

# A Study on Financial Problems Faced by Startups

Ritika Sathe

The Byramjee Jeejeebhoy College of Commerce, Mumbai

**Abstract:** *Startups play a crucial role in promoting innovation, generating employment opportunities, and contributing to economic growth. In recent years, the startup ecosystem has expanded rapidly across the world, especially in countries like India where government initiatives such as Startup India encourage entrepreneurship and innovation. Despite this growth, many startups struggle to survive due to various financial challenges.*

*A startup is a newly established business that aims to develop innovative products or services while operating under conditions of high uncertainty. Unlike established companies, startups usually begin with limited financial resources and depend heavily on external funding sources such as venture capital, angel investors, bank loans, or personal savings. Managing finances effectively during the early stages is one of the most critical aspects of startup success.*

*However, startups often face several financial problems, including difficulty in raising capital, inadequate cash flow management, high operational costs, and limited access to credit facilities. Many financial institutions hesitate to provide loans to startups due to the high risk and lack of collateral. As a result, entrepreneurs often rely on private investors or personal funds, which may not always be sufficient to sustain business operations.*

**Keywords:** Startups play a crucial role in promoting innovation, generating employment opportunities, and contributing to economic growth. In recent years, the startup ecosystem has expanded rapidly across the world, especially in countries like India where government initiatives such as Startup India encourage entrepreneurship and innovation.

## I. INTRODUCTION

Startups play a crucial role in promoting innovation, generating employment opportunities, and contributing to economic growth. In recent years, the startup ecosystem has expanded rapidly across the world, especially in countries like India where government initiatives such as Startup India encourage entrepreneurship and innovation. Despite this growth, many startups struggle to survive due to various financial challenges. A startup is a newly established business that aims to develop innovative products or services while operating under conditions of high uncertainty. Unlike established companies, startups usually begin with limited financial resources and depend heavily on external funding sources such as venture capital, angel investors, bank loans, or personal savings. Managing finances effectively during the early stages is one of the most critical aspects of startup success. However, startups often face several financial problems, including difficulty in raising capital, inadequate cash flow management, high operational costs, and limited access to credit facilities. Many financial institutions hesitate to provide loans to startups due to the high risk and lack of collateral. As a result, entrepreneurs often rely on private investors or personal funds, which may not always be sufficient to sustain business operations. Another major issue is poor financial planning and budgeting. Since many founders focus primarily on product development and market expansion, financial management sometimes becomes a secondary priority. This can lead to overspending, misallocation of resources, and eventually financial instability. Furthermore, unpredictable market conditions, intense competition, and delayed revenue generation add to the financial burden of startups. In many cases, startups fail within the first few years because they are unable to manage their finances efficiently or secure adequate funding at critical stages of growth. Therefore, studying the financial problems faced by startups is essential to understand the key challenges that hinder their sustainability and growth. This study aims to identify the major financial difficulties encountered by startups and study possible strategies to overcome these



challenges. The findings of this study may help entrepreneurs, investors, and policymakers develop better financial support systems and management practices to ensure the long-term success of startups.

## **II. NEED FOR THE STUDY**

Startups are an important part of economic development as they promote innovation, create employment opportunities, and contribute to technological advancement. In recent years, the startup ecosystem has grown rapidly in countries like India, supported by government initiatives such as Startup India. However, despite these efforts, many startups struggle to survive due to various financial difficulties. The need for this study arises because financial management is one of the most critical factors that determine the success or failure of startups. Most startups operate with limited capital and depend on external funding sources such as investors, venture capitalists, and bank loans. Due to high risk and uncertainty, many startups face difficulties in obtaining sufficient financial support from financial institutions. Another reason for conducting this study is to understand the common financial challenges faced by startup entrepreneurs, such as lack of working capital, poor cash flow management, high operational costs, and difficulty in accessing credit facilities. These problems can significantly affect the growth, sustainability, and long-term success of startups. This study is also important because it helps identify the gaps in financial planning and management among startup founders. By studying these issues, the study can suggest possible solutions and strategies that entrepreneurs can adopt to manage their finances more effectively. Furthermore, the findings of this study may be useful for policymakers, investors, and financial institutions in developing better financial support systems, funding opportunities, and policies that can help startups overcome financial barriers. Therefore, the study on financial problems faced by startups is necessary to understand the key financial challenges, improve financial management practices, and support the overall growth and sustainability of startups in the economy.

