



Setting up a business and funding sources[☆]



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ABSTRACT

Small and medium-sized enterprises (SMEs) are the driving force of the whole economy. An analysis of the data collected during the interdisciplinary research in 2008–2012 on a sample of 345 entrepreneurs operating in Poland shows that a statistically significant correlation exists between the recitals that take up economic activities and the choice of the source of the initial capital. People who indicate financial motives often take up economic activities using their own funding resources, or loans, credits—the funds that they had originally earned or they will have to earn to pay in the future. The analysis shows that those showing non-financial motives have used non-refundable EU funds. The multidimensional scaling analysis of funding sources shows that people who indicate financial motives diverge slightly different from groups of financial sources than those that indicate non-financial motives. People who undertake business activity to generate greater earnings/accumulate wealth are more likely to use their own capital or repayable funds. The results of the present study should be helpful in re-considering the European Union procedures for granting a financial non-refundable aid for people.

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1. Introduction

A notable growth of newly founded enterprises, especially SMEs, is taking place in many countries. SMEs play an increasingly important role in stimulating economic growth (Guzman-Cuevas, Caceres-Carrasco, & Ribeiro-Soriano, 2009) and constitute a determining factor for establishing a solid economic basis (Ribeiro-Soriano & Castrogiovanni, 2012).

Thus, entrepreneurship develops in countries that recognize the above advantages. EU member states governments stimulate entrepreneurship by offering some incentives and several sources of external funding for start-ups. This funding is usually a non-repayable financial aid from the EU.

Some of the very important factors that fuel entrepreneurship development are the motives that encourage entrepreneurs to undertake activity. People undertake self-employed activity for various reasons, and each entrepreneur may find motivational something different. In addition, they are using different types of financing sources.

What is the relationship between the various motives encouraging entrepreneurs to start a business and the available funding sources? Does a type of motive exists that make people try with the business without taking the risk (investing own money or taking a bank credit instead of using non-repayable financial aid from the EU)? Unfortunately, a gap in this area exists and these questions inspire the present article to fulfill the gap.

2. Literature review

Entrepreneurship plays a prominent role in the development of the economy and society. Entrepreneurship gives sustained superior performance to enterprises (Ribeiro-Soriano & Urbano, 2010). Entrepreneurship is a remedy against unemployment, which improves the life conditions in a country. This phenomenon is present in many countries. SMEs constitute the majority of enterprises in the EU and in Poland as well. Despite of their size, they have many advantages—they can adapt more easily to changes in the environment because of their more manageable size, and they can compete perfectly with large organizations (Ribeiro-Soriano & Roig Dobon, 2009). Moreover, newly founded companies produce a significant effect on the creation of the GDP and new jobs; they are a source of budget revenue and a supply base for larger companies; they also enhance socio-economic transformations and constitute a safety buffer protecting the economy against crises; in other words, they ensure balance in the economy. Working together, members of the SMEs could also contribute to innovation (Ribeiro-Soriano & Comeche Martinez, 2007)—the source of competitiveness.

Many people start their business for many reasons/motives: self-realization and personal satisfaction (Staniewski, 2009), accumulation

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of wealth (Van Gelderen & Jansen, 2006), acquiring a higher social status, the need for autonomy (Staniewski, 2009), the need to strike a work-life balance (Rey-Marti, Tur Porcar, & Mas-Tur, 2015), the acquisition of priceless experience, the opportunity to realize one's potential, and being satisfied with one's work (Bernat et al., 2008). In some cases, an employer with an ethnic background is who functions as a role model, an inspiration. (Urbano, Toledano, & Ribeiro-Soriano, 2011) Nevertheless, the traditional reasons why people start a business are mainly economic (Carsrud & Brännback, 2009).

Studies show that the diversity of motives depends on the entrepreneurs' background (Armengot, Parellada, & Carbonell, 2010) and on the wealth of a country where a potential entrepreneur resides (Hessels, Van Gelderen, & Thurik, 2008).

For the purposes of future research, this study has adopted the following motive distinctions: (a) economic motives (the possibility of obtaining higher earnings and greater wealth) and (b) non-economic motives (self-realization and test of one's own abilities).

However, despite the strong motivation to set up a business, entrepreneurs face an array of difficulties such as lack of professional experience and funding (Staniewski, 2009).

