

Evaluation the Tools of Financing in the Entrepreneurial Projects of Cooperation Sector (Empirical Study: Mazandaran Province)

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ABSTRACT: This study aims was to clarify the tools of financing in entrepreneurial projects of Cooperatives, Labour and Social Welfare administration, Mazandaran province, Iran. The study tool is a questionnaire based on the structural equation modelling (SEM). The sample study was includes the 125 admin of top and elite managers of Mazandaran province. We used SPSS and Lisrel software for data analysis. Results showed that personal capital and debt methods are dominant in financing of entrepreneurial projects in Mazandaran province, while an internal sources and shareholders' right (Shares) methods has not any use by managers. Capital resources and internal capital resources of financial tools are not used. Therefore, using this financing method, not only financial resources develop but also the risks of the financial resources decrease in the cooperative companies. The results showed that the use of personal savings and selling personal assets to finance the cooperative companies had the highest application rate.

Keywords: tools of financing, entrepreneurial, Cooperatives, Labour and Social Welfare administration, Mazandaran province.

INTRODUCTION

Terms of entrepreneurship has been undertake from Entreprenre that is a French word (Aghajani, 2005; Hezarjaribi, 2005) and has more than 150 years old. Recently, a new concept has been proposed as organizational entrepreneurship and it seems that this concept was first used in Sweden in 1970 (William, 2002). The best definition of entrepreneurship that can be offered is that entrepreneurship is: the innovation process is the use of opportunities with effort and persistence, along with financial risks, psychological and social, that course motivated by financial gain, success, ambition, personal satisfaction and independence (Hisrich, 2002). Due to the high mortality rate of new small businesses, financial institutions are less likely to lend or invest in them. Lack of enough capital to new businesses due to weak financial foundation, it will likely fail. Business start-up capital that entrepreneurs need to work perfectly with the risk, because invest in new businesses in exchange for access to the capital gains must be prepared to risk losing their entire investment (Bigdeloo, 2004). This is a subject that defines the importance and the necessity of present study.

Background

The first source that entrepreneurs refer to in order to supply the required funds for begetting enterprise is private capital. Apparently entrepreneurs have observed the advantages of self-sufficiency so that the most current source of supplying capital funds that is used for the small enterprises is supplied from the entrepreneurs' personal chest. For this group the calculations of risk and output do not have the first priority like other groups (Bigdelo, 2004). After

spending the personal funds, the entrepreneurs resorts to his/her friends and relatives that they may tend to invest in his/her enterprise because of their relations with the entrepreneur (Zimmerer, 1996). Randoy (2003) studied the financing through the personal capital against the financing through the capital (share) and came to this conclusion that the financing through the personal capital is more efficient. By a research in the entrepreneurial activities in Thailand, Paulson and et al (2003) come to this conclusion that the financial pressures play a main role in forming the pattern of entrepreneurship in Thailand. Risk families are more interested in creating enterprise and also investing in their enterprise, and face the financial pressures less. The financial pressures create more limitation for the entrepreneurial activities in the poor regions of southeast of Thailand in comparison with central developed regions. Wu (2006) studied the effects of family ownership and the management on the capital of SMEs in the United States. In this research he showed that the family ownership has a series of disadvantages in addition to advantages, and also found that the financing through family and financing through shares to the public influence on SMEs separately. These two categories of the financing influence the establishment's net asset separately. An enterprise has the capacity of creating capital by itself. This financing is available for every small corporation (Bigdelo, 2004). A small enterprise can supply its own required financing sources through the corporation's accounts receivable, credit card, retained earnings, and rent on the condition of possession (Zimmerer, 1996). In the posterior phases of the financing like growth phase, the corporation can also use the internal sources retained earnings for their own financing. This source can be known as one of the cheapest source of the financing that is used for supplying the long-term needs of the corporation. Some entrepreneur supplies their corporation by using the most convenient sources in case they despair of finding the financial sources in other place. This source is their personal credit cards. The entrepreneur should consider the annual phase more than any other source makes this source expensive and risky. Nevertheless some entrepreneur would not have any other choice before themselves (Zimmerer, 1996).