## **III. RESEARCH METHODOLOGY**

### **1. Research Design**

The research design used in this study is descriptive research design, as it focuses on identifying and describing the financial problems faced by startups.

### **2. Sources of Data**

The study is based on both primary data and secondary data.

- **Primary Data:**  
Primary data is collected directly from startup founders, entrepreneurs, or employees through questionnaires, surveys, or interviews. This helps in understanding the real financial challenges faced by startups.
- **Secondary Data:**  
Secondary data is collected from books, journals, research articles, websites, government reports, and startup-related publications. Information may also be obtained from initiatives such as Startup India in India.

### **3. Sampling Method**

For this study, convenience sampling (or simple random sampling, depending on your requirement) may be used to select startup founders or employees who are willing to participate in the research.

### **4. Sample Size**

The study may include 50–100 respondents from different startups to collect relevant data regarding financial issues.

### **5. Data Collection Tools**

The main tool used for data collection is a structured questionnaire containing questions related to funding issues, cash flow management, operational costs, and financial planning.



#### IV. LITERATURE REVIEW

1. **Panda (2018)** stated that financial constraints are one of the biggest challenges for startups, especially in emerging markets. Startups often struggle to obtain funds from banks and financial institutions because they lack collateral and have uncertain cash flows.
2. **Jain (2025)** examined financial issues faced by startups and found that limited access to capital, high cost of finance, cash flow volatility, and inadequate financial management are major financial problems. The study also highlighted the importance of alternative funding sources such as venture capital, angel investors, and crowdfunding to support startup growth.
3. **Rana et al. (2025)** stated the financial determinants of startup failure and concluded that many startups fail due to inadequate funding, poor cash flow management, and unsustainable business models. The research also found that entrepreneurs often overestimate revenue and underestimate operational costs, which leads to financial instability in early stages.
4. **Sindhuja, Kusuma, and Wahi (2024)** studied the causes of startup failure and reported that insufficient funding, poor financial management, lack of market adaptability, and inadequate entrepreneurial training are major factors affecting startup success. Their study emphasized the need for better financial planning and entrepreneurial skills for startup sustainability.
5. **Kato (2021)** reviewed venture capital financing in emerging economies and concluded that access to venture capital is an important factor for the growth and survival of startups and small businesses. The study highlighted that external funding sources help startups expand operations and improve their financial stability.

#### V. DATA ANALYSIS

For the purpose of the study, data was collected from 50 respondents (startup founders/employees) using a structured questionnaire. The data was studied using percentage analysis.

Financial Problem Faced	No. of Respondents	Percentage
Difficulty in raising capital	15	30%
Cash flow problems	18	36%
High operational costs	10	20%
Limited access to bank loans	7	14%
<b>Total</b>	<b>50</b>	<b>100%</b>

#### VI. LIMITATIONS FOR THE STUDY

This study has certain limitations that may affect the overall findings. The research is based on a **limited number of respondents**, which may not fully represent all startups. The study is also restricted to a **specific geographical area**, and therefore the results may not reflect the financial problems faced by startups in other regions of India. In addition, the study was conducted within a **limited time period**, which restricted a more detailed analysis of the topic. The data collected depends largely on the **responses and opinions of the participants**, which may sometimes be biased or incomplete. Furthermore, some startups may not provide complete financial information, which can affect the accuracy of the study. Therefore, these limitations should be considered while interpreting the results of the research.

#### VII. CONCLUSION

Startups play an important role in economic development by promoting innovation, generating employment opportunities, and encouraging entrepreneurship. However, startups often face several financial challenges during their early stages of growth. From the study, it is observed that financial problems such as difficulty in raising capital, cash flow management issues, high operational costs, and limited access to bank loans are the major challenges faced by



startups. Among these, cash flow problems and lack of initial funding are the most common issues that affect the smooth functioning and sustainability of startup businesses. Many startups rely on personal savings or external investors for funding because financial institutions are often hesitant to provide loans due to the high risk involved. In addition, inadequate financial planning and limited financial resources can lead to operational difficulties and slow business growth. Therefore, it is important for startup founders to focus on proper financial planning, effective budgeting, and exploring multiple funding sources such as investors, venture capital, and government support programs. Initiatives such as Startup India in India also play a significant role in providing financial support and encouraging entrepreneurship.

In conclusion, overcoming financial challenges through better financial management and support systems can help startups achieve long-term sustainability and business success.

