Factor Affecting Startups in Kathmandu

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Abstract

This study examines the factor affecting startups in Kathmandu. Growth rate of startup is the dependent variable. The selected independent variables are access to funding, regulatory environment, local market demand, entrepreneurial skills, and government support. The primary source of data is used to assess the opinions of respondents regarding access to funding, regulatory environment, local market demand, entrepreneurial skills, government support, and growth rate of startups. The study is based on the primary sources data of 130 respondents. To achieve the purpose of the study, structured questionnaire is prepared. The correlation and multiple regression models are estimated to test the significance and importance of factor affecting startup in Kathmandu.

The study showed a positive impact of access to funding on growth rate of startup. It indicates that access to funding for startup leads to increase in growth rate of startup. Similarly, the study showed a positive impact of regulatory environment on growth rate of startup. It indicates that supportive regulatory environment leads to increase in growth rate of startup. Likewise, the study showed a positive impact of local market demand on growth rate of startup. It indicates that higher the demand from local market leads to increase in growth rate of startup. In addition, the study also showed a positive impact of entrepreneurial skills on growth rate of startup. It indicates that better entrepreneurial skills lead to increase in growth rate of startup. Further, the study showed a positive impact of government support on growth rate of startup. It indicates that higher the government support, higher would be the growth rate of startup.

Keywords: access to funding, regulatory environment, local market demand, entrepreneurial skills, government support, growth rate of startup

1. Introduction

Every economic system has been figuring out methods to use young people's talents to launch new businesses during the past 15 years (Hitt and Reed, 2020). One approach for a community to retain its economic well-being is through business. Businesses that are successful in retaining their competitiveness have learnt to regard changes as a catalyst for a continuous process to meet client needs rather than as a past occurrence (Birdthistle, 2008). Entrepreneurial success is measured based on both financial and non-financial performance by an enterprise. Firm performance in financial term is measured as average sales and profit growth while the subjective measurement of nonfinancial performance are based on the entrepreneurs' perception of present business success, future growth, and profitability (Saha and Banerjee, 2015). Entrepreneurial success is defined as receiving financial returns and non-financial achievements from entrepreneurial activities (Gupta *et al.,* 2021). Entrepreneurial success has a relationship with the willingness to start a business and the identification of an opportunity (Kumar, 2007). Businesses are a vital component of every economy. Business create jobs and reduce the burden on many households. The number of launched Start-ups is

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very high and the number of start-ups that don't survive is highly correlated. Factors such as environment, social, technological, and political factors are known to be the most common factors that lead to the failure of most start-ups (Okrah and Nepp, 2018). The entrepreneurial readiness of young people has been evaluated using each of these methods. The fact that there are few study findings on youth entrepreneurial activities despite the fact that there is a significant demand from a variety of economic sectors raises concerns about the young participation in entrepreneurial activities despite such efforts (Hempel and Fiala, 2012). Numerous small and medium-sized businesses (SMEs) that have grown up in one nation might offer a good side that supports market diversification, fosters innovation, and creates a lot of work chances. Startup plays a vital role in firm performance in terms of financial, export performance, country's economic growth, and culture (Terjesen *et al.,* 2016). The role of entrepreneurship as a driver of economic growth and development has long been recognized as a key component for smart, sustainable, and inclusive growth (Batthini and Saxena, 2017).

Muathe *et al.* (2022) revealed that access to financing remains the biggest challenge for startups because of the risk associated with it, especially for early-stage startups. Similarly, Aslam and Hansu (2016) investigated the issue and constrains perceived by young entrepreneurs of Pakistan. The study showed that most of the MBA graduating students actually plan to launch their own business, but perception about different issues and constraints refrain them to enter into the entrepreneurial field. The study also showed that policies of government and country's environment effect entrepreneurship which further effects poverty reduction and economic development. Similarly, Amponsah and Ahmed (2017) examined the factors affecting entrepreneurship in emerging economies: a case of Dubai. The study indicated that the creation of entrepreneurial success required visionary leadership, government support for new businesses ventures, opportunities to create own destiny, opportunities to reap substantial profits and opportunity to contribute to society. Further, Mbonyane and Ladzani (2011) stated that business success is generally defined in terms of economic or financial communication, which includes return on assets, sales, profits, employee survival rates, and non-financial measures like customer satisfaction, individual development, and individual achievement. In addition, Rogoff *et al.* (2004) found that intrinsic criteria for business success include freedom and sovereignty, control over one's own prospects, and being independent and in charge; extrinsic variables include greater returns on investment, individual income, and wealth are involved. Moreover, Phuong and Quoc (2020) investigated the factors influencing students' startups intention-a case study at universities in Ho Chi Minh City. The study revealed that both general and task environment, as well as positive and negative attitudes directly and indirectly affected students' startup intention.