As numerous studies reveal (Rajan & Zingales, 1998; Schumpeter, 2012), the capital market is a driving force of economic growth. Appropriate financing turns out to be the key determinant of success in business, also in the phase of start-up. In many countries, the biggest sources of capital are entrepreneurs' own funds (Basu & Parker, 2001), loans from family members (Bates, 1997), and their own funds, including savings (Bădulescu, 2011). In most countries, beginner entrepreneurs endeavoring to be successful in conventional sectors of the economy must rely on limited funding, usually coming from family members, friends, or banks in a form of loans granted to natural persons. They employ these funds not only when starting the business but also in the early stage of its development (Huyghebaert, Van de Gucht, & Van Hulle, 2007). Typically, venture capitalists evince little interest in companies in an early stage of development (Bilau & Couto, 2012). The scarcity of external financing for small enterprises causes their technological underdevelopment, as they cannot afford investing in the necessary resources to develop and ensure profitability (Strömsten & Waluszewski, 2012). In Poland, potential entrepreneurs have the opportunity to choose various new ways to obtain financial support for self-employed activity, such as loans, non-repayable funds (e.g., from the EU), loan guarantees, leasing, factoring, franchising, etc. However, a major problem is that entrepreneurs often are not aware of the possibilities to obtain funds.

For the purposes of the current research, this article adopts two simplified categories of financial funds available to people starting a company: (a) funds that the business founder will need to obtain before or after their expense to start a business (their own funds and funds that the entrepreneur will need to repay, that is, loans) and (b) non-repayable funds (aid from regional labor offices or from the European Union).

In Poland, the concept of credit refers to banks' activity exclusively, whereas the loan is a broader concept. A bank or a private person could provide loans.

This study assumes that diversity among the motives for starting a business and a diversity of sources for its funding exist. People who undertake business activity for financial reasons, such as the possibility of generating higher income and increasing their wealth, use their own funds more often. The present study further hypothesizes that people who start a business because of financial motives, such as the possibility of obtaining higher income or increasing their wealth, have better preparation to conduct business activity than those who have "hard to measure" motives. This study proposes that people planning to start their own business under the inspiration of motives "difficult to measure," such as the need for self-realization or a test of their abilities, are less prone to take risks and are thus not willing to use their own funds. They use non-repayable funds more frequently.

Those people often waste money for momentary survival. Hence, this research proposes the following hypotheses:

H1: People inspired to set up a business by non-financial motives use their own funds and loans for that purpose less often than people who do not declare such motives.

H2: People inspired to set up a business by non-financial motives use non-repayable funds to set up a business more often than people who do not declare such motives.

H3: People inspired to set up a business by financial motives use their own funds and loans for that purpose more often than people who do not declare such motives.

H4: People inspired to set up a business by financial motives use non-repayable funds for that purpose less often than people who do not declare such motives.

3. Method

3.1. Study procedure

Entrepreneurs who came from all over Poland and established their companies between 2008 and 2012 carried out this study. From national databases, trained professionals obtained information allowing contact with entrepreneurs. Entrepreneurs received their invitations to take part in the study by telephone, e-mail, or letter. A total of 1262 entrepreneurs received an invitation to participate in the study. Out of this number, 345 entrepreneurs agreed to participate, but 51 questionnaires were incomplete and thus were not suitable for analysis. Finally, the analysis takes into account the valid 294 responses. Trained professionals carried out the study. The study's tasks included contacting entrepreneurs, giving the entrepreneurs instructions about how to fill in the questionnaires, and collecting the completed forms.

3.2. Sample characteristics

The sample comprised 108 women (37%) and 186 men (63%) between the ages of 21 and 71 ($M = 34.48$, $SD = 9.19$) (Table 1). The majority of the respondents (52%) came from large cities, 26% resided in villages, and 22% resided in small towns. The majority of the entrepreneurs (53%) had received higher education. Most of the surveyed

Table 1
Socioeconomic data of the respondents.

Gender	Number of respondents	(%) ^a
Female	108	36.73
Male	186	63.27
Total	Number of replies 294	100,00
Age	Number of respondents	(%) ^a
>24 years	23	7.82
25–34 years	150	51.02
35–44 years	79	26.87
45–54 years	32	10.88
55 < years	10	3.40
Total	Number of replies 294	100,00
Education	Number of respondents	(%) ^a
Primary	1	0.34
Vocational education	26	8.84
Secondary education	110	37.41
Higher education	157	53.40
Total	Number of replies 294	100,00
Size of the place of residence	Number of respondents	(%) ^a
Villages	75	25.51
Small towns (>100.000 residents)	66	22.45
Large city (100.000 < residents)	153	52.04
Total	Number of replies 294	100,00

^a 294 respondents = 100%.

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