An investor becomes the owner of a corporation by financing through capital (share). In this method despite that risk is divided, its potential incomes are also divided. Some of the current of supplying capital through shares are referred below. Angels of enterprise is a term for the people who provide the primary risky and establishing corporations. The angels of enterprise fill the existing split of financing among the earned capitals through the private sources. And the phase that investors who take risk and tend to invest. An entrepreneur can elect a partner for expanding the proposed capital enterprise. There are two main kinds of partners that consist of: public partners that are responsible for the total debts of enterprise personally, and restricted partners, that their limited responsibility protects their assets from the corporation's creditor (Mariotti, 1994). In a research, Amit (1999) studied the entrepreneurship financing through the risky capital in Canada and concluded that the risky capital is more efficient than issuing the shares in the financing of entrepreneurial projects. In other research in the United States, Bradshaw (2006) has studied the relation between the financing activities and the return of corporations' capital in the future. He came to this conclusion that there is a negative relation between the establishment's exterior financing and the return of capital in the future. Shirasu and et al (2006) studied financing through general loan and private loan (bank's loan) was dealt with in Japan. They found that financing through general loan (the issue of share) and the bank's loan is in relation with the economic sway and when the economy is faced stagnancy, the economic establishments resort to the financing through the private loan (bank's loan). The other method of financing is through debt that included the funds that the owners of small enterprises have loaned and should repay them with interest. Although the loaned funds permit the entrepreneur to have the complete possession of the corporation, nonetheless he or she should undertake the created debt in the balance sheet and repay that along with the interest which belongs to that in the future. In additions to this, they should pay more interest because of more risk in the small enterprises. Nevertheless, the cost of financing through loan is often less than financing through shares. An entrepreneur who seek out financing through loan, face a widespread extent of credit choices (loan). The sources of financing through debt are divided into agencies, insurance companies, credit unions, bonds, state assistance, institutions of loan and deposit, commercial credit, suppliers of equipments, corporations of commercial financing, accounts payable, and commercial banks (Bigdelo, 2004). Campello (2005) studied the financing of SMEs through loan (debt) in the United States. He described the extravagance in the financing of SMEs through debt (loan) dangerous and knew this extravagance the cause of decrease in selling SMEs, while moderation and temperance in loan is related to the sale's profit. By a research in four countries of south-east of Asia, like Malaysia, Indonesia, Thailand and Korea, Driffield (2005) found the mean of mea of output in all kinds of the choices of the exterior financing is symmetrical and the output of long-term debts is more than short-term loans. Studying the methods of the entrepreneurship financing in the United States and weighing the entrepreneurship financing through bank (debt) against the risky capital, Brander and Bettignies (2006) came to this conclusion that the financing through bank is more efficient than capital.

In this study we assume sources of financing for entrepreneurs: Internal Sources, Personal Capital, Shareholders' Rights and Debt sources.

Hypothesis

First Hypothesis:

Using the personal capital is one the important methods of financing of entrepreneurial projects in Mazandaran province.

Second Hypothesis:

Using the internal sources is one the important methods of financing of entrepreneurial projects in Mazandaran province.

Third Hypothesis:

Using the debt (loan) is one the important methods of financing of entrepreneurial projects in Mazandaran province.

Fourth Hypothesis:

Using the shareholders' rights is one the important methods of financing of entrepreneurial projects in Mazandaran province.

MATERIALS AND METHODS

Methodology

Statistical samples are 125 people who are expert in financing of entrepreneurial projects (cooperation unit) establish at least one corporation throughout Mazandaran province so that they can be considered as an individual and independence entrepreneur (GEM, 2008). These people in spite of their different profession are considered equal considering that they are active in operating and continuing their own enterprise.

Data and Measurement Scale

There are four variants of financing consist of personal capital, internal sources, shares, and debt that measured by a questionnaire with standard components containing 34 questions on the scale of Likert with span (1-5) and by using the SPSS statistical software of one sample t test and Freidman tests and Lisrel software. In the first verbal reference, a planned questionnaire is offered the members of statistical sample and essential explanation is given to them, then in the second verbal reference some action are taken to collect them.

