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Challenges for Financing Startups in China: A Quantitative Investigation of Small and Medium Ventures

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ABSTRACT

This research aims to determine the financial obstacles startups face in China. This study will analyze the many different kinds of obstacles that young businesses in China face, and it will also talk about the financial resources that are accessible to young businesses in China. Both topics will be covered in this study. The literature reviewed for this research examines the various difficulties faced by startup businesses from three different vantage points. These are the ailment of venture capital (VC), the difficulties associated with finance for small and medium-sized businesses (SMEs), and the financial issues faced by startup businesses in China. The rapid expansion of new businesses in China has the potential to significantly impact the country's ambitions to become a world leader in scientific discovery and technological innovation. This research also attempts to discover some answers for the new businesses just starting up in China to inspire more young people to get into business for themselves. This article discusses startup firms' financial challenges and the primary financial resources available to them. In order to learn about the elements that affect the difficulties associated with startup funding in China, a survey was conducted with a sample size of 218 participants. According to the research findings, the elements that assist in determining the difficulties associated with funding new businesses in China include the availability of financial resources, support systems and workforces, knowledge, and experience.

Keywords- Startup, Startup Policy, Finance, entrepreneurship, Innovation, SMEs.

I. INTRODUCTION

A new firm that is just starting its operations and is being funded by an individual or a group of persons is referred to as a startup venture. This kind of business is just getting off the ground and is in the early stages of its development. A startup is a model of a young scalable business developed on technology and innovation in which the founder develops a product or service. For its operation, they need financial assistance from the market. Startups are typically characterized by rapid growth and high levels of scalability. It started as a concept but eventually became a commercial venture. New businesses are the driving force behind economic growth in commerce. Young individuals who desire to establish their businesses or entrepreneurs sometimes need more resources, the most important of which is financial capital.

Consequently, a country's skills, creative ideas, and capabilities do not come to fruition and are not used. The nation misses the potential to create riches, find employment, and expand its economy. The availability of starting funding is a significant challenge for new businesses. The founder of a company has access to several sources of finance for their business. These include the family and friends of the creator, grants, loans, angel investors, crowdsourcing, and venture capitalists, among others. As soon as the company begins to make development, the need for financial resources will begin to rise. China has been impoverished, centrally managed, sluggish, inefficient, and isolated economically for the last 36 years as a direct result of the country's economic policies. 1978 was the year that marked the beginning of China's reforms and opening of policy, which allowed the country to begin opening up its internal market and to begin expanding at a rapid pace. China has steadily risen to become the second-largest trading economy in the world, the second-largest destination for foreign direct investment, the largest manufacturer, and the largest holder of foreign exchange reserves holding an annual GDP (gross domestic product), having an average of around 10% over the past decade. China has recently emerged as a critical force in international commerce and the global economy. Because of its high-speed technology, capacity for scientific research, and the rapid development of new technologies, China has overtaken the United States as the nation with the fastest-growing GDP.

This research investigates the financial difficulties experienced by new businesses starting up in China. To create a firm, the creator of that business must overcome numerous challenges, including a lack of resources, skills, and infrastructure; nevertheless, the most significant of these challenges is receiving financial help. Some systems let entrepreneurs and investors connect on a platform. These systems aim to encourage entrepreneurs to present their company ideas to investors to secure financial backing for their fledgling businesses. The culture of China does not encourage new business ventures in any way.

In contrast, China promotes employment in state-owned or private organizations, stability, and the education of its citizens to avoid taking unnecessary risks. In China, if a young person wishes to create their own company, the individual's family will place negative pressure on them or join some excellent job instead of starting their firm. As a result of China's enormous population, entrepreneurs have access to a wealth of options to launch new ventures that provide a diverse selection of appealing goods and services that fall within a wide price range. Some of the firms might end up becoming unicorns, which would make them prominent business houses known all over the globe and allow them to expand their operations into other nations. (Babu and Sridevi, 2018.

