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Dissertation of Startup Finance and Risk Control

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Abstract- The Startup has become synonyms for the growth, entrepreneurial traits, vision, and futuristic approach. India has a healthy environment and acts as a game-changer, a longlasting impact on the economy and standards of living of any nation. Startups have grown in no time both in numbers and contribution wise in a job and revenues. This paper tries to conceptualize the phenomenon, i.e., "startup," and "Entrepreneurship" recognizes the challenges they might face. For the fashionable enterprise, assets in business activities are to support the operation of their overall funding and is that the foundation of sustainable management and financial risk. During this paper, the financial risks of business activities of new enterprises is being studied, the strategies to uplift the risk failure of startups offerings of government for encouraging innovative ideas of the young generation.

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Strictly as per the compliance and regulations of:

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I. Introduction

An entrepreneur is an individual that looks for new business and is willing to risk a loss to make money, and focus on managing, having a source of networking and the right way to use his/her knowledge tactics.

The startup must defined as creating identity and making money, which includes two or three entrepreneur persons for funding. The main challenge is to prove the validity of the concept to potential lenders or investors.

The start-up and an entrepreneur might seem identical. Still, there is a difference ,i.e., an entrepreneur achieving a financial motive , but the startup founder aims to serve a unique product or service for the usual people.

Startups are diversified and complex, evolving mainly on three theories is,

a) Organisation: It urges to be the creation stage which meant to be planned and processed followed in its initial development.
b) Management: An individual having specific qualities such as teamwork, valuation of the resources, etc.
c) Entrepreneurship: An entrepreneur in the bootstrapping stage set of activities that turn out to be creative ideas into a profitable business.

Before this there are several provocation among different startups, financial challenges which means that the startup founder should have the ability to convince the investors and with a reasonable valuation plan, with the support of environmental elements then the success of startups, Lack of access to such support mechanism can lead to a higher risk of failure, If the founder lacks for human resource management then lead to the critical stage of failure due to lack of hiring employees, negotiate with the people. Government permission to register a business an obstacle faced by them, Absence of effective brand strategy can also lead to failure. The next most significant challenge is gauging the market need for the merchandise, existing trends, etc. Innovation plays a considerable role since the startup has got to fine-tune the merchandise offerings to suit the market demands. Also, the entrepreneur should have the thorough domain knowledge to counter competition with appropriate strategies. Thanks to new technologies that are emerging, the challenge to produce over and above an earlier innovation are pertinent.

Namrata Garg, Director, Send Kardo feels that the greatest challenge is that they have to steadily reinvent themselves and are available up with a service to be able to match up customer expectations and exceed them.

The 'Make-in-India' initiatives and other government schemes have also given a lift to startups with many individuals entering the fray. Starting a project may be a tactically and disciplined exercise with due consideration of both internal and external factors which will impact the sustainability of the venture. Small contributions from a variety of entrepreneurs would have a cascading effect on the economy and employment generation, which would complement medium and large industries efforts catapulting India into a quickly growing economy. The startup arena includes a lot of challenges starting from finance to human resources and from launch to sustaining the expansion with tenacity.

II. Country's Startups Scenario of Past ten Years

Startup ecosystems speak about a startup business in a corporation engages in the development, production, or distribution of the latest product, processes, or services. They are new and exist for less than five years and revenue of up to INR 25cr, employing 50 people or less. So this startup grows and develops with support of huge companies and universities, and acquires funds from funding

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organizations like an angel investor, risk capital, public markets. Incentives within the sort of tax holiday for three years are a benefit worth considering. It's also apt to think about equating capital gains with the regime within the listed market. Most significantly, interchange regulations are to be in tune with investor needs, so that the most effective don't register outside India. But in the global market, plenty of challenges on sustainability, technology, regulatory and financial, etc.

