

Financial Management Practices and Startup Performance

Dr. Sarangapani Nivarthi, Shreya C T

Assistant Professor, Faculty of Management Studies, CMS Business School, Jain (Deemed to be university) Bangalore,
Karnataka, India

Department of MBA Student, Faculty of Management Studies, CMS Business School, Jain (Deemed to be university)
Bangalore, Karnataka, India

ABSTRACT: Financial management practices are crucial in determining the survival and performance of startups in emerging economies. This study examines the impact of four financial management dimensions financial planning and budgeting, cash flow and working capital management, capital structure and funding decisions, and financial transparency and governance on startup performance within the Indian context. Employing a descriptive and analytical research design, primary data were gathered through a structured questionnaire distributed to 137 respondents, including active startup founders, student entrepreneurs, and prospective founders. Statistical analysis utilized Pearson correlation, Chi-Square tests of independence, and multiple linear regression. Cronbach's Alpha coefficients that were higher than 0.70 for all dimensions showed that the scale was reliable. The findings indicate that financial planning (H_1 , $\beta = 0.41$, $p = 0.005$), cash flow management (H_2 , $r = 0.61$, $p < 0.001$), and financial transparency (H_4 , $r = 0.63$, $p < 0.001$) are each significantly and positively correlated with startup performance. Capital structure practices (H_3 , $\beta = 0.09$, $p = 0.121$) did not achieve statistical significance in the present sample, presumably due to the bootstrapped funding characteristics of numerous early-stage ventures examined. The combined regression model accounts for 58% of the variance in startup performance ($R^2 = 0.58$). The study ends with specific suggestions for startup founders, incubators, banks, and policymakers to make financial management better, which is a key factor in promoting sustainable entrepreneurship in India.

KEYWORDS: Financial Management, Startup Performance, Financial Planning, Cash Flow Management, Capital Structure, Financial Transparency, Entrepreneurship, India

I. INTRODUCTION

India's startup ecosystem has emerged as one of the most dynamic in the world. According to the Startup India dashboard of the Department for Promotion of Industry and Internal Trade (DPIIT, 2023), over 100,000 entities have received startup recognition, positioning the country third globally by total startup count. The NASSCOM Startup Report (2023) further documents that Indian startups collectively raised over USD 24 billion in funding in 2022 alone. Yet, despite this scale, a substantial proportion of new ventures fail within their first three to five years of operation. CB Insights (2022) reports that 38% of startups globally fail due to running out of cash or inability to raise new funding, while Kalyanasundaram et al. (2021) identify financial mismanagement as one of the leading causes of early startup failure specifically in the Bengaluru context.

A significant proportion of Indian startups rely heavily on personal savings or informal funding sources in their early stages, leaving them particularly vulnerable when unexpected costs arise or revenue falls short of projections. Research by Khairajani et al. (2024) identifies financial mismanagement, inadequate funding decisions, and poor resource allocation as the most significant contributors to startup failure in India, compounded by limited financial literacy and cultural risk aversion. Despite growing academic interest in startup performance, there remains a limited body of empirical work that holistically examines how multiple financial management dimensions collectively shape startup outcomes in the Indian context.

This study aims to fill that gap by examining four key financial management dimensions financial planning and budgeting, cash flow and working capital management, capital structure and funding decisions, and financial

transparency and governance and evaluating their individual and combined influence on startup performance among Indian founders. The findings are intended to serve as a resource for startup founders, mentors, incubators, and policymakers committed to building financially resilient ventures in India.

II. REVIEW OF LITERATURE

Startup Financial Management

Egiyi (2023) explored the distinct financial management challenges faced by startups, including cash flow volatility, limited historical data, and valuation complexities, arguing that agile financial planning and transparent investor relations are essential for managing these challenges effectively. Sharma (2023) found a strong positive association between structured financial practices and business sustainability, particularly during economic downturns. Goswami et al. (2023) demonstrated that financial management challenges are most acute at the early stage of the startup lifecycle, while Khairajani et al. (2024) linked financial mismanagement and poor resource allocation directly to startup failure in the Indian market.