II. LITERATURE REVIEW

Chong & Luyue (2014) stated that a startup business is an important way for the modernization of China to motivate people to start their businesses and solve their problem of employment in Chinese society. Startups have an excellent effect on the growth of China's small and medium-sized businesses and the innovation and research of Chinese businesses. However, new enterprises in China confront several challenges, the most significant of which is financial. The first thing that springs to mind for someone who wants to start their own company is money. To enhance the atmosphere and provide financial assistance to startup enterprises, the Chinese government must take action and adopt rules that will aid them financially.

Garg (2016) revealed that business organizations and their entrepreneurs are the backbones of any market and the economy. They supply the economy with creative ideas and developments. However, one needs government assistance and other resources to establish a firm. Finance, infrastructure, labor, a solid business strategy, and other resources are required to launch a company. The creator of a new firm has the greatest need and challenge regarding financial resources. According to the report, startups remain in their infancy and must be fostered to attract more individuals to become entrepreneurs.

Habeebuddin & Sakriya (2017) found that banks do not fund the startup business in their initial stages of operation. Additionally, credit rating firms also do not offer many services.

Even with substantial capital spent in their beginnings, small and medium-sized firms encounter great difficulty surviving in the marketplace. It is challenging for most family- or self-funded firms to preserve financial and operational records. The majority of companies struggle with finance or access to funding. Numerous private and public investors put aside some capital for these firms, which is often inadequate. These entrepreneurs' primary challenge is recruiting and persuading investors to invest in their companies. Additionally, they lack adequate cash management.

Gowri (2020) explained that the purpose of a startup is to become your boss and create employment for yourself and others that warrant suffering and sacrifice. Individuals with a high grade point average, a middle-class salary, and technological abilities and experience may create their businesses and revolutionize their industries. Infrastructure, government rules, and the availability of sufficient capital are among the most significant obstacles encountered by startup entrepreneurs. Early-stage businesses face various difficulties starting with human resources, finances, and sustaining in a competitive market. The government must adopt effective measures to encourage new and young businesses to join the market.

Du & Girma (2012) stated that although there are various and a large number of funding facilitates and investors available for startups, their primary focus is on already matured businesses. As compared to their western counterparts, investors in China are much more risk-averse. As an outcome, they prefer to invest in mature businesses in the industry for a long time instead of the start enterprises. This has made startup companies in China face financial issues and problems in beginning a new business.

Charyulu (2019) revealed market is flooding with startups, and the government has taken initiatives to motivate startup enterprises and remove various barriers they are facing in startups. These startups directly or indirectly enhance the GDP rate. The issue many companies address is financing, which is regarded as a vital resource for launching a firm. The startup financing sources include venture capital, banking, non-banking financial institutions, crowdsourcing, angel investment, and others. The government must assume responsibility for simplifying the loan application procedure. The availability of loans from NBFCs, venture capitalists, and other sources would encourage individuals to launch a company.

Sharifi & Hossein (2015) stated that most startups are the dream of their founder, and later on, that dream grows into a business. The creator faces several obstacles in the pursuit of his idea. A startup involves work, energy, and time. Small and medium-sized firms are primarily concerned with finance. When an economy falters, it isn't easy to persuade banks and investors to give a startup firm the capital it needs to develop. Credit availability becomes limited, and it is sometimes uncertain when it will become readily accessible again. Small initial investments are also prevalent in the early stages of a business. Significant technological obstacles have deterred investors, exacerbating the difficulty of acquiring company capital.

Banudevi & Shiva (2019) found that most people dream of starting and entering a business. In making it a successful business, they face many difficulties. Building a company requires significant time, work, and patience. In addition to other necessary resources for launching a company, financing is one of the essential resources. The greatest obstacle faced by the creator of a startup is obtaining capital for the business. Small and medium-sized business owners need financial support to launch their companies, so they seek out investors and persuade them to invest in their firms. However, most investors are hesitant to invest in businesses in their infancy.

Tan, Huang, & Lu (2013) stated that venture capitalists in the Asian region have shown progress in the last few decades. The majority of the researchers have agreed upon the thought that most of the investments in countries of the Asian region must be considered private equity investments. The investments done in the equities of the firm, which are not traded publicly, are called private equity investments. The study's outcome shows that, when it comes to China, the financing option of venture capital investment needs to be incorporated and effective. This made the startups less replying to venture capital investment options and gave more weightage to the own capital of the founder of the startup as the first source of financial investment for their startup companies in China.

