Journal of Management and Research (JMR)

Volume 8 Issue 2, December 2021

ISSN$_{(P)}$: 2218-2705 ISSN$_{(E)}$: 2519-7924

Journal DOI: https://doi.org/10.29145/jmr

Issue DOI: https://doi.org/10.29145/jmr/82

Homepage: https://ojs.umt.edu.pk/index.php/jmr

Journal QR

Article: **Entrepreneurial Finance: Exploring the Drivers and Challenges Faced by Young Pakistani Entrepreneurs**

Author(s): Urooj Qamar, Nighat G Ansari, Shamaila Gull, Fatima Tanveer

Affiliation: University of Punjab, Lahore, Pakistan

Article QR

Urooj Qamar

Article DOI: https://doi.org/10.29145/jmr/82/02

Article History: Received: July 27, 2021
Revised: November 30, 2021
Accepted: December 01, 2021
Available Online: December 31, 2021

Indexing

Citation: Qamar, U., Ansari, N. G., & Tanveer, F. (2021). Entrepreneurial Finance: Exploring the Drivers and Challenges Faced by Young Pakistani Entrepreneurs. *Journal of Management and Research*, *8*(2), 33–61.

Estd. 1990

A publication of the
Dr Hassan Murad School of Management,
University of Management and Technology, Lahore, Pakistan

Entrepreneurial Finance: Exploring the Drivers and Challenges Faced by Young Pakistani Entrepreneurs

Urooj Qamar*, Nighat G Ansari, Shamaila Gull and Fatima Tanveer

University of Punjab, Lahore, Pakistan

Abstract

Within the last decade, the popularity of entrepreneurship rose exponentially all over the world; however, research in this field within the context of developing countries is still lacking. Generally speaking, accessibility and availability of financial support is one of the most significant factors affecting an entrepreneur's venture when it is in its initial stages. This is especially true in the case of developing countries such as Pakistan. For this reason, this study explored the drivers and challenges faced by Pakistani entrepreneurs regarding the access to and availability of financial support. Data was collected through 65 semi-structured interviews of budding Pakistani entrepreneurs until the saturation point was reached. Afterwards, the interviews were transcribed and imported to NVivo 12 plus, which was used to conduct a thematic analysis of the interviews. The major findings of the research revealed that entrepreneurs face many challenges with regards to the access and availability of financial support in Pakistan. Additionally, according to the respondents, the entrepreneurial journey in Pakistan is laden with challenges and has minimum drivers (opportunities available to the entrepreneurs). The respondents also expressed a lack of awareness and downright distrust of the government-sponsored financial support schemes.

***Keywords*:** finances, Pakistan, entrepreneurship

Introduction

Entrepreneurial finance has been an area of interest for both entrepreneurship researchers and financiers for years. This interest developed due to its importance in entrepreneurial business development, and from the need to understand and resolve the issues faces by entrepreneurs (Mustapha & Tlaty, 2018). It is also an area of interest for

*Corresponding Author: uroojqamar@ibitpu.edu.pk

policymakers, since they need to focus on the prosperity and economic wellbeing of their country to curb the pathos of unemployment. However, there is a lack of an in-depth contextual understanding of the influencers that impact an entrepreneur's journey (Baker & Welter, 2018; Grigore & Dragan, 2020). Businesses do not emerge in isolation, rather their growth relies on their interaction with the suppliers, customers, and financiers (Audretsch et al., 2019; Moore, 1993). For this reason, it is very important to explore the issues and opportunities available to entrepreneurs, since it will not only curb the challenges and address the loopholes in the present system, but would also improve the overall entrepreneurial ecosystem. Therefore, this study explored the role of entrepreneurial financing due to its importance in the entrepreneurial ecosystem, alongside the creativity, planning and implementation of the business (OECD, 2015). Thus, this study discussed the importance of finances in the entrepreneurial ecosystem and evaluated the challenges and drivers of Pakistani entrepreneurs in real-time through the qualitative interviewing method. It also analyzed and developed the themes from the collected responses in Nvivo 12 Plus, a qualitative software. In the last section, it discussed the recommendations needed for the improvement of the present entrepreneurial ecosystem.

Researchers of contemporary research gained a lot of interest in the field of entrepreneurship due to its documented influence on the wellbeing of a country, in terms of economic development, supporting self-employment, and generating jobs through small business initiatives. Furthermore, entrepreneurs as agents and entrepreneurship as an enterprise are considered viable drivers of economic growth, since they not only create new employment and job opportunities but also play a key role in the emergence of novel innovations, stimulating open competition in the market as well (Stoica et al., 2020).

Considering the academic influence of entrepreneurship, different authors and experts defined entrepreneurship in varied ways. Usually, it is concerned with starting a new business or the inception of a new venture. The person responsible for making such an organization is known as an entrepreneur and is defined as an individual that plays a pivotal role in opening a new firm (Hisrich et al., 2012).

One perspective of how entrepreneurs start a venture suggests that the process of entrepreneurship starts with recognition and evaluation of a business opportunity, which leads to the development of a business plan. The next step is determining the required vs helpful resources or critical vs complementary resources, and finally, the management of the resulting enterprise (Hisrich et al., 2012). Isenberg (2011), in his discussion on the Entrepreneurial Ecosystem (EE), reported that one of the very important factors that influence an entrepreneurs journey is the availability and access to finances. According to Brophy and Shulman (1992), the pursuit for capital at the initial level of growth as vital for entrepreneurs since it is needed for the development of their entrepreneurial business pursuit.