Cash Flow and Working Capital Management

Van Horne and Wachowicz (2008) established that effective cash flow management can be the deciding factor between survival and failure for early-stage ventures. Wadesango et al. (2019) confirmed that proactive cash flow monitoring significantly improves SME sustainability, while Otoo (2024) demonstrated, using structural equation modelling on 117 firms, that working capital management significantly influences organisational performance. Mazzarol (2014) identified working capital management and cash flow planning as the most significant determinants of profitability among small firms.

Capital Structure Theory and Funding Decisions

Modigliani and Miller (1958) introduced the foundational proposition on capital structure, providing the theoretical starting point for understanding how debt-equity decisions influence firm value. Myers and Majluf (1984) developed the Pecking Order Theory, explaining that firms prefer internal funds first, followed by debt, and equity as a last resort a framework directly applicable to the funding behaviour of Indian startup founders. Robb and Robinson (2014) found that higher proportions of debt relative to equity tend to reduce the likelihood of startup success, while Bahaw (2023) established that startups with balanced structures demonstrate better profitability outcomes in emerging markets.

Financial Governance and Transparency

Molina (2023) found that startups adopting structured performance evaluation frameworks alongside their financial management practices showed significantly better growth trajectories. Sriningsih et al. (2024) demonstrated that fintech solutions that automate financial processes and enhance transparency positively influence startup financial management capability. Lusardi and Mitchell (2014) established that entrepreneurs with higher financial literacy are more likely to secure funding, manage finances effectively, and sustain their businesses over time. McMahan (2006) found that many SME founders make financial decisions based on intuition rather than, leading to suboptimal outcomes.

Research Gaps

Despite the growing body of literature on financial management and startup performance, several gaps remain. The majority of existing research is conducted in developed economy contexts; empirical studies focusing on the Indian startup environment, where financial ecosystems and regulatory conditions differ considerably, remain limited. Most studies examine individual financialmanagement dimensions in isolation rather than examining how multiple dimensions collectively influence performance. Further, existing literature predominantly targets established SMEs or funded startups, with limited representation of student entrepreneurs and early-stage ventures. This study addresses these gaps by adopting a holistic, multi-dimensional framework and surveying a diverse respondent group that includes both active founders and student entrepreneurs.

III. THEORETICAL FRAMEWORK

This study is grounded in three complementary theoretical frameworks. The Resource-Based View (RBV), proposed by Barney (1991), treats financial management competence encompassing budgeting, cash flow monitoring, capital structuring, and governance as a strategic internal resource that enables startups to sustain operations, attract investors, and outperform competitors who lack such discipline.

The Pecking Order Theory (Myers & Majluf, 1984) explains how founders prioritise financing sources, preferring internal funds before external debt and equity. This theory is directly relevant to explaining the funding behaviour of Indian startup founders, many of whom rely on personal savings and bootstrapping before seeking investor capital, shaping both their capital structure and financial performance.

Agency Theory (Jensen & Meckling, 1976) examines the relationship between founders and external stakeholders such as investors and creditors, highlighting how information asymmetry can create conflicts of interest. In the startup context, maintaining financial transparency and governance reduces this information gap, builds stakeholder trust, and improves access to capital all of which are hypothesised to influence startup performance positively.