Ahmed *et al.* (2012) analyzed the young entrepreneurs in Dhaka: Reasons to be an entrepreneur and hurdles to overcome as an entrepreneur. The study identified that positive motivations such as independence, higher monetary return, creativity, etc. played major role to start their own business at younger age. The study also revealed that young entrepreneurs face several youth-specific problems in starting and doing their business such as, lack of access to capital and credit, lack of trust among supplier and customers, lack of family support, lack of experiences and skill, etc. Likewise, Sigh *et al*. (2020) explored the obstacles for startups in Bhutan: from prevented entrepreneurs' perspective. The study

found that lack of financial support and availability of required infrastructure is the major obstacle experienced by the startups. Further, Sharma and Ritu (2023) investigated the role of government schemes in supporting startups in India: A quantitative investigation. The study concluded that government schemes played a crucial role in promoting entrepreneurship and innovation in India.

In the context of Nepal, Chapagain (2022) examined the factors influencing the success of entrepreneurial ventures in Nepal. The study concluded that success of entrepreneurial ventures depends on availability of finance, training and education, and government policy and regulation. Similarly, Rijal *et al.* (2021) identified the five major issues that hindering start-ups were human capital, finance, support system, policy, and marketing. Likewise, Bist (2016) examined the accessibility of financial service for startup and growth company: in context of Nepalese SMEs. The study showed that commonly used financing sources startups and growing companies are found to be personal source, friends and family, BFIs, and BA and VCs. The study also revealed that many efforts have been made and policy have been formulated by government to support the startup and growing companies. Further, Karki (2013) stated that Government of Nepal has always emphasized encouraging the private sector to spend their money in the industrial sector in order to improve production volume and sales, as well as provide people with job possibilities. In addition, Pudasaini (2022) investigated the factors that influence business in Nepal. The study concluded that business leaders and consumers have no sufficient technical knowledge and the government has neither worked proactively with the private sector to advance online businesses nor universities and other educational institutions.

The above discussion shows that empirical evidences vary greatly across the studies on the Factor affecting startups. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the factor affecting startup in Kathmandu. Specifically, it examines the relationship of access to funding, regulatory environment, local market demand, entrepreneurial skills, and government support with growth rate of startup.

The remainder of this study is organized as follows: section two describes the sample, data, and methodology. Section three presents the empirical results and final section draws the conclusion.

2. Methodological aspects

The study is based on the primary data. The data were gathered from 130 respondents through questionnaire. The study employed convenience sampling method. The respondents' views were collected on access to funding, regulatory environment, local market demand, entrepreneurial skills, government support, and growth rate of startup. This study is based on descriptive as well as causal comparative research designs.

The model

The model used in this study assumes that growth rate of startup depends upon factor

affecting startup. The dependent variable selected for the study is growth rate of startup. Similarly, the selected independent variables are access to funding, regulatory environment, local market demand, entrepreneurial skills, and government support .Therefore, the model takes the following form:

Growth rate of startup = *f* (access to funding, regulatory environment, local market demand, entrepreneurial skills, and government support,).

More specifically,

$GRS = \beta_0 + \beta_1 AF + \beta_2 RE + \beta_3 LMD + \beta_4 ES + \beta_5 GS +$

Where,

GRS = Growth rate of startup

AF = Access to funding

RE = Regulatory environment

LMD = Local market demand

ES = Entrepreneurial skills

GS = Government support

Access to funding was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Availability of funding affect the ease of starting a business in Kathmandu valley", "Easy access of funding is important factor on the growth of startups in Kathmandu valley" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.749$).

Regulatory environment was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Regulatory environment of Kathmandu Metropolitan City is encouraging to startups", "Most of the startup's businesses run in Katmandu due to good and accessible regulatory environment" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.725$).

Local market demand was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Kathmandu valley is the hub of opportunities for start-ups", "Customer feedback impact the market demand of the product" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.791$).

Entrepreneurial skills was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Level of entrepreneurial skills determine the success of startups business", "Entrepreneurial skills of entrepreneurs most important for growth of startups in Kathmandu" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.764$).

Government support was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Government supports affect the starts, growth and success of startup business", "Government provides various subsidies programs to support the startups business in Nepal" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.747$).

Growth rate of startup was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Availability of funds is the one important factor of success of startups in Nepal", "Appropriate regulatory environment supports the growth/success of startups business" and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.773$).

The following section describes the independent variables used in this study along with the hypothesis formulation.