The startup has been in line with the world trend dominating the space. Even the aspiring unicorns have had an honest run during this era, where managing to seek out investors is sometimes considered a tricky task. The trends of investments suggest that investors want to enter as an early investor, even before the beginning of the firm. From an overall viewing, India comes across as a thriving under-penetrated consumer-driven market with scope for exponential growth. Internet penetration and its increasing importance will drive most of the companies. On account of the patron demographics, with China being out of bounds, India offers the biggest pie of investment opportunity that the globe is eyeing. The startup can be despite the multitude of operational, regulatory, and taxation issues that surround the business running environment in India.

As per India scenario, Bangalore rightfully called as a startups hub which deals with emerging and multidisciplinary companies, a number of the highly funded companies are food delivery, e-commerce, online education, etc.

Entrepreneurship isn't only about eCommerce; an exemplary model for the young blood, Sarthak Paul launches Mean Metal Motors to make India's superstars. In the year 2014, the most decisive challenge was the ambitions like his need for plenty of money. Keeping a talented team motivated on a shoestring budget isn't easy. Only three friends, which includes networking with a global team, about 42 talented youth, which they mentored and great success over this project.

III. Financial Characteristics of Startups

a) Methods of Financing

i. *Traditional methods of financing:*

Traditional methods represent plausible arrangement for start-up companies to start raising money, and most start-up companies enter the entrepreneurial world in this way.

a) Bank loans: It is the oldest form of providing financial resources to startup companies. But as a founder, it seems to be the complex procedures of bank or financial institutions because mainly it is founded by the young group of people who don't own personal property and find it hard to get bank loans.

b) 3F (Friends, Family, and Fools): It's being considered to be an delicate source of finance collection. As the founder explains the creative idea adopted from his/her opinion to be familiar with closet individuals and the risk factors. Fools because they invest their money although from the last decade there is a failure in the three years of business. Potential risks of such financing are disagreements that may occur in the families or between friends if the project fails in the end.

c) Seed Investments: These being collected at the earliest stage of fundraising, and they usually include personal savings and funds from family members and friends. These being considered to be initial investments that help start-up companies to expand their business. For exploring seed investments it is mandate to accelerate the growth and development of their products.

d) Business angels: It's called "smart funding" because it includes the sharing of knowledge, providing skills, expertise, and business contracts. Business angels are the most crucial link between funding and companies, from the start-up stage to the stage in, which companies are ready to be on the capital market. Moreover, business angels provide financial and managerial rampart which is the additional option for the endurance of the companies. The government also provides a tax exemption on their investment.

e) Venture Capital Investments: Focused on high-risk projects, potentially high return on investment. It is considered to be the corresponding part of the ownership of a company and also not affected by the company's cash flow statement. The main aim is to provide financial assistance at the early stage of development so their young and creative ideas can being transformed into a future business. Another name can be risk capital funds with a private offering.

ii. *Modern Methods of Financing:*

a) Startup boot camp: It is one of the selective programs set up in the European locations, which helps in providing mentors and partners in all areas of working. An online platform shares innovative ideas with the experts and collaborates to have stupendous success.

b) Seed Camp: An investment program for companies at the early stage of development. It offers experts in the field of product development, human resource, marketing, journalists, lawyers, etc. It's being initiated by the venture capital funds and business angels. Venture Capital funds decide not to finance some project/start-up; this presents significant distress signal to other potential investors.

c) Fundable (Crowd funding): It is an online platform for gathering investments into small companies, i.e., a form of collecting development funds that are used for different purposes and in various amounts; it is a form of collecting donations for charities and intriguing projects in general. Each entrepreneur can raise funds from future clients before the project is being developed. In case of a failure, money is returned to those who contributed, while Fundable ensures that all the transactions are being made fairly.

IV. Magnitude of Financial Crises

Chagrin stands up for financial crises. VAR in finance means two things: variance and value at risk, but when a company isn't capitalized, it means the value at risk. It's being usually quoted in units of dollars forgiven probability and time horizons. For instance, as per the context of startup founder shares in the U.S. stock market, the 1% one year VAR of $10 million means one %chance that a portfolio will lose $10 million in a year. Stress test refers to a method of assessing risks to firms or portfolios. It is a measure, not a statistical approach. As in the startup companies, it requires doing annual stress tests for non-bank institutions for at least three different economic scenarios.