IV. RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design, using a quantitative methodology with a cross-sectional approach to examine financial management practices within the Indian startup ecosystem. It focuses specifically on early-stage and growth-stage ventures, excluding large corporations and publicly listed companies. The research investigates four key financial management dimensions financial planning and budgeting, cash flow and working capital management, capital structure and funding decisions, and financial transparency and governance and analyses their relationship with startup performance, which is measured through indicators such as revenue growth, profitability, and overall financial health. The study is guided by four primary objectives: to examine financial planning and budgeting practices among startup founders in India; to analyse the relationship between cash flow and working capital management and startup performance; to assess the impact of capital structure and funding decisions on growth and sustainability; and to evaluate the influence of financial transparency and governance on performance outcomes. Based on these objectives, four hypotheses were formulated, each proposing a positive association between the respective financial management dimension and startup performance. Primary data were collected through a structured questionnaire distributed via Google Forms to 137 respondents, including active startup founders, student entrepreneurs running ventures, and a small number of aspiring entrepreneurs, using a convenience sampling method. Secondary data were sourced from academic journals, institutional reports, and published databases related to entrepreneurial finance and startup management. The questionnaire was divided into six sections covering demographics and the four financial dimensions, along with startup performance, using a five-point scale for responses. Statistical analysis was conducted using Microsoft Excel and SPSS, employing descriptive statistics such as frequencies, percentages, and mean scores to summarise the data. Reliability was tested using Cronbach's Alpha, while Pearson correlation analysis was used to examine relationships between variables, and Chi-Square tests of independence were applied to specific hypotheses. Additionally, multiple linear regression analysis was performed to evaluate the combined effect of all four financial management dimensions on startup performance.

Table 1: Cronbach's Alpha Reliability Coefficients

Scale / Dimension	No. of Items	Cronbach's Alpha
Financial Planning & Budgeting	3	0.78
Cash Flow & Working Capital Management	4	0.74
Capital Structure & Funding Decisions	3	0.71
Financial Transparency & Governance	3	0.76
Startup Performance	2	0.72

All scales exceeded the minimum threshold of $\alpha \geq 0.70$, confirming acceptable internal consistency across all dimensions.

V. DATA ANALYSIS AND INTERPRETATION

Demographic Profile of Respondents

The sample comprised 137 respondents. The majority (43.8%) fell within the 25-34 age group, followed by 35-44 years at 40.9%, and above 45 years at 14.6%. Male respondents constituted 86.1% of the sample, with female respondents accounting for 13.9%. By respondent type, 69.3% (n = 95) were active startup founders, 29.9% (n = 41) were student entrepreneurs, and 0.7% (n = 1) were aspiring founders. Revenue analysis applicable exclusively to active founders (n = 95) revealed that 55.5% reported annual revenues above ₹50 Lakhs, 13.9% reported ₹10–50 Lakhs, 0.7% reported less than ₹10 Lakhs, and 29.9% reported no revenue yet, consistent with the proportion of student and early stage founders.

Financial Planning and Budgeting

Across the three financial planning questions, the dominant response was 'Sometimes', indicating that financial planning is acknowledged but inconsistently practised. Specifically, 48.9% of respondents only sometimes maintain a structured financial plan with clearly defined targets, 41.6% often prepare detailed budget allocations based on revenue projections, and 60.6% only sometimes conduct variance analysis when actual performance deviates from the budget. Notably, no respondent selected 'Never' for the financial planning question, suggesting awareness of its importance even where consistent execution is lacking.

Cash Flow and Working Capital Management

Cash flow management emerges as both a demonstrated strength and a critical operational vulnerability. A notable 83.2% of respondents often monitor debtor collection periods and creditor payment cycles the strongest practice frequency observed across all four sections. However, 70.1% prepare and use cash flow statements only 'Sometimes', and 51.1% have always experienced business disruption or delayed growth plans due to poor cash flow management. This paradox high monitoring engagement yet frequent disruption suggests that founders are aware of cash flow dynamics but may lack the financial buffers or operational tools to translate monitoring into effective corrective action.

Capital Structure and Funding Decisions

Capital structure practices represent the weakest area of financial management in this sample. A majority of 51.1% of founders rarely evaluate the cost of capital, dilution of ownership, and long term financial obligations before selecting a funding source. Over 70% of respondents combined 'Sometimes' and 'Rarely' for deliberately designing their debt-equity structure to minimise financial risk consistent with Pecking Order Theory, which predicts that founders default to readily available funding rather than optimising their capital mix.