Literature Review

According to the financial school of thought, finance is considered an important pillar, since it is needed to start a new business or venture (Bellavitisa et al., 2017). Finances in entrepreneurship primarily means access and availability to financial opportunities for the entrepreneurs (Entrepreneurial Ecosystem Diagnostic Toolkit, 2013). There are several schools of thought and perspectives in entrepreneurship, but one of the most important sections with regards to finances / capital is the financial school of thought. The financial or capital school of thought in entrepreneurship emphasizes the significance of financial resources, which can be used to start and sustain small businesses or entrepreneurial ventures (Kuratko & Hodgetts, 2007). This school of thought focuses on the importance of finances and capital needed to kick-start and sustain an entrepreneurial business or venture. There are various types of financial avenues that could support new businesses. In this regard, Hwang states:

> Capital can be internal (self-financing) or external (from an outside source). It can also be public (e.g., government grants) or private (e.g., banks or investment firms). And some capital is institutional while other capital can be informal. External financing for entrepreneurs falls largely into debt and equity categories. Debt financing requires repayment, and equity financing is conditional on an ownership stake in the venture. Equity can be external (i.e., venture capital and angel financing) or inside (i.e., owner financing). (Hwang et al., 2019, p. 4).

According to Satalkina and Steiner (2020), financial support is important for new businesses since it helps them prosper and enjoy a high growth rate. The access and availability of finances are also important because they can scale up the business in a dynamic and competitive environment, giving it a competitive edge over other businesses. According to a report by Organisation for Economic Co-operation and Development (OECD) (2015), the constraints faced by small scale and new businesses as compared to big businesses, with regard to financial access and availability, are severe. Due to scarcity of financial avenues, investors are reluctant to spend on businesses at initial stages since it involves a high-risk factor. This scarcity represents a vital challenge that is faced by policymakers all over the world since these new and small businesses are eventually the vanguard for self-employment, job creation, and economic growth. Hence, it is crucial to explore the issues faced by small businesses. Findings of such a study would increase funding opportunities which, in turn, would facilitate investors. Their workings, in general, positively affect a country's economic growth, employment, and innovations (OECD, 2015). This is true especially in the case of developing countries (Neumann, 2020).

This study focused on understanding how new and young entrepreneurs in Pakistan deal with the lack of financial access and availability to initiate and manage their business ideas. Isenberg (2011) reported that indigenous and idiosyncratic context is very important to understand any entrepreneurial context under study. He claimed that:

> One of the implications of the entrepreneurship ecosystem strategy is that societies have no choice but to "cultivate their own." You cannot become Silicon Valley and should not even try; Silicon Valley could not even become itself today if it wanted to. Nor should you emulate Silicon Valley, despite the fact that there are 79 "siliconia" around the world. Growing your own requires time, effort and resources, as well as experimentation and learning until the right unique configurations evolve. Leaders cannot copy anyone else's model because no one can replicate someone else's ecosystem (p. 8, para. 1).

Though the research on challenges and drivers faced by new entrepreneurs with respect to of financial access and availability is adequate, there is a need to focus on the indigenous studies on EE elements, such as financial access and availability issues (Jolley & Pittaway, 2019). For this reason, this study explored the perspective of those entrepreneurs who are considered the focal point of EE and are being influenced by the entrepreneurial environment (Grigore & Dragan, 2020). Hence, it is a novel study as it investigates how young entrepreneurs fund their ventures. Being a baseline study, it may help policymakers in formulating the business friendly policies to curb the challenges faced by young businesses in their business journey with regard to financial access and availability.

Significance

The 21st century is an era of entrepreneurship (Baron, 2014). According to GEM (Global Entrepreneurship Monitor - an international project for promoting research in entrepreneurship that began in 1999), entrepreneurship is documented to have positive association with economic growth and job creation since it offers opportunities of self-employment. For this reason, countries all over the world are determined to promote entrepreneurship, including Pakistan (Khan, 2019; Javaid et al., 2020). However, one of the key challenges that entrepreneurs face is the lack of financial support, which not only hinders their initiative but also lowers their risk-taking ability (Elsafty et al., 2020). This study has significant policy implications since it highlights information needed by policymakers to facilitate financial support policies for entrepreneurs. Additionally, Pakistani policymakers can also utilize the highlighted information to promote entrepreneurship and increase economic development.

Research Question

1. What are the financial drivers or opportunities available to young entrepreneurs in order to facilitate them in the initial years of their venture creation in Pakistan?
2. What are the financial challenges or hurdles faced by the young entrepreneurs in the initial years of their venture creation in Pakistan?

Data Methodology

This study used a qualitative research methodology to conduct a *thematic analysis*, introduced by Braun and Clarke (2006), in order to gain an in-depth and enriched insight into the experiences and perceptions of entrepreneurs with respect to financial access and availability in their entrepreneurial journey. This type of methodology is considered appropriate when dealing with matters (Creswell, 2005) related to individual experiences (Nowell et al., 2017), in this case, the entrepreneurs. Data was collected through semi-structured interviews, which gave detailed information regarding entrepreneurs' experiences and perceptions. Then, this information was analyzed to understand the issues faced by entrepreneurs in detail.

The interpretivist research paradigm was utilized in this study within the framework of constructionism. This framework refers to the subjective meaning(s) individuals associate with respect to their interaction within a certain social context or experience (Creswell & Poth, 2016; Denzin & Lincoln, 2011; Neuman & Robson, 2014).

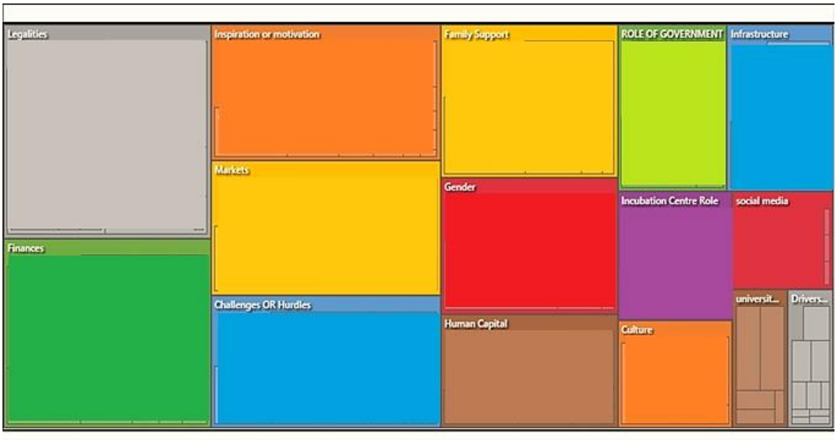
The study population comprised entrepreneurs who are in their initial years of venture. It aimed to identify the challenges faced by new businesses in various fields, such as information technology, food, fashion designing, and consultancy/training/education. The sample size of this study comprised 65 entrepreneurs and its data were collected until saturation point was achieved. Purposive sampling technique was employed to obtain information from entrepreneurs in their initial business years. According to Neuman (2014), purposive sampling is useful when a particular experience needs to be captured. Data processing was accomplished through *NVivo 12 Plus,* which is a qualitative research software. Additionally, Braun and Clarke's (2006) method of thematic analysis was used to conduct the data analysis. This method identified, organized, and described the data as well as the themes that emerged within the interview data set.

