

# **The Impact of Funding Source on Startup Growth, Decision Making and Sustainability: Evidence from Indian Founders**

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## **Abstract**

Startups are widely recognised as critical engines of innovation, employment generation, and economic growth, yet their survival and scalability are fundamentally contingent upon access to appropriate, timely, and well-structured funding. This study investigates how different funding sources, bootstrapping, friends-and-family networks, bank and NBFC loans, angel investment, venture capital, government schemes, and crowdfunding, shape startup growth trajectories, operational decision-making, and long-term sustainability. Drawing on primary data collected from 71 startup founders across varied sectors and geographic tiers in India, the findings reveal that over 80 per cent of respondents rely on informal or self-generated funds, largely due to limited awareness of alternatives, complex regulatory procedures, fear of equity dilution, and regional disparities in investor network availability. The study further demonstrates that funding alone does not determine startup success; non-financial factors including founder capability, strategic planning, mentorship access, and prevailing market conditions are equally decisive. The paper concludes with actionable recommendations for entrepreneurs, investors, and policymakers aimed at fostering a more inclusive, knowledge-driven, and mentor-integrated startup financing ecosystem.

**Keywords:** Startup Financing, Bootstrapping, Venture Capital, Angel Investment, Entrepreneurial Ecosystem, Funding Awareness, India, Tier-2/3 Cities

**JEL Classification:** G24, L26, O16

## **Introduction**

Entrepreneurship and new venture creation have become central to the discourse on sustainable economic development, particularly in emerging economies such as India. Startups introduce disruptive products and services, generate employment, and catalyse structural transformation across industries. Yet, the journey from ideation to viability is fraught with operational, strategic, and financial challenges, of which securing appropriate funding stands out as one of the most consequential. Without adequate capitalisation, even well-conceived ventures struggle to transition from concept to market.

The landscape of startup financing has evolved considerably over the past two decades. Alongside conventional instruments such as personal savings, family loans, and bank credit, a richer portfolio of options now exists: angel investment, venture capital, government-backed grant programmes, incubator and accelerator support, and technology-enabled crowdfunding platforms. This proliferation of alternatives, however, has not translated uniformly into improved access. Entrepreneurs in Tier-2, Tier-3, and rural areas continue to confront structural barriers, limited investor networks, information asymmetry, weak institutional infrastructure, and low financial literacy, that effectively constrain their financing choices to informal, often insufficient channels.

The nature of funding secured at different stages of a startup's lifecycle has profound implications for its strategic autonomy, growth potential, and survival probability. Equity financing, for instance, typically brings not only capital but also mentorship, market networks, and enhanced credibility, while excessive debt may impose repayment burdens that constrain operational flexibility. Understanding how founders perceive and navigate these trade-offs is essential for designing effective support ecosystems.

Despite a growing body of literature on startup financing, empirical studies drawing on primary data from founders, particularly those operating outside major metropolitan hubs, remain relatively scarce. Most existing research either focuses on investor-side perspectives or relies on secondary datasets that inadequately

capture the nuanced lived experiences of early-stage entrepreneurs. This study addresses that gap by presenting findings from a structured survey of 71 startup founders across India, offering a founder-centric, regionally inclusive view of how funding sources shape entrepreneurial behaviour and outcomes.

### **Literature Review**

The academic literature on startup financing has expanded substantially in recent decades, drawing on evidence from both developed and emerging economies to examine how capital structure choices influence venture performance, survival, and innovation. The foundational work of Cassar (2004) established that firm characteristics, such as size, asset tangibility, and growth potential, systematically shape the financing decisions of new ventures, with internal funds and owner equity dominating at inception due to the well-documented barriers of information asymmetry and collateral constraints. Similarly, Klacmer Calopa, Horvat, and Lalic (2014) demonstrated that early-stage firms across transition economies rely heavily on personal savings and informal networks, a finding echoed by Gutterman (2011) in the North American context.

The role of venture capital in accelerating startup growth has been extensively documented. Davila, Foster, and Gupta (2003) provided compelling evidence that venture-backed firms exhibit significantly higher employment growth rates compared to non-venture-backed peers, while Jeong, Kim, and Kim (2020) linked VC involvement to sustainable performance improvements. Nanda and Rhodes-Kropf (2013) further showed that investment cycles modulate startup innovation output, with periods of abundant capital associated with greater experimentation and risk-taking. In the Indian context, Majumdar and Mittal (2023) traced the evolution of the domestic venture capital industry and its selective concentration in metropolitan technology clusters, while Ghosh (2021) examined the macroeconomic and institutional factors that shape investment sentiment toward Indian startups.