Access to funding

Access to funding refers to the ability of individuals, businesses, or organizations to secure financial resources or capital from various sources to support their projects, operations, or initiatives. Alpenidze *et al.* (2019) examined the key success factors for business incubators in Europe. The study showed that the availability and access to external financial resources, strong social and business networks, and internal strengths, including resources and capabilities has significantly and positively impact on the success of business incubators. Similarly, Kulkarni (2019) found that the start-up India program has helped to create a more favorable environment for start-ups in India by providing them with access to funding and other support services. The study also found that the program has helped to attract more investment to the Indian start-up ecosystem. Likewise, Nath (2010) analyzed the business angel investment in unorganized environment. The study revealed that the importance of angel investor when venture capitalists are shifting their focus to larger deals and investing in the businesses at later stage which has created a space for startup financing. Furthermore, Harel *et al.* (2020) explored the funding access and innovation in small businesses. The study found that, these businesses do not view lack of access to funding as a barrier to innovation for any of the four types of innovation: product, process, marketing, or organizational. The study also concluded that there is relationship between product and marketing levels of innovation and lack of access to external funding. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between access to funding and growth rate of startup.

Regulatory environment

The regulatory environment is the set of laws, rules, and taxes that businesses must follow. Similarly, Obaji and Olugu (2014) examined the role of government policy in entrepreneurship development. The study found that regulatory environment of government is in the lead of the establishment, sponsorship and administration of most support programmes especially in the developing countries, a proclamation from the government as it relates to entrepreneurship will go a long way to ensuring the sustainability and positive entrepreneurial

practice. Likewise, Akinyemi and Adejumo (2018) investigated the government policies and entrepreneurship phases in emerging economies: Nigeria and South Africa. The study showed that entrepreneurs, relevant stakeholders and policy makers need to take cognizance of the inherent effects of policies implemented on entrepreneurial activities from time to time. Furthermore, Peck *et al.* (2018) analyzed the regulation and growth oriented small business in north-west England. The study revealed that the acquisition of regulatory knowledge and environment particularly significant for growth oriented SMBS involved in relatively new emerging product markets.

H_2: There is a positive relationship between regulatory environment and growth rate of startup.

Local market demand

Market demand refers to the total quantity of a product or service that consumers are willing and able to purchase at a given price and time (Hasan *et al.,* 2017). Boateng *et al.* (2014) examined factors influencing the adoption of cloud computing by small and medium enterprises in developing economies. The study showed that the young people in rural areas cite risk, market opportunities, supports, capital, and skill shortages as the main barriers to their aspirations to start their own businesses. Similarly, Barth *et al.* (2011) reveled that during the financial crisis, SMEs frequently had insufficient finance and were susceptible to credit restrictions. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between local market demand and growth rate of startup.

Entrepreneurial skills

Lyons *et al.* (2019) analyzed the entrepreneurial skills and business performance of the company. The study revealed that there are three main types, includes, technical skills, managerial skills, and personal skills pay a significant role influencing business performance of a company. Likewise, Deshpande and Sethi (2014) examined the exposure differences in entrepreneurial attitudes of Indian university students. The study revealed that the first outcome of entrepreneurial education and training is positively related success of entrepreneurial venture. Furthermore, Sambo (2016) showed a positive correlation between the provision of entrepreneurship education and the development of youth entrepreneurship. Similarly, Ahmed *et al.* (2014) revealed that young entrepreneurs face several youth-specific problems in starting and doing their business such as, lack of access to capital and credit, lack of trust among supplier and customers, lack of family support, lack of experiences and skill, etc. Based on it, this study develops the following hypothesis:

H_4: There is a positive relationship between entrepreneurial skills and growth rate of startup.

Government supports

The support of the government also affects a company's ability to succeed. Through its guidelines, it can, on the one hand, offer an inviting and simpler environment for business operations, but, on the other hand, it can be a significant barrier to the development and expansion of firms. In the entrepreneurial economy, the state does not act as an entrepreneur; rather, it is responsible for defending every economic enterprise with all its legal authority (Bowale and Akinlo, 2012). Similarly, Garg and Gupta (2021) examined the Startups, and

the growing entrepreneurial ecosystem and concluded that there is positive relationship between government supports and business growth rate. Likewise, Kapur and Johnson (2021) examined an assessment of the government's program. The study founded that the process of applying for government support can be cumbersome, and start-ups may not have the necessary resources to navigate the bureaucratic system. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between government supports and growth rate of startup.

3. Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with mean and standard deviation has been computed and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficients matrix

This table presents Kendall's Tau correlation coefficients between dependent variable and independent variables. The correlation coefficients are based on 130 observations. The dependent variable is GRS (Growth rate of startup). The independent variables are AF (Access to funding), RE (Regulatory environment), LMD (Local market demand), ES (Entrepreneurial skills), and GS (Government support).