Data Analysis

The participants of the current research voiced the importance of finance since it is essential to start an entrepreneurial business. Since finance alone cannot kick-start a business, some entrepreneurs also talked about other factors affecting new businesses and ventures. A tree map (Figure 1) was established on the coding references of the interviewees. This map provides information about the overall factors in the environment that affected their entrepreneurial journey. The map shows that finance has a higher value than many other factors as can be seen by the larger sized box in Figure 1.

Figure 1

Tree Map Showing the Coding References of the Respondents about Various Elements of EE Including the Finance Component



In the context of this research study, majority of the entrepreneurs (40 out of 65) talked about utilizing their personal financial resources or savings to initiate their business ventures, and then investing the generated revenue or amount further into the business to sustain it. Bhide (1992) used the term 'bootstrapping' in Harvard Business Review and defined it as utilizing one's financial resources and investing the revenue generated on one's own business for its development and sustenance. The respondents of this study also preferred Bootstrapping to initiate their business ventures. Bootstrapping was also considered to be the most reliable and secure source of funding one's businesses by the majority of the respondents interviewed. Other sources of funding and borrowing are accompanied by stringent terms and conditions, interest, equity share in decision making, mortgage/security, the pressure and responsibility of returning the loan, unforeseen circumstances and situations, and high risk. These types of risks can be avoided or minimized by bootstrapping. In bootstrapping, the responsibility of loss would be borne by the entrepreneur only. The respondents also mentioned the challenges in getting the loans approved from the banks.

They also mentioned that finding investors or funders and getting the loans authorized and approved by the banks is an arduous process. The respondents also reported that that the credibility of the business venture builds up in the eyes of investors and funders when they start to gain profits. Entrepreneurs reported that accessibility of finance was one of the biggest challenges they had to face since it is very difficult to get approval for loans. To ensure that entrepreneurs return the loans, banks do not provide loans without a guarantor or security, which is very difficult for entrepreneurs to provide at the initial stages of their journey.

The following section entails the discussion on entrepreneurial finance in Pakistan and the drivers and challenges faced by the entrepreneurs interviewed for this study.

Drivers

Drivers denote the opportunities available to entrepreneurs with respect to financial access and availability, which, according to the financial school of thought, is considered a crucial prerequisite for initiating and setting up a business. The primary data of the study indicates that informal funding sources, such as bootstrapping and financial support from friends and family, are mostly preferred by the entrepreneurs. Furthermore, entrepreneurs interviewed for this study considered bootstrapping a reliable and manageable source of financial aid since it does not involve interest.

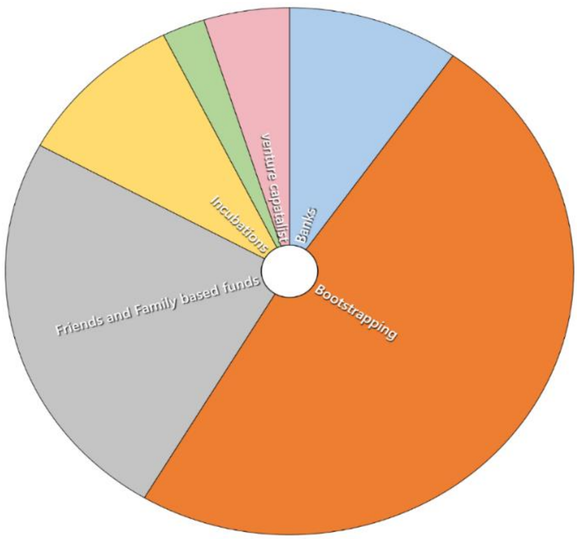
Keeping in view the entrepreneur's apprehensions about formal sources of funding, this study identified that informal sources of funding, such as founder's money (bootstrapping) and financial funding received from friends and family, to be more facilitative since they are interest-free and less restrictive. Hence, informal sources are considered to be a major driver for financial access and availability in Pakistan. It is further discussed below:

Bootstrapping and Family and Friends as a Source of Funding. As discussed earlier, majority of the entrepreneurs interviewed for this study expressed bootstrapping or financing from friends and family to be their preferred source of financial aid. This reflects a collectivist culture (Hofstede, 2011) and implies that family/society are important determinants for Pakistani entrepreneurs. According to the respondents, unlike formal institutions (banks and other government-sponsored programs), financial support from informal financial sources is quite easy, since it doesn't involve hefty procedures, documentations, and demands of investors. In this regard, one of the respondents of this study stated:

"I preferred my own savings and then funds from my family and friends… going for bank loans and other investors did not appear to be a wise decision as I did not want to go into hassle. Also, my business is in initial years I do not want to go into any interest on funds issue or stringent conditions of giving mortgages/security …". Another respondent added: *"… banks demand security/guarantors and at this stage of my business I do not feel I should take this risk of getting loans from the banks… if I have to take small loans, I rather prefer taking them from family or friends on interest free basis…".* Sunburst diagram for the most frequently used sources of funds as expressed by the entrepreneurs is exhibited in *Figure 2.* This sunburst diagram shows the informal sources (bootstrapping/family and friends) occupying the largest portion in comparison with partners, venture capitalists, help through incubation centers, and banks.