V. Limitations

a) Contractual Restrictions and Debt Trap

Contractual restrictions mean to use one land imposed by the agreement. The startup founder lends the funds and is being promulgated in the name of the firm. Every business set its legal requirement for having a smooth running of the firm. Ultimately, contractual restrictions and debt traps have a linkage that the one lacking behind to contract, then the firm leads to a Debt trap, which refers to a situation in which a debt is difficult or impossible to repay, typically because of high-interest disbursement prevent repayment of the principal. A startup founder is in a debt trap when borrowers charge high-interest payments that are being considered to be internal validates between an entrepreneur or any other firm. Taking a loan is one of the classic indicators for the debt trap. In the downslide of valuations in the crunch of financial markets, startup founders often lose their control over the firm. The fund's needs are not only to run the business but also for the control factor over the firm. Not every startup runs its organization for the profitability purpose but also for the high rates of Initial Public Offerings rates. In India, this pandemic situation is bringing online markets to downsizing such as India Markets, which trades for the selling of bulk goods, which created a stellar debut in the market. Still, the current scenario is in the bearish period. Still, the reputation remains constant. If the startup founder keeps the proper planning, then the firm will never face a debt trap, and also taking loans for the regular expenses can be sliding to the debt trap.

b) How Startup can Survive with zero Financial Resources

A Startup can start with no monetary assets; it can firstly start with the volunteering work, which will lead a person to know the working of an organization and which will give a reliable networking source. As per the technology advancement, online platforms are inevitable examples such as startups for e-commerce websites, which will include no such resources. It must be a service-oriented program which will help to create the users to attract towards the startup. Crowd funding websites lead the founders to collaborate with themselves and can help them to work efficiently. Government offers financial institutions to the founder person so they can be financial aided for the creative ideas brought by them. selling any sole knowledge which leads to an associate manager or property manager as per the interest of an individual which can be survival for the short term in the market.

VI. Characteristics of an Entrepreneur

Many skills like leadership and confidence are inherent in an entrepreneur, but a number of the time, a person grasps the items through experience, learning tactics, and situations with the imperative world. Various legal and political policies may also help an entrepreneur to create the absolute decision at the correct time, which is showcased by his confidence level and well informed about the legal status. An entrepreneur needs to scan the environment for the business opportunity, which may be for the advantage of the organization.

An entrepreneur should have leadership skills that the best efforts may being taken out of the hiring of the staff. An entrepreneur's ideas aren't unique and might still survive within the market because of doing same work efficiently and economically producing goods or services. Entrepreneurs are constant dreamers focused on moving up or forward-looking. Persuasive one among the prominent factors for an entrepreneur, there will be many folks skeptical in nature before giving support and lending money to begin a freshly baked idea. Entrepreneurs are ready and willing to approach things with an open mind. Many entrepreneurs don't need staff to perform their duties. They are considering the sole entrepreneurs having the creation of their while. Entrepreneurs should have the right attitudes and the right personality traits.

Internal locus of control may being defined as human perception of events being contingent upon one's characteristics or actions. On the opposite hand, external locus of control is defined as one's feeling of the outcome being entirely independent of human force i.e., the reaction being the results of luck, chance, fate, or authoritative to others. Locus of control is associated with entrepreneurial intention.

There is also a study gap in entrepreneurial education of scholars who have low degrees of entrepreneurial characteristics and supply recommendations to governments and universities for the event and sufficient learning of entrepreneurship. Even to generalize this, it had affected the extent of components of various groups.

VII. Risks for Startups

a) Market Risks

Market risk indicate to those risks which an investment faces due to fluctuation in the market; it's a risk which refers to know whether or not there is enough demand for what you are offering at a convinced price in the market. Market risk includes many different situations or events over which we have no control, such as civil unrest or political upheavals, the economic sanctions that target a specific product can seriously hurt the value products.