Variables	Mean	S. D.	GRS	AF	RE	LMD	ES	GS
SGR	3.875	0.568	1					
AF	3.846	0.574	0.455**	1				
RE	3.928	0.570	0.593**	0.412**	1			
LMD	4.049	0.575	0.483**	0.422**	0.577**	1		
ES	3.888	0.610	0.458**	0.364**	0.404**	0.469**	1	
GS	4.043	0.550	0.510**	0.454**	0.614**	0.614**	0.515**	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 1 shows that access to funding is positively correlated to growth rate of startup. It indicates that access to funding for startup leads to increase in growth rate of startup. Similarly, regulatory environment is positively correlated to growth rate of startup. It indicates that supportive regulatory environment leads to increase in growth rate of startup. Likewise, local market demand is positively correlated to growth rate of startup. It indicates that higher the demand from local market leads to increase in growth rate of startup. In addition, entrepreneurial skill is positively correlated to growth rate of startup. It indicates that better entrepreneurial skills lead to increase in growth rate of startup. Further, government support is positively correlated to growth rate of startup. It indicates that higher the government support, higher would be the growth rate of startup.

Regression analysis

Having indicated the Kendall's Tau correlation coefficients, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it shows

the regression results of access to funding, regulatory environment, local market demand, entrepreneurial skills and government support on growth rate of startup.

Table 2

Estimated regression results of access to funding, regulatory environment, local market demand, entrepreneurial skills, and government support on growth rate of startup

The results are based on 132 observations using linear regression model. The model $GRS = \beta_0 + \beta_1 AF + \beta_2 RE + \beta_3 LMD + \beta_4 ES + \beta_5 GS +$ where dependent variable is GRS (Growth rate of startup). The independent variables are AF (Access to funding), RE (Regulatory environment), LMD (Local market demand), ES (Entrepreneurial skills), and GS (Government support).

Model	Intercept	Regression coefficients of					Adj. R_bar^2	SEE	F-value
		AF	RE	LMD	ES	GS			
1	1.721 (6.538)**	0.599 (8.911)**					0.378	0.434	79.398
2	2.000 (7.288)**		0.531 (7.524)**				0.301	0.460	56.615
3	1.209 (5.379)**			0.721 (12.737)**			0.556	0.367	162.226
4	1.023 (4.723)**				0.746 (14.078)**		0.605	0.346	198.187
5	1.822 (7.505)**					0.571 (9.258)**	0.396	0.427	85.716
6	1.220 (4.340)**	0.436 (5.724)**	0.294 (3.901)**				0.440	0.412	51.715
7	0.718 (2.890)**	0.097 (1.208)	0.205 (3.136)**	0.550 (7.106)**			0.597	0.349	64.744
8	0.415 (1.833)	0.069 (0.965)	0.113 (1.894)	0.304 (3.797)**	0.427 (5.950)**		0.684	0.309	70.665
9	0.288 (1.289)	0.026 (0.367)	0.100 (1.727)	0.283 (3.636)**	0.370 (5.115)**	0.169 (3.008)**	0.703	0.200	61.983

Notes:

i. Figures in parenthesis are t-values.
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Growth rate of startup is dependent variable.

Table 2 show that the beta coefficients for access to funding are positive with growth rate of startup. It indicates that access to funding has a positive impact on growth rate of startup. This finding is consistent to the findings of Alpenidze *et al.* (2019). Similarly, the beta coefficients for regulatory environment are positive with growth of startup. It indicates that regulatory environment has a positive impact on growth are of startup. This finding is consistent with the findings of Akinyemi and Adejumo (2018). Likewise, the beta coefficients for local market demand are positive with growth rate of startup. It indicates that local market demand has a positive impact on growth rate of startup. This finding is consistent with the findings of Boateng *et al.* (2014). Further, the beta coefficients for entrepreneurial skills are positive with growth rate of startup. It indicates that entrepreneurial skills has a positive impact on growth rate of startup. This finding is consistent with the finding of Deshpande and Sethi (2014). In addition, the beta coefficients for government support are positive with growth rate of startup. It indicates that government support has a positive impact on growth rate of startup. This finding is consistent with the findings of Kapur and Johnson (2021).

4. Summary and conclusion

Businesses are a vital component of every economy. They create jobs and reduce

the burden on many households. The number of launched Start-ups is very high and the number of start-ups that don't survive is highly correlated. Factors such as environment, social, technological, and political factors are known to be the most common factors that lead to the failure of most start-ups.

This study attempts to examine the factor affecting startup in Kathmandu. The study is based on primary data of 130 respondents.

The major conclusion of this study is that access to funding, regulatory environment, local market demand, entrepreneurial skills and government support have positive impact on growth rate of startup. The study also concludes that entrepreneurial skills followed by local market demand is the most influencing factors that affects the growth rate of startups in Kathmandu.

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