Angel investment represents an intermediate mechanism between informal bootstrapping and institutional venture capital. Lange (2024) conducted a systematic review confirming that business angels provide not only financial capital but also strategic guidance, industry networks, and legitimacy signals that improve the odds of subsequent funding rounds. Usha and Kharvi (2019) examined value drivers of angel-backed startups specifically in Bangalore, identifying founder track record and market size as the most influential criteria in investment decisions.

Alternative financing mechanisms have attracted increasing scholarly attention. Mohan and V. (2025) analysed the transformative potential of crowdfunding in India, noting that reward-based and equity crowdfunding platforms are expanding access to capital for consumer-facing ventures that might not meet conventional investor criteria. Butler, Galassi, and Ruffo (2017) evaluated public funding programmes for startups in Argentina, finding positive impacts on employment and productivity but cautioning against inefficiencies arising from poor targeting. Guan and Jin (2020) examined incubator-based funding in China, demonstrating that the type of funding, public versus private, differentially influences innovation output.

Regional and demographic disparities in funding access constitute a recurring theme in the literature. Robb and Morelix (2016) documented significant racial funding gaps in the United States, while Goudriaan (2018) compared startup financing environments in Amsterdam and Stockholm, highlighting how ecosystem density affects capital availability. In India, Chaudhury, Panigrahi, and Gaur (2019) found that innovative early-stage firms outside metropolitan centres face compounded disadvantages due to weak institutional presence and limited investor visibility. The literature thus consistently underscores that funding access is not merely a function of business quality but of geography, demography, and ecosystem maturity.

Several studies emphasise the criticality of non-financial factors in mediating the relationship between funding and performance. Nigam, Mbarek, and Boughanmi (2021) demonstrated that intellectual capital, encompassing human, structural, and relational capital, moderates the effectiveness of different financing instruments, particularly for knowledge-intensive ventures. Lee and Zhang (2011) provided longitudinal evidence that financial capital at founding significantly predicts survival probability, but that the marginal effect diminishes as operational capability and market learning accumulate. Rita et al. (2018) constructed a funding-performance

matrix for Indonesian MSMEs, reinforcing the view that funding type must be matched to the firm's developmental stage and strategic orientation.

Taken together, the extant literature provides a robust theoretical and empirical foundation, yet important gaps remain. Studies relying primarily on secondary data, investor viewpoints, or large metropolitan samples leave the perspectives of early-stage founders in smaller cities underrepresented. Cross-sectoral comparisons in the Indian context are limited, and the interaction between funding source, founder characteristics, and non-financial challenges remains underexplored. The present study seeks to address these lacunae through a primary, founder-centric survey research design.

## **Research Methodology**

### **Research Objectives**

The study pursues four inter-related objectives:

1. To identify the key funding sources utilised by startups at different stages of their development lifecycle.
2. To examine the impact of different funding sources on growth trajectories, operational decision-making, and long-term sustainability.
3. To analyse the structural, informational, and behavioural barriers that founders encounter when seeking external capital.
4. To assess entrepreneurs' awareness of the full range of available funding options and explore regional and sectoral variations in this awareness.

### **Research Design and Data Collection**

The study employs a descriptive, cross-sectional research design, combining primary survey data with secondary evidence drawn from the academic literature, government policy documents, and industry reports. Primary data were collected through a structured, self-administered questionnaire distributed to startup founders across India between October and December 2024. The questionnaire comprised closed-ended items covering founder background, startup characteristics (sector, stage, geography), funding history and amounts raised, fundraising challenges, equity dilution, and awareness of funding options. A five-point Likert scale was used to capture perceptions of difficulty and the importance of various fundraising factors.

Sampling followed a purposive and snowball approach, targeting active startup founders identified through incubator networks, entrepreneur communities, and professional platforms. A total of 71 complete and valid responses were obtained, with no missing data recorded after data cleaning. The sample spans startups at the idea/pre-revenue, early growth, and scaling stages, located across Tier-1, Tier-2, Tier-3, and rural locations in India.

### **Analytical Approach**

Data were analysed using descriptive statistics, frequency and percentage distributions, and cross-tabulation to identify patterns across sectors, geographies, and startup stages. Visual representations, bar charts and summary tables, were used to communicate trends. It is acknowledged that the self-reported nature of responses and the non-probabilistic sampling approach introduce potential response and selection biases that limit the generalisability of findings. External macroeconomic factors influencing performance are not fully captured within this analytical framework. The study is best interpreted as exploratory and directional rather than conclusive.

## **Findings and Discussion**

### **Founder and Startup Profile**

The sample predominantly reflects early-stage, inexperienced founders operating in urban, digitally oriented ecosystems. A substantial majority of respondents (74.6%) reported fewer than three years of entrepreneurial experience, with 39.4% having less than one year. Experienced founders with more than seven years of prior entrepreneurship constituted a minor fraction. This distribution is consistent with India's current startup wave, which has seen a surge of first-generation entrepreneurs entering the market since the mid-2010s.