Figure 2

Sunburst Diagram Exhibiting Most Frequently used Funding Source by the Respondents of this Study



According to one participant of this study:

"...Initially I took money from my father and then later partners joined in on my business. I did not go to formal financial institutions or seek help from any investors or getting connected to a possible investor through incubation centers, because, I felt that they select 1 out of 100 who apply and my business would have been rejected as I have heard a lot of rejection stories, so, I did not bother wasting time there…(also, to avoid the risk of them becoming part of my business idea/equity)…". Another respondent also declared that he used informal sources, namely borrowing finances from friends and family, to initiate their business. They further invested the profits generated from their business on their business to sustain it. He stated:

"…I got initial investment from my father but when I started earning profits, I bootstrapped my business…" … "… it is one of safest way to finance one's business after one's own personal resources …".

Partnerships, Business Networking, and Investors. The respondents reported that partnerships and networking opportunities are another important source of funding and can be used to initiate businesses. They also mentioned that partnerships minimize the risk and divide the loss between the partners in case of uncertainty and unforeseen circumstances. In this regard, one respondent stated:

"…since we are three partners in this together, so along with the investment the risk also gets divided. We borrowed money from our parents or siblings. So, finance for us was not a major issue because we were in a partnership". Some of the respondents also reported that 'links (connections with business investors or networks)' are very fruitful for one's business, especially at the growth stage of the business; however, new business entrants lack the experience to have networks as their primary financial source. In this regard, one of the entrepreneurs stated:

"…though it is difficult to get investors funds opportunity as they have their own conditionalities including share in profits and decision making but at growth or expansion stage of the business, investors make (financial access) easier. Nevertheless, networking plays a huge role in it. One cannot really expand on the basis of bootstrapped savings or family / friends'

support alone at expansion stage of diversifying the business…". Some of the entrepreneurs also stated that financial advisors are also beneficial for new businesses. They act as a driving force and make the business prosper since their expertise can help the business expand at a higher growth stage. On this matter, one of the respondents stated that:

> *"… we have a very strong advisory board, especially financial advisor, he not only helps us in taking calculated risk but also helps us in tapping the networking opportunities … I think any company should have a very strong advisory board as they guide you towards profitable and sustainable business decisions … typically founders do not get the advisers, but I always say if you have 2 or 3 good advisers it is a great help in availing the beneficial prospects your business could have…".*

In Pakistan, angel investors and venture capitalist are increasingly becoming a popular source of contemporary financial support; however, many entrepreneurs are not aware of this type of assistance due to their lack of experience. In this regard, one of the respondents reported that:

> "*…finance is becoming relatively easier than before as there are certain international platforms to offer finances and also venture capitalist trend can also be seen … though not profusely …I somewhat feel now in Pakistan financial opportunities are increasing as compared to a decade ago… however, to avail these opportunities you need to have networks built that could help or guide you in availing these financial prospects…".*

Challenges

Entrepreneurial businesses face many developmental if stringent and tough terms are tied to the access of finances. For small scale new entrepreneurs, it is very difficult to fulfil the rigid terms and conditions. The following themes surfaced in the interviews of entrepreneurs with regards to the challenges associated with the access and availability of financial resources:

Lack of Awareness

By examining the interviews of the entrepreneurs, it was revealed that majority of the entrepreneurs were not even aware of the institutions or schemes established by the government to offer soft loans to small and medium scale businesses. A minority of entrepreneurs interviewed for this research applied in the government-sponsored schemes. Majority of the interviewed entrepreneurs were not even *aware* of any financial support program offered by the government, exhibiting a lack of proper marketing or communication of their programs to the relevant audience. The entrepreneurs who did apply or were aware of the government-supported schemes expressed that they had to face delayed response and go through several bureaucratic procedures. On the other hand, those entrepreneurs who applied in privately backed schemes stated that private institutions offered loans at a higher interest rate, but were more facilitating. Thus, the ease of access in applying for privately backed schemes as well as their quick response overweighed the low-interest rate offered by the government-supported schemes. In this regard, one respondent stated:

"It is about convenience ... take an example of doctor… like we have government hospitals where the doctors may be competent and fees may be very low or free treatment, yet I do not prefer them… it is because of their treatment towards me, delays in checkup, facilities etc.… I do not feel comfortable there….so, same is the case with government sponsored loans… take an example of National Bank of Pakistan (to avail government loan scheme)… If I take loan from government sponsored scheme their behavior and treatment is different than the private bank for example Standard Chartered Bank… though it gives loan at higher interest rate or demanding more security / guarantors than subsidized loans offered under government schemes, yet I prefer private institutions ... so much so if I call them (private bank), they would send their incumbent to my office so why to go for hassle?... it is about convenience, time saving and facilitation…".
Schemes offered by the government work at a languid pace and do not offer support as voiced by an entrepreneur:

> "*I applied at Kamyab Jawan Loan Program, it has been half a year I am not being intimated about any acceptance or rejection of my application. I think it is just a fashion and fad the way government portrays that they are doing something for self-employment or for promoting entrepreneurship. I am not hopeful. I am planning to take loan from family".*

The schemes offered by the government are available to entrepreneurs through government-affiliated banks. To receive funding from this scheme, the entrepreneur needs to fulfil the stated requirements, which consumes a lot of time. According to the respondents, if bootstrapping does not serve the need of their business, they would choose to take financial support from family and friends rather than the government. This sentiment was expressed by one respondent when he stated:

"…governmental financial help…it is difficult a process... I helped myself up by bootstrapping. From government as well as from banks there are lengthy procedures, and it takes a lot of time…I found it better to bootstrap or using friends and family funds". One more interviewee stated:

> "*See, businessman takes loan from a place where they feel convenient… if I feel convenient from private investors/ banks then I would take funds/loans from them… also, government never provide loans support directly… it is through banks they collaborate… in different schemes introduced at different times government team up with banks who provide the loans… so when you pass the initial screening process of government scheme which may have subsidized markups… banks ask you to fulfil their requirements too… so it is basically a lengthy and time consuming process…".*

Many entrepreneurs lack guidance and are unaware of the networking opportunities as well as contemporary financial support, such as venture capitalists and angel investors. On this matter, one respondent reported that:

"…Very few (entrepreneurs) get the opportunity of getting equity from venture capitalists… (as there is lack of awareness among public about such opportunities or facilities)". Additionally, contemporary financial assistance has networking issues and stringent conditions that need to be fulfilled in order to receive funding. These issues create many challenges for new and emerging businesses. In this regard, one of the entrepreneurs stated:

"… investors have their own conditions which suppresses the original idea of a new entrepreneur as conditions by investors demand share in equity as well as in profits and decision making". Entrepreneurs who received funding from incubation centers reported that investors rarely

accept an entrepreneurial idea, since they do not want to take high-risk projects. If they do accept the idea and offer funding, they ask for a large share of profits in return, which makes the offer unattractive for young and new entrepreneurs. In this regard one respondent stated:

> *"…you cannot entirely depend on venture capitalist as well as angel investors because they have their own terms as they demand a share in your business equity, business profits, share in board of directors which takes away from a new business their decision-making powers".*

Interest Based Loans

A large percentage of entrepreneur's stated that higher rate of interest (*riba/sood* in Urdu) inhibits entrepreneurial activity for small business owners. Additionally, loans with higher interest rates dissuade entrepreneurs with new businesses from benefiting from funding opportunities. On this matter, one of the interviewees stated:

"Our philosophy was to never borrow from banks or investors because we do not want to bear the burden of repayment of increased amount of loan with added interest on the money borrowed". In the same vein of thought another entrepreneur added:

> *"…we only use whatever money or savings or resources we have… we do not want to take loans… it over burdens you financially and it is a liability".*

In Islam, it is forbidden (*haram)* for Muslims to receive or accept interest *(riba/sood)*. For this reason, in Pakistan, entrepreneurs do not avail the financial support schemes offered by financial institutions or banks. According to an interviewee:

"… interest on money borrowed in many financial opportunities is a reason we do not avail those platforms… it is religiously wrong to go for interest based (financial) methods.". Another respondent added:

> *"…the philosophy my elders guide me on is to never borrow from the banks because interest is Haram (forbidden) in Islam. I never went to banks for financing due to this very reason".*

The respondents asserted that the government should offer '*interest-free'* loans to small businesses since this will ease the pressure to pay interest in the initial years of growth. These type of loans will also in accordance with their religious convictions. This sentiment was also expressed by a participant, who stated:

> *"Government needs to come up with mark-up free loans instead of these interest-based loans. They can demand the return faster, but markups are not the right way at least for us".*

Security/Guarantees on Loans

Although banks are an important method of requesting financial assistance and loan support, majority of the new entrepreneurs expressed that they were not in favour of bank schemed loans due to their religious binding or high rate of interest on money. On this matter, one respondent stated:

> *"I applied at Government Scheme of Kamyab Jawan, and my loan got approved in February 2020 after which I was connected with the bank… they did their evaluations/requirements needed of loan disbursement … security/mortgage was also required… but for a young business like me how can I spend over 1 lac in the process plus there is a need for a full-time person who keeps track of the application and provide bank with the required documents again and again"… "…for 3.2 million loan, I needed to submit 25% equity which is equal to 8 lac. Also, young business needs to submit property of 1.5 times the loan value. In my case it is 60 lac worth property. Most of the cases youth does not own the property, So third party mortgage is done, cost of third party mortgage deed is 3% (Stamp papers of 3%) of the sanctioned loan which in my case was 120,000 PKR, also young business has to pay for the mortgage fee which is also 3%, the total of that expense is over 2 Lac".*

A respondent of the study narrated his experience of applying for a business loan in the following words:

> *"… getting loans is a difficult task… I will narrate my experience… a bank incumbent called me to offer loan… I told him I need 10 million to invest in a business… since then he never called me back. Another thing*

is banks invest in such businesses that can generate gross margin of 25-30% approx. but a young business cannot start generating enough cash immediately. Banks are happier to provide you with personal loans as they see a smaller risk profile in these offerings. The banks offer credit facility to the established businesses who can pay it back and have a good credit history… that is why a new businesses should go for own funds or family funds in the beginning…".

Issues in Financial Access

During the thematic analysis of responses, we found that female entrepreneurs face more issues than their male counterparts. Not only do they face issues with financial access, investors and their families are also generally disinclined to invest in woman-owned businesses, as stated by one interviewee:

"Honestly, I do not think that people are willing to invest in you. When I needed–investment for my business no one other than my father and grandfather were willing to invest in me, but things improve after I made a name for myself. Now they are willing to invest". Few of the entrepreneurs expressed that in Pakistani society and culture, families save money to spend on dowry of their women, it is seen as a symbol of status in the less developed areas of Pakistan. Many families are hesitant to invest the saved money, especially in the case of female entrepreneurs. An entrepreneur voiced:

"… families rather prefer to spend on our dowry than on our business idea…". Another women respondent added:

"…my family clearly said they cannot invest in my idea as they have saved money for my dowry… I had to fight to change their mind and then they were willing to lend me money but that too half-heartedly and reluctantly…".

Discussion

Finances are considered the main pillar of entrepreneurship development. These financial resources can be obtained from one's own savings or other self-financing sources, such as family and friends. This form of financing is advantageous since its terms of conditions are less stringent and there are less restrictions imposed on the lent money. In comparison, external financing involves securing financial support from outside sources; however, it may be constrained by a limited time duration for debt repayment as well as obligatory equity sharing. Sources of external financing include government schemes, which involves written contracts and extensive documentation, whereas informal sources can be availed on easier terms. Entrepreneurial literature focuses on examining financial support through external sources, such as bank loan and government schemes; however contemporary literature addresses newer financial sources available to new businesses, such as crowd funding, angel funding, and venture capitalist investments (Bellavitis et al., 2017). According to the findings of this study, interviewed entrepreneurs preferred bootstrapping or borrowing from family and friends in the initial phases of their business ventures. It was also noted that contemporary sources of external financial support, such as angel funding, crowd investment, and venture capitalists, were not prevalent among the majority of the young entrepreneurs interviewed for this study. According to entrepreneurs, the lack of awareness was primarily due to insufficient networking opportunities and stringent access to external financial sources. Hence, it is concluded that despite having access to contemporary sources of financial support, many entrepreneurs preferred conventional debt sources. It was also noted that inaccessibility to financial support significantly hinders entrepreneurial intent for new entrepreneurs. Rather than focusing on developing their new business ventures, these entrepreneurs are more focused on acquiring financial support (Li et al., 2020). According to Khan et al. (2019) inaccessibility to financial capital is often stated to be one of the major obstacles for budding entrepreneurs. This study verified the presence of these challenges in the context of the Pakistani entrepreneurial environment.