Patel (2019) revealed that many startup businesses fail because of poor revenue generation when the business starts growing. With the increasing operations of the business, the expenses also start growing and reduce the revenue level. It forces the startups to concentrate on funding, diluting the owner's focus on the fundamentals of their business. Thus, generating revenue is critical for any startup, affirming effective management of the burn rate that, in everyday language, is the rate at which startup business spends money in their initial phases. The challenge for the startup is generating capital and expanding and sustaining its growth. Making finance available is critical for any startup and will always be the problem of getting sufficient required funds. Other finance options are available with the founder, like arranging funds from family, friends, grants, loans, venture capitalists, angel funding, and crowdfunding. The need for finance increases as business operations starts progressing.

Pasumarti & Patnaik (2020) explained that as compared to the size of regular business enterprises, the size of a startup enterprise is smaller, and to make it grow more extensively. It requires continuous development. For the survival of any startup business, its development in every stage is essential. However, most startups face challenges and difficulties in their early and later stages. There are many problems related to the resources required in a startup business, like funds, infrastructure, and policy approvals. The toughest one to generate is funds for the business startup. These problems put a question mark on the survival of the startup business. In such circumstances, the founder has to choose between saving up their startup business or going for its development. Effective planning and strategies can resolve some of these issues, and some need assistance and support from the government and intermediaries.

Lam & Liu (2020) states that millions of jobs and contributions are made by small and medium enterprises (SMEs) in China. However, the majority of SMEs are facing issues related to financial support. SMEs are contributing to the growth and development of the Chinese economy. However, they need help in obtaining finance for their startups. These hurdles include limited access to finance from banks, a high cost of financing, and strict lending standards. The rate of borrowing for loans by SMEs has always been high, even after some easy given by the government. At the same time, the high-interest costs of big enterprises are inclined to be more extensive compared to other emerging economies after considering fees and surcharges.

Pandey (2017) found that startups and investors are closely associated. Sometimes, the investor's response towards the startup's ecosystem can be slow and lethargic. Scaling of the startup is prudent, and scaling comes from capital. The challenge is not generating enough funds but also the support to expand and sustain in the competitive market. It is difficult for the founder to plan the finances. Factors in every element and setting up a budget, trying and maintaining this as much as possible to be online. The founder must also set up marketing, advertising, and PR budget. The founder must also understand that external capital would only give a push to the startup. It cannot help in its operation. Thus, the focus must be on creating value and solving other startup challenges.

Andaleeb & Singh (2016) found that in a startup business, self-funding is the first option considered by the founder of the business in which he or she invests their own money or borrows from their family and friends to start their journey business. The initial investment in a startup is its savings. Then they enter into the next investment stage, where they convince their family to lend them money for their business idea, a family they reach out to their known people and friends to tell them about their idea of business and its future and convince them to invest their money in a startup business. Although there are various challenges in every startup, the power, and determination to overcome them and grow the business make it successful.

Sadiqin (2020) studied the investment pattern in small and medium enterprises. It can be concluded that the wrongdoers of small and medium-scale business enterprises have chances of success and not less than big businesses when they get to know the financial patterns of business. After developing this understanding, MSMEs would become the drivers of the economy. The financial trend of MSMEs is minor as compared to other companies. The five types of financial patterns of MSME entrepreneurs are financial performance and planning, environmental and financial provider arrangements, Entrepreneurship, valuation, and funding and harvest options.

Ahlstrom & Ding (2014) stated that within the entrepreneurship ecosystem, one of the essential resources is financial capital to form and operate the startup. Compared to other developed nations in China, private businesses, particularly SMEs, face considerable hindrances to accessing finance from banks and other intermediaries. The restricted access to financing and credit presented by China's startups is a big obstacle. The survey indicated that only a tiny fraction of Chinese SMEs get official financing. In 1980 and 1990, the Chinese government established measures to assist venture capital growth and attract and stimulate foreign investors. In 1999, the Chinese Ministry of Science and Technology established the technological innovation fund for small and medium-sized firms.