The failure experience of the sample is limited: 78.9% reported no prior startup failure, 18.3% had experienced one failure, and only 2.8% reported two failures. While this may partly reflect the youthfulness of the cohort, it also suggests that survival learning through iterative failure, a well-documented pathway to entrepreneurial success, remains relatively uncommon in the sample.

Sectoral distribution is skewed toward digital commerce: e-commerce and marketplace ventures account for 47.9 per cent of respondents, followed by Technology/IT/Software (16.9%), Manufacturing (9.9%), and Agriculture (9.9%). Fintech (5.6%), Food Tech (4.2%), EdTech (2.8%), and Healthcare/Biotech (1.4%) constitute smaller shares. Geographically, 66.2% of startups are headquartered in Tier-1 cities, with Tier-2 (9.9%), Tier-3 (8.5%), and rural areas (15.5%) representing minority shares. The overrepresentation of Tier-1, digitally oriented startups is an important interpretive caveat.

In terms of development stage, 67.6 per cent of respondents are at the idea or pre-revenue stage, 23.9 per cent are in the scaling or expansion phase, and only 8.5 per cent are at the growth stage. This strongly early-stage composition shapes the funding patterns observed throughout the study. Notably, 80.3 per cent reported not having altered their business model due to financial constraints, while 19.8 per cent experienced at least one funding-induced pivot, a finding that underscores the strategic consequences of capital scarcity for a non-trivial minority of founders.

### **Funding History and Primary Funding Sources**

A critical finding of the study is that 57.7 per cent of respondents have not raised any external funding, indicating a strong and pervasive reliance on internal resources. Among those who have secured external capital, the amounts raised are predominantly modest: 18.3 per cent secured less than ₹10 lakhs, and 21.1 per cent raised between ₹10 lakhs and ₹1 crore. Participation in large funding rounds is marginal, only 1.4 per cent raised between ₹1 and ₹5 crores, and an equivalent proportion raised more than ₹25 crores.

Bootstrapping is the single most common primary funding source, reported by 50.7 per cent of respondents. When combined with funding from friends and family (29.6%), over 80 per cent of the sample rely exclusively on informal, personal networks for their capital needs. Formal institutional channels remain peripheral: bank and NBFC loans account for 12.7 per cent of primary funding, and angel investment for just 7 per cent. Venture capital, government grants, and crowdfunding represent negligible primary funding shares. This distribution reflects a significant access gap between the formal startup financing ecosystem, extensively covered in media and policy discourse, and the everyday reality of Indian founders, particularly those outside major technology hubs.

### **Fundraising Difficulty and Ecosystem Dynamics**

Across all stages, fundraising is perceived as moderately to highly difficult. At the pre-seed stage, 57.7 per cent of founders rated the process as moderately difficult, with 21.1 per cent characterising it as difficult or extremely difficult. Perceived difficulty intensifies at later stages: at the seed stage, 35.2 per cent found fundraising difficult or extremely difficult, rising to approximately one-third of respondents at both the early growth and expansion/scaling stages. Overall, nearly one quarter of all respondents described fundraising across all stages as highly difficult.

The persistence required to secure funding is striking. Over three-quarters of respondents (62.0%) reported approaching between 16 and 30 investors before securing a commitment, and 14.1 per cent contacted

more than 30 investors. Only 1.4 per cent secured funding after approaching five or fewer investors. This pattern confirms the competitive and relationship-intensive nature of the Indian startup funding environment, and reinforces why bootstrapping and informal networks remain the pragmatic default for most early-stage founders.

Team composition is widely acknowledged as a critical fundraising determinant: over 63% rated it as highly or extremely important, consistent with investor literature indicating that the capability and complementarity of the founding team often outweigh product or market factors in early-stage evaluation. Market size and scalability also emerged as high-importance criteria (nearly 60 per cent rated market size as highly important), while startup location was viewed as contextual rather than decisive, 40 per cent rated geography as of low importance, suggesting that digital distribution models are partly attenuating geographic bias in investor evaluation.

### **Non-Financial Challenges**

The study reveals that operational and strategic challenges are at least as consequential as financial ones for the sampled founders. Achieving product-market fit is a major obstacle: 36.6 per cent reported requiring major pivots, 21.1 per cent needed multiple iterations, and 16.9% are still struggling to find market alignment. Taken together, nearly three-quarters of respondents characterised product-market fit as an ongoing iterative challenge rather than a resolved milestone. This has direct funding implications, since demonstrated traction is widely cited as an investor prerequisite.