Startup Performance Outcomes

Performance outcomes are broadly positive. A combined 56.9% of respondents reported that disciplined financial management practices have improved their startup's revenue, profitability, or market reach to a great or very great extent. A further 56.2% reported that their startup's overall financial health has improved to a great or very great extent over the past one to two years. No respondent reported zero improvement in either performance measure, affirming a universal, if variable, positive association between financial management engagement and performance perception.

VI. HYPOTHESES TESTING

6.1 H₁: Financial Planning and Budgeting vs. Startup Performance

A Chi-Square test of independence yielded $\chi^2 = 14.73$ (df = 4, p = 0.005), confirming a statistically significant association between financial planning practices and startup performance. The standardised beta coefficient from multiple regression ($\beta = 0.41$, p = 0.005) further establishes financial planning as a significant positive predictor of performance. H₁ is supported. This result is consistent with the Resource-Based View, which positions financial management competence as a strategic internal capability.

6.2 H₂: Cash Flow Management vs. Startup Performance

Pearson correlation analysis reveals a strong positive relationship between cash flow management and startup performance (r = 0.61, p < 0.001). Supporting correlations include working capital management (r = 0.54, p < 0.001), cash flow disruption negatively associated with performance (r = 0.49, p = 0.001), and debtor/creditor monitoring (r =

0.43, $p = 0.003$). The regression coefficient ($\beta = 0.36$, $p = 0.001$) confirms cash flow management as a significant independent predictor. H_2 is supported.

6.3 H_3 : Capital Structure and Funding Decisions vs. Startup Performance

The Chi-Square test produced $\chi^2 = 5.82$ ($df = 3$, $p = 0.121$), which does not reach the 0.05 significance threshold. The standardised beta coefficient ($\beta = 0.09$, $p = 0.121$) is similarly not significant. H_3 is not supported. This finding likely reflects the bootstrapped or informally funded nature of many early stage ventures in the sample, where simpler funding approaches suffice and the consequences of suboptimal capital structure decisions have not yet manifested in performance outcomes.

6.4 H_4 : Financial Transparency and Governance vs. Startup Performance

Financial transparency demonstrates the strongest associations in the study. Pearson correlation between transparency and investor confidence is $r = 0.71$ ($p < 0.001$), financial records quality and performance $r = 0.58$ ($p < 0.001$), periodic reviews and performance $r = 0.52$ ($p = 0.001$), and the overall governance score and performance $r = 0.63$ ($p < 0.001$). The regression coefficient ($\beta = 0.44$, $p = 0.002$) identifies financial transparency as the strongest single predictor of startup performance among all four dimensions. H_4 is supported, directly validating the Agency Theory proposition that reducing information asymmetry between founders and investors builds credibility and improves access to capital.

Table 2: Summary of Hypothesis Testing Results

Hypothesis	Test Applied	Statistic	β	p-value	Verdict
H_1 : Financial Planning → Performance	Chi-Square Regression	$+\chi^2 = 14.73$	0.41	0.005	Supported ✓
H_2 : Cash Flow Management → Performance	Pearson r + Regression	$r = 0.61$	0.36	< 0.001	Supported ✓
H_3 : Capital Structure → Performance	Chi-Square Regression	$+\chi^2 = 5.82$	0.09	0.121	Not Supported ✗
H_4 : Financial Transparency → Performance	Pearson r + Regression	$r = 0.63$	0.44	0.002	Supported ✓

VII. FINDINGS

7.1 Financial Management Awareness vs. Discipline

The most significant finding of this study is the gap between financial management awareness and financial management discipline. Nearly all respondents demonstrated awareness of the importance of financial planning, cash flow monitoring, governance, and transparency. Yet the dominant response across most practice dimensions was 'Sometimes'. This suggests that Indian startup founders understand the value of financial management as a concept but have not yet institutionalised it as a consistent, embedded practice. Bridging this awareness-discipline gap is the central operational challenge for founders and the central opportunity for mentors and incubators.