Conclusion

In this study, self-financing (bootstrapping) was identified to be the most preferred form of financial capital by the respondents. Financial support from family and friends succeeded bootstrapping as the second most preferred form of financial capital. These preferences indicate the presence of a collectivist culture in Pakistan, which implies that family support is very important to achieve entrepreneurial success and a nonsupportive family could make the entrepreneurial journey (or even pursuit of starting a business) very difficult. Besides bootstrapping and the financial support obtained from friends and family, banks are also considered a secure way to obtain financial support**;** however, this method of financial support has several demerits including stringent formal procedures and high interest (*Riba/Sood* in Urdu) on the lent money. Contemporary financial support methods, such as crowdfunding and support from venture capitalists, are relatively less used by entrepreneurs because of insufficient networking opportunities and a lack of awareness and accessibility. Even though different government regimes introduced several financial support programs and schemes, the role of government was still observed to be less facilitative. Those entrepreneurs that did avail the aforementioned programs and schemes expressed that they had to face bureaucratic delays, tough procedures, lack of guidance, and extensive issues with documentation. Researcher also found an interesting, yet unintended, finding with respect to gender during the thematic analysis of the responses. It was observed that female entrepreneurs had to face more financial challenges since they owned fewer savings than their male equivalents. Moreover, it was also found that families were generally more willing to support male entrepreneurs than on female entrepreneurs. According to one respondent, female entrepreneurs do not receive financial support from their families because they find it more viable to invest in their dowry. On this matter, one respondent stated: "*…investing on woman's dowry for marriage is more worthwhile…*". Additionally, female entrepreneurs did not receive the same level of networking opportunities as compared to their male counterparts. They also had to face gender discrimination when pitching their business ideas to investors or the head of the family.

Recommendations

As the majority of the respondents claimed that they had to face bureaucratic delays when they tried to avail government offered financial support schemes, government-allied institutes and banks need to collaborate with each other and provide proper guidance to the aspirants, so they can easily avail such schemes. They also need to accelerate the response mechanism by creating a separate window or desk for these loans. An awareness campaign should also be held so that the aspirants are made aware of the planned purpose of such schemes. Alongside the aforementioned recommendations, the issue of interest *(Sood/Riba)* also needs to be dealt with by offering non-interest financial support, since interest is considered forbidden (*haram*) in Islam.

Limitations

Data was collected from a small pool of respondents consisting of young entrepreneurs only. Future researchers can develop a holistic perspective by including stakeholders and related government officials into the respondent pool, this would allow the findings to be broader and more concise. These findings can be used to improve access and availability of entrepreneurial finance.

This research gathered the primary data from the entrepreneurs that are in their initial business years to analyze the current drivers and challenges faced by them. Conversely, in future studies, an important comparison can be made by examining different stages of the entrepreneurial journey. This examination could highlight the challenges faced by and the facilities available to the established and new businesses. It could also aid policymakers in the formulation of more suitable financial policies.

References

Audretsch, D. B., Cunningham, J., K. D., Lehmann, E., & Menter, M. (2019). Entrepreneurial ecosystems: economic, technological, and societal impacts. *The Journal of Technology Transfer volume*, *44*, 313-325. https://doi.org/10.1007/s10961-018-9690-4

Baker, T., & Welter, F. (2018). Contextual Entrepreneurship: An Interdisciplinary Perspective. *Foundations and Trends® in Entrepreneurship, 14*(4), 357-426. http://dx.doi.org/10.1561/0300000078

Baron, R. (2014). *Essentials of Entrepreneurship: Evidence and Practice.* Edward Elgar Publishing.

Bellavitisa , C., Filatotchev, I., Kamuriwo, D. S., & Vanacker, T. (2017). Entrepreneurial finance: new frontiers of research and practice. *An International Journal of Entrepreneurial Finance, 19*(1-2), 1-16. https://doi.org/10.1080/13691066.2016.1259733

Bhide, A. (1992, November–December). *Bootstrap Finance: The Art of Start-ups*. https://hbr.org/1992/11/bootstrap-finance-the-art-of-start-ups

Boeije, H. (2010). *Analysis in Qualitative Research.* Sage Publications Ltd.

Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, *3*(2), 77-101. https://doi.org/1191/1478088706qp063oa

Brophy, D. J., & Shulman, J. M. (1992). A Financial Perspective on Entrepreneurship Research. *Entrepreneurship Theory and Practice, 16*(3), 61-72.

Colombelli, A., Krafft, J., & Vivarelli, M. (2016). To be born is not enough: The key role of innovative startups. *Small Business Economics. Springer*, *47*(2), 277-291. https://doi.org/10.1007/s11187-016-9716-y

Creswell, J. W. (2005). *Educational research: Planning, conducting, and evaluating quantitative and qualitative research.* (2nd ed.). Pearson Education, Inc.

Creswell, J. W., & Poth, C. N. (2016). *Qualitative inquiry and research design: Choosing among five approaches*. Sage Publications.

Denzin, N. K., & Lincoln, Y. S. (2011). *The Sage handbook of qualitative research.* Sage Publications.

Elsafty, A., Abadir, D., & Shaarawy, A. (2020). How Does the Entrepreneurs' Financial, Human, Social and Psychological Capitals Impact Entrepreneur's Success? *Business and Management Studies, 6*(3), 55-71. https://doi.org/10.11114/bms.v6i3.4980

Entrepreneurial Ecosystem Diagnostic Toolkit (2013). *Aspen Network of Development Entrepreneurs*. UK Aid.