Validity

In order to validate the questionnaire of research, the research's thematic literature has been used through the procedure of extracting the components of measuring variants and the specialist ideas and a primary sample has been profited from.

Reliability

In order to determine the reliability of measuring tool there are different ways that one of them is the measurement of its internal harmony (Conca and et al, 2004). The internal harmony of measuring tool can be measured by the coefficient of Cronbach Alpha (Cronbach, 1951). This is a way that is applied in most research (Peterson, 1994). Although the least acceptable quantity for this coefficient must be 0.7 but 0.6 and even 0.55 are acceptable too (Van de ven and Ferry, 1997) (Nunnally, 1978). In this research the reliability of measuring tool was 0.70.

RESULTS AND DISCUSSION

Results

The first hypothesis tests:

Our results showed that personal capital is one the important methods of financing of entrepreneurial projects in Mazandaran province (Table 1).

Table 1

| Variable | N | SD | Mean differences | df | t | sig |
|------------------|-----|--------|------------------|-----|--------|-------|
| personal capital | 125 | 0.7315 | 1.584 | 124 | 24.207 | 0.000 |

The second hypothesis tests:

Our findings showed that internal sources is not one the important methods of financing of entrepreneurial projects in Mazandaran province (Table 2).

Table 2

| Variable | N | SD | Mean differences | df | t | sig |
|------------------|-----|-------|------------------|-----|---------|-------|
| internal sources | 125 | 0.349 | -1.776 | 124 | -56.895 | 0.123 |

The third hypothesis tests:

Our findings showed that the debt (loan) is one the important methods of financing of entrepreneurial projects in Mazandaran province (Table 3).

Table 3

| Variable | N | SD | Mean differences | df | t | sig |
|----------|-----|-------|------------------|-----|--------|-------|
| debt | 125 | 0.241 | 1.902 | 124 | 87.985 | 0.000 |

The fourth hypothesis tests:

Our findings showed that the shareholders' rights is not one the important methods of financing of entrepreneurial projects in Mazandaran province (Table 4).

Table 4

| Variable | N | SD | Mean differences | df | t | sig |
|----------------------|-----|-------|------------------|-----|---------|-------|
| shareholders' rights | 125 | 0.276 | -1.723 | 124 | -70.005 | 0.076 |

Ranking the use of personal capital:

Results showed a significance difference among items of personal capital at 95% confidence level (Table 5). Personal savings (5.26), personal asset sales (4.88) and use the funds received family (3.80) variables have highest score for personal capital, respectively (Table 6).

Table 5

| N | df | X ² | Sig |
|-----|----|----------------|-------|
| 125 | 5 | 24.34 | 0.000 |

Table 6

| Personal capital | Mean score | Rank |
|--|------------|------|
| Use of personal savings | 5.26 | 1 |
| Use the funds received family | 3.8 | 3 |
| Use the funds received friends | 2.25 | 5 |
| Use the funds received Acquaintances and relatives | 2.04 | 6 |
| Personal asset sales | 4.88 | 2 |
| Family asset sales | 2.78 | 4 |

Ranking the use of internal sources:

Results showed a significance difference among items of internal sources at 95% confidence level (Table 7). Decreases in working capital, Rent acquisition condition variables have highest score for internal sources, respectively (Table 8).

Table 7

| N | df | X ² | Sig |
|-----|----|----------------|-------|
| 125 | 3 | 31.375 | 0.000 |

Table 8

| internal sources | Mean score | Rank |
|------------------------------|------------|------|
| Sale of accounts receivable | 2.9 | 3 |
| Rent acquisition condition | 3.11 | 2 |
| Retained Earnings | 2.9 | 3 |
| Decreases in working capital | 3.32 | 1 |
| Credit Card | 2.77 | 4 |

Ranking the use of shareholders' rights

Results showed a significance difference among items of shareholders' rights at 95% confidence level (Table 9). Members Investment and Loan asset-backed variables have highest score for internal sources, respectively (Table 10).