7.2 Theoretical Implications

The Resource-Based View is strongly supported. The regression results confirm that financial management competence functions as a strategic internal capability differentiating higher-performing startups. The explanatory power of the model ($R^2 = 0.58$) demonstrates that financial management practices collectively account for a substantial portion of variance in startup performance. Pecking Order Theory receives nuanced support: the non-significant result for H_3 and the finding that 51.1% of founders rarely evaluate the cost of capital before funding decisions are consistent with the theory's prediction that early-stage founders default to the path of least resistance in financing. Agency Theory is most powerfully validated by the transparency findings. The strongest correlation in the study $r = 0.71$ between transparency and investor confidence directly supports the proposition that reducing information asymmetry between founders and external stakeholders builds credibility and enhances access to capital.

VIII. CONCLUSION

This study has examined the financial management practices of startup founders and entrepreneurs in India and evaluated their influence on startup performance. Three out of four hypotheses were supported: financial planning and budgeting (H_1 , $\beta = 0.41$, $p = 0.005$), cash flow and working capital management (H_2 , $r = 0.61$, $p < 0.001$), and financial transparency and governance (H_4 , $r = 0.63$, $p < 0.001$) each demonstrated statistically significant positive associations with startup performance. Capital structure and funding decisions (H_3 , $\beta = 0.09$, $p = 0.121$) did not attain significance in the current sample, consistent with the early-stage and bootstrapped funding profile of many ventures surveyed.

The regression model explains 58% of the variance in startup performance ($R^2 = 0.58$), demonstrating the collective explanatory power of the four financial management dimensions. Financial transparency emerges as the strongest predictor ($\beta = 0.44$), reinforcing Agency Theory's central proposition. The study's most important conclusion is that financial management is not a back-office function for startups it is a strategic capability that directly shapes a startup's ability to survive, grow, and attract investment. Building this capability from the earliest stage of venture development, and maintaining it with consistency and discipline, is among the most impactful steps a founder can take toward building a sustainable and high-performing startup in India.

Future research should prioritise longitudinal designs that track the same cohort of startups over three to five years to establish causal relationships between financial management practices and performance trajectories. Further studies should include underrepresented founder groups women entrepreneurs, founders in Tier 2 and Tier 3 cities and explore the role of financial technology tools in strengthening financial management capacity among resource-constrained startups.

REFERENCES

1. Bahaw, P. (2023). Capital structure and profitability in emerging market new ventures. *Journal of Entrepreneurial Finance*, 25(1), 44–61.
2. Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.
3. CB Insights. (2022). The top reasons startups fail. CB Insights Research Reports. Retrieved from <https://www.cbinsights.com>
4. Cumming, D. (2017). Entrepreneurial finance: Unifying themes and future directions. *Journal of Technology Transfer*, 42(4), 767–776.
5. DPIIT – Department for Promotion of Industry and Internal Trade. (2023). Startup India Dashboard. Ministry of Commerce and Industry, Government of India. Retrieved from <https://www.startupindia.gov.in>
6. Egiyi, M. A. (2023). Financial management in startups: Analysing unique accounting challenges and strategies. *Journal of Accounting and Business Studies*, 11(2), 18–34.
7. Goswami, S., Murti, A., & Dwivedi, A. (2023). Challenges faced by startups at different stages of the business lifecycle. *Management Research Review*, 46(3), 412–430.
8. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
9. Kalyanasundaram, G., Ramachandrala, S., & Hillemane, B. S. M. (2021). Why do startups fail? A case study based on empirical analysis in Bengaluru. *International Journal of Innovation Science*, 13(3), 253–276.
10. Khairajani, D., et al. (2024). Analyzing factors contributing to startup failures in India: A comprehensive study. *Educational Administration: Theory and Practice*, 30(2), 1145–1162.



INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA



INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

 9940 572 462  6381 907 438  ijirset@gmail.com



www.ijirset.com

Scan to save the contact details