Grigore, A.-M., & Dragan, I.-M. (2020). Towards Sustainable Entrepreneurial Ecosystems in a Transitional Economy: An Analysis of Two Romanian City-Regions through the Lens of Entrepreneurs. *Sustainabiltiy. MDPI.*, *12*(15), 1-21. https://doi.org/10.3390/su12156061

Hisrich, R., Peters, M., & Shepherd, D. (2012). *Entrepreneurship* (9th ed.). McGraw-Hill Higher Education.

Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in Context. *Online Readings in Psychology and Culture, 2*(1):1-12. https://doi.org/10.9707/2307-0919.1014

Husain, I. (2018). *Pakistan's Economy and Regional Challenges.* International Studies. SAGE Publications.

Hwang, V., Desai, S., & Baird, R. (2019). *Access to Capital for Entrepreneurs: Removing Barriers.* Ewing Marion Kauffman Foundation.

Isenberg, D. (2011). *The Entrepreneurship Ecosystem Strategy as a New Paradigm for Economic Policy: Principles for Cultivating Entrepreneurship.* The Babson Entrepreneurship Ecosystem Project.

Islam, N. (2004). Sifarish, Sycophants, Power and Collectivism: Administrative Culture in Pakistan. *International Review of Administrative Sciences, 70*(2), 311-330.

Javaid , O., Shamsi , A. F., & Hyder, I. (2020). Religious entrepreneurial communities as a solution for socioeconomic injustice. *Journal of Enterprising Communities: People and Places in the Global Economy, 14*(3), 415–446. https://doi.org/10.1108/JEC-03-2020-0023

Jolley, G. J., & Pittaway, L. (2019). Entrepreneurial ecosystems and public policy. *Journal of Entrepreneurship and Public Policy, 8*(3), 293-296.

Khan, S. (2019, October 15). *Don't look towards govt for jobs.* Dawn News. https://www.dawn.com/news/1510995/dont-look-towards-govt-for-jobs-fawad-chaudhry-tells-nation-in-a-u-turn

Kuratko, D. F., & Hodgetts, R. (2007). *Entrepreneurship; Theory, Process, Practice.* (7th ed.). SouthWestern Publishing.

Li, C., Ahmed, N., Qalati, S. A., Khan, A., & Naz, S. (2020). Role of Business Incubators as a Tool for Entrepreneurship Development: The Mediating and Moderating Role of Business Start-Up and Government Regulations. *Sustainabilty, MDPI., 12*(5), 1-23. https://doi.org/10.3390/su12051822

Moore, J. F. (1993). Predators and prey—A new ecology of competition. *Harvard Business Review*, *71*(3), 75-86.

Mustapha, A., & Tlaty, J. (2018). The entrepreneurial finance and the issue of funding startup companies. *European Scientific Journal*, *14*(13), 268-279.

Neuman, W. L. (2014). *Social Research Methods: Qualitative and Quantitative Approaches* (7th ed.). Pearson.

Neuman, W., & Robson, K. (2014). *Basics of social research* (3rd Canadian ed.). Pearson Publisher.

Neumann, T. (2020). The impact of entrepreneurship on economic, social and environmental welfare and its determinants: a systematic review. *Management Review Quarterly*, *71*(3), 553-584. https://doi.org/10.1007/s11301-020-00193-7

Nowell, L. S., Norris, J. M., White, D. E., & Moules, N. J. (2017). Thematic Analysis: Striving to Meet the Trustworthiness Criteria. *International Journal of Qualitative Methods*, *16*(1), 1-13. https://doi.org/10.1177/1609406917733847

OECD. (2012). *Gender Equality in Education, Employment and Entrepreneurship: Final report to the MCM*. Paris: Organisation for Economic Co-operation and Development.

OECD (2015). *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*. *Final report to the G20 Finance Ministers and Central Bank Governors*. Istanbul. Organisation for Economic Co-operation and Development.

Rajput, A. A. (2011). *Developing Entrepreneurial Model for Pakistani SMEs A case study on commercial fast-food SMEs* [Unpublished PhD Thesis]. Department of Management & Social Sciences, Mohammad Ali Jinnah University, Islamabad.

Satalkina, L., & Steiner, G. (2020). Digital Entrepreneurship and its Role in Innovation Systems: A Systematic Literature Review as a Basis for Future Research Avenues for Sustainable Transitions. *Sustainability. MDPI*, *12*(7), 1-28. https://doi.org/10.3390/su12072764

Stoica , O., Roman , A., & Dia, V. (2020). The Nexus between Entrepreneurship and Economic Growth: A Comparative Analysis on Groups of Countries. *MDPI. Sustainabilty*, *12*(3), 1-19. https://doi.org/10.3390/su12031186

Yunis, M. S., Hashim, H., & Anderson, A. R. (2019). Enablers and Constraints of Female Entrepreneurship in Khyber Pukhtunkhawa, Pakistan: Institutional and Feminist Perspectives. *Sustainability*. *MDPI*, *11*(1), 1-20. https://doi.org/10.3390/su11010027

Appendix

Table 1

Coding Chart

Core Code/ Major Theme	Sub Theme / Open Code	Descriptions / Excerpts
Drivers (opportunities available to the entrepreneurs for financial access and availability)	- *Bootstrapping and financial support from family and friends*	*"I preferred my own savings and then funds from my family and friends… going for bank loans and other investors did not appear to be a wise decision as I did not want to go into hassle. Also, my business is in initial years I do not want to go into any interest on funds issue or stringent conditions of giving mortgages / security …".* *"… banks demand security / guarantors and at this stage of my business I do not feel I should take this risk of getting loans from the banks… if I have to take small loans, I rather prefer taking them from family or friends on interest free basis…".* *"...Initially I took money from my father and then later partners joined in on my business. I did not go to formal financial institutions or seek help from any investors or getting connected to a possible investor through incubation centers, because, I felt that they select 1 out of 100 who apply and my business would have been rejected as I have heard a lot of rejection stories, so, I did not bother wasting time there…(also, to avoid the risk of them becoming part of my business idea/equity)…"* *"…I got initial investment from my father but when I started earning profits, I bootstrapped my business…" … "… it is one of safest way to finance one's business after one's own personal resources …".* *"…since we are three partners in this together, so along with the investment the risk also gets divided. We borrowed money from our parents or siblings. So, finance for us was not a major issue because we were in a partnership".* *"…though it is difficult to get investors funds opportunity as they have their own conditionalities*