Gundre & Kawadkar (2020) explained that startup enterprises are designed for a scalable business model for innovative processes and products. They can be in various sizes and forms. One of the most significant obstacles startups encounter is finance for their unique processes and goods since new firms concentrate primarily on the process and product and often need help to persuade investors to invest in their company concepts. Typically, the first funds a startup's founder supplies need to be increased to operate the firm and meet its financial obligations. Therefore, the creator must discover other sources of financing to meet their business's demands. Other fledgling firm financing methods include venture capital, bank loans, angel finance, and crowd fundraising.

Kaur (2017) studied that there has been a stream of startup businesses and innovation in recent years. Startups have developed due to variables such as the increase in angel investment, technology, smartphones, social media penetration, and the expansion of incubators and accelerators. The availability of finances is one of the primary issues for beginning companies and small businesses. When an economy fails, it is challenging to persuade financial professionals and other investors, such as banks, to lend money and invest in small and medium-sized businesses to assist them in their development and early market growth.

Varghese (2019) stated that most startups are funded by self or family and have a limited workforce, making it difficult for the founder to grow their business. Due to flawed models of business and a lack of innovation and revenue generation strategies, most of the startups that failed in the market are forced to shut down. The founder must overcome these hindrances to manage their startup business effectively and efficiently. The major problems faced by the founder are capital and access to capital. Government and other external investors must set aside some funds for small-scale businesses to help them grow and convert their dream of being an entrepreneur into a reality.

III. THE OBJECTIVE OF THE STUDY

1. To know the factors that determine the challenges for financing startups in China.

IV. RESEARCH METHODOLOGY

A sample of 218 people was surveyed to know the factors that determine the challenges for financing startups in China. The study is a Quantitative Investigation, and the primary data was collected through a random sampling method with the help of a questionnaire. Statistical tool exploratory factor analysis was used to analyze the data and reach results.

V. FINDINGS OF THE STUDY

Table 1 shows showing the general profile of the respondents. It is found from the table that a total of 218 people were surveyed, and among them, 56.4% are male, and 43.6% are female. Among them, 32.1% belong to the age group 31-37 years, 39.9% are from the age group 37-40 years, and the rest 28.0% of the respondents are above 45 years. 31.6% of the respondents are graduates, and below, 38.1% are postgraduates and above, and 30.3% have professional degrees. 35.8% have undergone entrepreneurial training, 36.7% have some skill training, and the rest, 27.5%, have no training.

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Table 1: General Profile

Variables	**Respondents**	**%age**
Males	123	56.4
Females	95	43.6
Total	**218**	**100**
Age profile		
31-37 yrs	70	32.1
37-40 yrs	87	39.9
Above 40 yrs	61	28.0
Total	**218**	**100**
Education		
Graduates and below	69	31.6
Postgraduates and above	83	38.1
Professional Degree	66	30.3
Total	**218**	**100**
Training		
Entrepreneurial training	78	35.8
Skill training	80	36.7
No training	60	27.5
Total	**218**	**100**

Exploratory Factor Analysis

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.892
Bartlett's Test of Sphericity	Approx. Chi-Square	2643.163
	df	91
	Sig.	.000

"KMO and Bartlett's Test" was applied in which the KMO value found is .892, which is more than 0.6; hence it confirms the validity of the factor analysis.

Table 3: Total Variance Explained

Component	**Initial Eigenvalues**			**Rotation Sums of Squared Loadings**		
	Total	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
1	6.800	48.572	48.572	4.386	**31.325**	31.325
2	2.257	16.122	64.694	3.377	**24.124**	55.450
3	1.660	11.857	76.551	2.954	**21.102**	**76.551**
4	.708	5.059	81.610			
5	.515	3.676	85.287			
6	.422	3.016	88.303			
7	.360	2.574	90.877			
8	.320	2.283	93.160			
9	.260	1.858	95.018			
10	.217	1.553	96.571			
11	.202	1.444	98.014			
12	.125	.893	98.908			
13	.084	.600	99.508			
14	.069	.492	100.000			

It is found from table 3 that the 3 factors explain a total of 76% of the Variance. The 1st factor explains 31.325% of the Variance, followed by the 2nd Factor with 24.124% and the 3rd Factor having 21.102% of the Variance.

