to access finance or beyond their approach because of hurdles. High-interest price is also a common issue that results as a hurdle to access required investments for entrepreneurs. Whether entrepreneurs are single owners of their firm, business associates, shareholders, business associates, or more than one owner, they faced one common problem: 'access to finance'.

This research also reveals that the number of years of business has some association with bank loan size. However, the age of business does not influence trade credit, equity investments, debt securities, & others. Survey reveals that most individuals raised their investments through venture capital, banks & others, including investments from private individuals & in most cases, private individuals provided current investments.

Recently, a survey in this research has underlined that newbie entrepreneurs consider private equity & venture capital the most critical financing model. Sampsa & Olav considered other factors

that affect the efficiency of venture capital. For instance, the mobility of workers gets restricted by legal regimes or by implementing non-competing agreements (Samila & Sorenson, 2009).
Further, from findings, it has been noted that the size of investments does not impact turnover, labor cost, net interest expenses, profit, markup & others. There may be some other factors that are needed to be explored that influence these aspects of the business.

**Recommendations**

Following are some recommendations:

- Venture & equity capital investments for an entrepreneur can open the door to new opportunities & can further obtain windows for growth.
- SMEDA encourages new entrepreneurs to invest in small firms, but the government should establish more venture capital trusts to expand investment opportunities.
- It is recommended by the experience & preference of entrepreneurs that equity financing is the best source of external financing & the same is therefore suggested for newly entering entrepreneurs in the market.
- It is also recommended for the managers to open doors to venture capitalists. It has been revealed by the successful practice of entrepreneurs that they raised their business by the investments of venture capitalists.

**Guidelines for future research**

While managing venture capital funds, managers or investors face internal & external threats & hurdles. Separate research studies can be conducted to determine the factors that affect their investments in entrepreneurship. Another important aspect is the way venture capital managers manage investments. New researchers can investigate & come up with the ways through which venture capital investments can be managed. More upcoming research can also hold venture financing with a touch on Islamic modes of financing.

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