	- Partnerships, business networking, and investors	*including share in profits and decision making but at growth or expansion stage of the business, investors make (financial access) easier. Nevertheless, networking plays a huge role in it. One cannot really expand on the basis of bootstrapped savings or family / friends' support alone at expansion stage of diversifying the business…".* *"… we have a very strong advisory board, especially financial advisor, he not only helps us in taking calculated risk but also helps us in tapping the networking opportunities … I think any company should have a very strong advisory board as they guide you towards profitable and sustainable business decisions … typically founders do not get the advisers, but I always say if you have 2 or 3 good advisers it is a great help in availing the beneficial prospects your business could have…".* "*…finance is becoming relatively easier than before as there are certain international platforms to offer finances and also venture capitalist trend can also be seen … though not profusely …I somewhat feel now in Pakistan financial opportunities are increasing as compared to a decade ago… however, to avail these opportunities you need to have networks built that could help or guide you in availing these financial prospects…".*
Challenges	- Lack of awareness	*"It is about convenience ... take an example of doctor… like we have government hospitals where the doctors may be competent and fees may be very low or free treatment, yet I do not prefer them… it is because of their treatment towards me, delays in checkup, facilities etc.… I do not feel comfortable there….so, same is the case with government sponsored loans… take an example of National Bank of Pakistan (to avail government loan scheme)… If I take loan from government sponsored scheme their behavior and treatment is different than the private bank for example Standard Chartered Bank… though it gives loan at higher interest rate or demanding more security /*

		guarantors than subsidized loans offered under government schemes, yet I prefer private institutions … so much so if I call them (private bank), they would send their incumbent to my office so why to go for hassle?... it is about convenience, time saving and facilitation…". "*I applied at Kamyab Jawan Loan Program, it has been half a year I am not being intimated about any acceptance or rejection of my application. I think it is just a fashion and fad the way government portrays that they are doing something for self-employment or for promoting entrepreneurship. I am not hopeful. I am planning to take loan from family".* *"…governmental financial help…it is difficult a process... I helped myself up by bootstrapping. From government as well as from banks there are lengthy procedures, and it takes a lot of time…I found it better to bootstrap or using friends and family funds".* "*See, businessman takes loan from a place where they feel convenient… if I feel convenient from private investors/ banks then I would take funds/loans from them… also, government never provide loans support directly… it is through banks they collaborate… in different schemes introduced at different times government team up with banks who provide the loans… so when you pass the initial screening process of government scheme which may have subsidized markups… banks ask you to fulfil their requirements too… so it is basically a lengthy and time consuming process…".* *"…Very few (entrepreneurs) get the opportunity of getting equity from venture capitalists… (as there is lack of awareness among public about such opportunities or facilities)".* *"… investors have their own conditions which suppresses the original idea of a new entrepreneur as conditions by investors demand share in equity as well as in profits and decision making".* *"…you cannot entirely depend on venture capitalist as well as angel investors because they*

	- Interest-based loans - Security/Guarantees on loans - Issues in financial access	*have their own terms as they demand a share in your business equity, business profits, share in board of directors which takes away from a new business their decision-making powers".* *"Our philosophy was to never borrow from banks or investors because we do not want to bear the burden of repayment of increased amount of loan with added interest on the money borrowed".* *"…we only use whatever money or savings or resources we have… we do not want to take loans… it over burdens you financially and it is a liability".* *"… interest on money borrowed in many financial opportunities is a reason we do not avail those platforms… it is religiously wrong to go for interest based (financial) methods".* *"…the philosophy my elders guide me on is to never borrow from the banks because interest is Haram (forbidden) in Islam. I never went to banks for financing due to this very reason".* *"Government needs to come up with mark-up free loans instead of these interest-based loans. They can demand the return faster, but markups are not the right way at least for us".* *"I applied at Government Scheme of Kamyab Jawan, and my loan got approved in February 2020 after which I was connected with the bank… they did their evaluations/requirements needed of loan disbursement … security/mortgage was also required… but for a young business like me how can I spend over 1 lac in the process plus there is a need for a full-time person who keeps track of the application and provide bank with the required documents again and again"… "…for 3.2 million loan, I needed to submit 25% equity which is equal to 8 lac. Also, young business needs to submit property of 1.5 times the loan value. In my case it is 60 lac worth property. Most of the cases youth does not own the property, So third party mortgage is done, cost of third party mortgage deed is 3% (Stamp papers of 3%) of the sanctioned loan which in my case was 120,000 PKR, also young business has to pay for the mortgage fee*

		which is also 3%, the total of that expense is over 2 Lac". *"… getting loans is a difficult task… I will narrate my experience… a bank incumbent called me to offer loan… I told him I need 10 million to invest in a business… since then he never called me back. Another thing is banks invest in such businesses that can generate gross margin of 25-30% approx. but a young business cannot start generating enough cash immediately. Banks are happier to provide you with personal loans as they see a smaller risk profile in these offerings. The banks offer credit facility to the established businesses who can pay it back and have a good credit history… that is why a new businesses should go for own funds or family funds in the beginning…".* *"Honestly, I do not think that people are willing to invest in you. When I needed-investment for my business no one other than my father and grandfather were willing to invest in me, but things improve after I made a name for myself. Now they are willing to invest".* *"… families rather prefer to spend on our dowry than on our business idea…".* *"…my family clearly said they cannot invest in my idea as they have saved money for my dowry… I had to fight to change their mind and then they were willing to lend me money but that too half-heartedly and reluctantly…".*