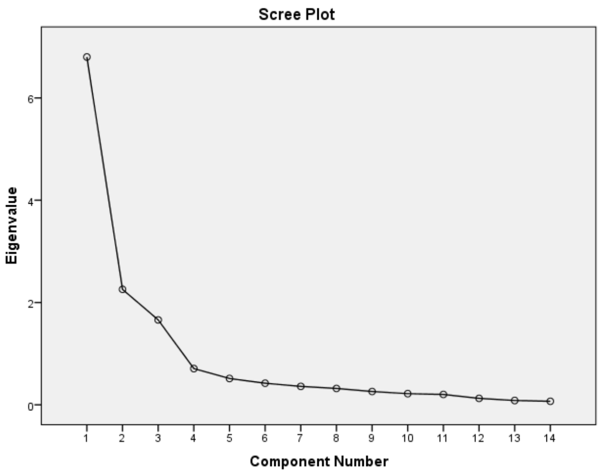

Figure 1: Scree plot

Table 4: Rotated Component Matrix

S. No.	**Challenges for Financing Startups in China**	**Factor Loading**	**Factor Reliability**
	Financial resources		**.952**
1.	SMEs in China are not able to get formal finances	.893	
2.	New startups in China have limited access to finance and credit	.891	
3.	Startups used to be funded by self or family	.873	
4.	SMEs face considerable hindrances to accessing finance from banks and other mediators	.868	
5.	Limited Government policies to support new startups	.804	

	Support system and workforce		**.878**
1.	Limited workforce and partners	.875	
2.	Shortage of support network system	.817	
3.	Lack of entrepreneurship ecosystem	.791	
4.	Lack of investors for financial support and backup	.728	
5.	Lack of skilled talents	.687	
	Knowledge and Experience		**.874**
1.	It is difficult to convince financial specialists and other investors, including banks, due to a lack of experience	.903	
2.	Lack of innovation and revenue generation strategies	.878	
3.	Lack of knowledge in building business models	.853	
4.	The education system is imperfect for entrepreneurship	.634	

Development of the Factors

The first factor is financial resources, which includes the variables that SMEs in China cannot obtain traditional financing, new startups in China have limited access to finance and credit, and startups used to be self- or family-funded. SMEs face significant obstacles when obtaining financing from banks and other intermediaries. The second factor, namely the Support system and workforce, Limited workforce and partners, Shortage of support network system, Shortage of entrepreneurial ecosystem, Shortage of investors for financial support and backing, and Shortage of trained skills. The third and final factor is Knowledge and Experience, which consists of variables such as It is difficult to persuade financial specialists and other investors, including banks, due to a lack of experience, Lack of innovation and revenue generation strategies, Lack of knowledge in constructing business models, and an inadequate education system for entrepreneurship.

Construct wise reliability of all the factors

The reliability of different factors is observed as the factor reliability of financial resources is 0.952, the Support system and workforce have 0.878, and Knowledge and Experience have 0.874-factor reliability.

Table 5: Reliability Statistics

Cronbach" s Alpha	N of Items
.910	14

It is found from table 5 that there are total 14 numbers of items that include all the variables related to challenges for financing startups in China, and the total reliability found is 0.910**.**

VI. CONCLUSION

According to the findings of the research, new businesses in China encounter a variety of obstacles. The lack of support and an entrepreneurial environment for new businesses is the primary obstacle that must be overcome. Some organizations function as incubators and accelerators in the majority of nations. These organizations provide cutting-edge advice to help new businesses succeed. The need for more finances and investors willing to put money into new enterprises is one of the most significant challenges new businesses must overcome. The ecosystem typically does not make direct investments in startup businesses; however, they provide a platform that connects investors and the founders of startup businesses. Using this platform, founders can persuade investors to invest in a startup business by presenting them with innovative business ideas. Those investors can then assist the startup business in operating and expanding in the market. According to the research findings, China's small and medium firms' credit ratings could be much higher. According to the survey findings, new enterprises in China are struggling to get off the ground because of a lack of available capital. This is having a significant impact on the ability of young people to become successful businesspeople and turn their ideas into reality.

According to the research findings, the problems associated with funding startups in China may be broken down into three categories: financial resources, support systems and workforces, and knowledge and experience.

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