Table 9

| N | df | X ² | Sig |
|-----|----|----------------|-------|
| 125 | 5 | 287.683 | 0.000 |

Table 10

| shareholders' rights | Mean score | Rank |
|---|------------|------|
| Business angel's | 4.06 | 2 |
| Release in the stock market | 2.87 | 5 |
| Out of stock shares offering | 2.85 | 6 |
| Financial resources of companies at investment risk | 2.89 | 4 |
| Investment fund risk | 2.9 | 3 |
| Members Investment | 5.42 | 1 |

Ranking the use of shareholders' rights

Results showed a significance difference among items of shareholders' rights at 95% confidence level (Table 9). Medium and long term loans to commercial banks and Business angel's variables have highest score for internal sources, respectively (Table 10).

Table 11

| N | df | X ² | Sig |
|-----|----|----------------|-------|
| 125 | 17 | 195.748 | 0.000 |

Table 112

| debt (loan) | Mean score | Rank |
|--|------------|------|
| Resource Brokers | 6.1 | 16 |
| Sources of Insurance Companies | 6.03 | 18 |
| Credit Unions | 7.12 | 12 |
| Spread-sheets loan | 6.07 | 17 |
| Government assistance | 8.57 | 10 |
| Loans and Savings Institutions | 11.39 | 6 |
| Loan asset-backed | 15.2 | 2 |
| Considered commercial | 8.6 | 9 |
| Facilities, equipment suppliers | 11.92 | 4 |
| Commercial finance companies | 6.38 | 15 |
| Accounts payable | 9.83 | 7 |
| Short-term loans to commercial banks | 13.87 | 3 |
| Medium and long term loans to commercial banks | 16.61 | 1 |
| Loan | 8.33 | 11 |
| Installment sale | 9.51 | 8 |
| Chrid debt facilities | 7.04 | 13 |
| Bank guarantee | 11.52 | 5 |
| Lines of credit and letters of credit | 6.92 | 14 |

Discussion and Conclusion

The results of this research indicate that among the four methods of financing of entrepreneurial projects, the method of the debt and personal capital (shareholder's rights) are used less. According to this, it is necessary that some innovations be done in this matter and other various methods of the financing be attended. Since one of the most important problems and disturbances of the entrepreneurs in the modern society of Iran is the financial sources. As it has been referred to in the former paragraphs, an extensive spectrum of the sources of financing is available for the entrepreneurs that have been classified in different forms. Deakins and Freel (2003) divided the financing sources of entrepreneurial corporations into two internal and external classes, the financial corporation "Emko" into three classes of the sources of shares (shareholders' rights), the sources of debt (loan) and other sources (Owen, 1990), Cardullo (1999) into formal and informal sources, Lupke and Cecd (2003) into six groups of personal validity, angels of enterprise, banks and crediting unions, state assistance, financial and crediting institutes, and private risky capital. Amit (1999) referred to the financing through the risky capital against the financing through the capital (the issues of shares) and Johnson (2005) to the self-financing. In addition to the different divisions through the method supplying of the financial source, the efficiency of different methods compared with each other has been studied and

analyzed. Randy and Goel (2003) studied the financing through personal financial sources against the financing through capital (share) and came to this conclusion that the financing through personal is more efficient. Campello (2005) described the extravagance in the financing of SMEs dangerous, and found this extravagance the cause of decrease in selling SMEs. In south of Asia, Driffield (2005) compared the exterior financial sources with the personal financing in the entrepreneurs' financing and didn't know their output legal and announced that casually. Brander (2006) has measured the entrepreneurship financing through bank (debt) against the risky capital and came to this conclusion that the financial supply through bank is more efficient than the financing through risky capital. Shirasu and Xu (2006) evaluated the financing through bank (debt) and the financing through capital (the issue of shares) and came to this conclusion that these two methods of the financing relate to the economic cycles. Bradshaw (2006) found that the establishment's exterior financing has a negative relation with the return of capital. Wu (2006) has evaluated the personal financing and the financing through capital and believes that the financing through personal capital is more efficient.

Regarding the presented documentaries in the text of this essay the below matters can be presented as some offers in order to do the future research in relation with the subject of the present essay:

Recognizing and grading the effective factors on the methods of the financing in the entrepreneurial projects.
Explaining the variety in the methods of the financing in the entrepreneurial projects.

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