Competitive dynamics are experienced as moderately intense: 63.4 per cent characterise competition as healthy and innovation-stimulating, while 16.9 per cent face severe rivalry requiring strategic repositioning. On the regulatory front, complex licensing and permit procedures are the most cited hurdle (38 per cent of respondents), followed by data privacy regulations, an expected concern given the digital-sector concentration of the sample. Forming strategic partnerships is challenging for the majority, with 36.6 per cent requiring extensive networking efforts, highlighting the role of social capital in startup development.

### **Discussion**

The findings collectively paint a picture of an Indian startup ecosystem that is vibrant and growing in aspiration yet structurally unequal in capital access. The dominance of bootstrapping and informal funding reflects not merely a preference but a constrained choice set shaped by limited financial literacy, weak institutional presence outside metro areas, and the persistence required to navigate formal investor channels. This is consistent with the broader literature on entrepreneurship in emerging economies, where information asymmetries and relational capital deficits systematically channel early-stage firms toward internal financing.

The geographic concentration of funded startups in Tier-1 cities, combined with the high proportion of unfunded respondents from Tier-2, Tier-3, and rural areas, points to a significant regional financing divide. The findings support Chaudhury et al.'s (2019) argument that structural ecosystem factors, not merely business quality, determine funding access. Policy interventions that target incubator development, investor network expansion, and financial literacy enhancement in underserved regions are thus clearly warranted.

The high importance attributed to team composition and market size by founders, implicitly internalising investor evaluation criteria, suggests that funding-seeking founders do develop a sophisticated understanding of investor preferences over time. However, the sheer number of investors that must typically be approached (16–30 for the majority) reflects a market characterised by high search costs and information friction, reinforcing the value of formal matchmaking platforms and warm-introduction networks.

A key implication of the non-financial challenges documented in Section 4.4 is that capital, while necessary, is insufficient for venture success. Product-market fit, competitive positioning, regulatory navigation, and partnership development are all resource-intensive activities that require managerial capability, mentorship, and strategic guidance alongside financial capital. This finding aligns with the comprehensive support model advocated by incubator-based programmes and smart-money investors, and suggests that funding instruments bundled with non-financial support are likely to yield superior outcomes compared to capital-only interventions.

### **Conclusions and Policy Recommendations**

This study contributes a founder-centric, regionally inclusive empirical perspective on startup financing in India. Its core finding, that over 80 per cent of early-stage founders rely on bootstrapping and informal networks, despite the proliferation of formal financing alternatives, reveals a persistent disconnect between the formal startup ecosystem and the lived experience of most entrepreneurs. Funding type shapes not only financial resources but also strategic autonomy, growth potential, ownership structure, and long-term viability; yet for the majority of sampled founders, this shaping occurs through the lens of informality and constraint rather than strategic optionality.

Based on the findings, the following recommendations are advanced:

#### **Enhance Funding Awareness and Financial Literacy**

A substantial proportion of founders remain unaware of or unable to access formal funding instruments, including angel networks, government grant schemes, and crowdfunding platforms. Structured awareness programmes delivered through incubators, industry associations, and digital platforms should be expanded, with particular emphasis on practical guidance on eligibility criteria, application processes, and due diligence expectations. Regional-language content and peer-learning forums can improve uptake in non-metropolitan areas.

#### **Expand Ecosystem Infrastructure in Tier-2/3 and Rural Areas**

The concentration of investable deal flow in Tier-1 cities is as much a supply-side problem (limited local investor networks) as a demand-side one (lower startup density). Government and private-sector actors should prioritise the establishment of regional incubators, angel syndicates, and technology parks that create local entrepreneurial density. Incentive structures, including matching grants and co-investment schemes, can catalyse private investor participation in underserved markets.

#### **Promote Blended and Stage-Appropriate Financing Strategies**

Excessive reliance on a single funding source, whether personal savings or equity, creates vulnerabilities. Entrepreneurs should be educated on the trade-offs associated with different instruments and encouraged to construct blended capital stacks appropriate to their stage, sector, and growth ambition. Regulatory simplification of access to government grant schemes and the reduction of compliance burdens for early-stage bank lending can materially broaden the practical funding menu.

#### **Integrate Mentorship and Non-Financial Support with Funding**

Given the documented importance of non-financial factors, product-market fit, team capability, strategic planning, and partnership development, funding programmes that bundle capital with mentorship, technical assistance, and network access are likely to generate superior outcomes. Accelerator and incubator models that combine smart money with structured capacity building should be scaled, and their impact rigorously evaluated.

Future research should pursue longitudinal panel designs that track funding choices and outcomes over multiple years, incorporate investor-side perspectives to triangulate founder narratives, and extend the geographic scope to ensure representativeness of India's diverse entrepreneurial landscape. Qualitative case studies exploring how specific funding transitions affect strategic pivots and growth trajectories would further enrich the evidence base.

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