In a market, unless you sell a commodity, there is no another way to see that how the market will receive a new product, you may use several techniques to know the degree of market acceptance. Still, you can never know for sure that whether market accepts your product or services until you sell it, because until the original costumers start using your products or services you never know that what you are doing is right or wrong.

b) Competitive Risks

While starting a new venture you need to understand that you are not the only player in the game, several other individuals may have some concept of business as yours and even if an individual don't have the same idea they will start playing rough, they may copy your principal model for your startup, a sole will out-innovate you, they can out-spend you, they will create the situation of price wars, they may spread rumors related to your product or service, they will try to an end-run around your patents or trademark, they will poke into your trade blue print and secretes and try to steal it, they will make an effort of influencing your potential customers by way of lobbying and other strategies, and they will try their best to destroy your business to stay in a market.

Now you see that how competitors can enter into the market, and if you don't pay attention, it can easily be spun in another way. You could inadvertently become what from you were defending yourself before. To stride a step ahead of your competitors, you must continuously think that how others can defeat you and then develop appropriate defense by understanding your strengths, weaknesses, opportunities, and threats then figure out what you can do better than your competitors.

c) Operational Risks

Operational risk can being summarized as the chances of uncertainties that a company faces in its daily conduct of operational activities, procedures, and systems; it focuses on how things are accomplished within the organization and often associated with decisions that how the organization functions and what are its priorities. Like if you are going into the business of making and selling any electronic gadget, then it's quite another thing to master the actual technicalities of making and selling it.

Operational risk broadly covers everything having to do with the execution, such as can the product design be done in given R&D budget, will your product work as intended, can the team optimize the logistics of product distribution, can you create product amiable infrastructure, will you have a backup plan to keep your company in motion in case an accident destroy some necessary types of equipment in your data center. To tackle all these situations, there is no substitute for experience because it's all about careful planning and management by the experienced people who know what they are doing.

d) People Risks

People risks which are also known as team risks are one of the most crucial as well as the most unpredictable element of any startup venture, the right selection of the combination of experience, connection and character among the founding team can exceedingly increase the enterprise overall success and failure to recruit and retain the right team members can spell doom. After selecting such group, it is your responsibility to create a clear vision and culture so that the all the team members can rally behind. A healthy environment must be created with a wealthy culture of the organization so that the employees can accept it and work following one another, which in turn helps to manage egos, mediate personality clashes and disagreements, and rein in the rogue group members.

As a leader, you should allow your team to do what they do best while recruiting your team to invest in those people who believe in your concept and what you are offering in the market and instill a sense of confidence that they can help you get your idea of startup across the finish line.

Your team is the strongest as well as the weakest link, when you let your relationships cloud your judgments, like if you recruit if old college friend who is also proper in marketing but may not be the person to market your specific product, then you should conclude fast that it isn't going to work and must take steps to fix it quickly before the situation goes out of hands.

e) Legal and Regulatory Risks

The legal and regulatory section is one of the essential areas where startups seem to falter. It is necessary to meet all legal requirements to avoid failure; for any startup, it's not viable to pool in resources to the same extent as well as established corporate houses, for any startup to survive in the market should avoid a run-in with the law. There are various legal challenges that a startup potentially faces, including taxation, labor laws, business structure, business license, protection of intellectual property, corporate governance, etc. the list of challenges with legal heritage is almost endless, tax complications stemming from your choice of legal entity or state of incorporation; disputes arising from poorly structured agreements; lawsuits filed by a competitor alleging misappropriation of trade secrets and many more.

To avoid such issues firstly, you must learn enough about what you are doing in your startup so that you can fully appreciate that you left, secondly hire valuable attorneys for both corporate as well as intellectual property matters and keep your attorney informed of what is happening in your business so that they prevent such problems before it gets out of hands.

f) Financial Risks

Financial risks are the biggest nightmare for all the startups; it's an end road for any venture when its start is going out of funds, the financial risk becomes more severe when you don't have a backup plan in case the money lenders and investors say no, it is a reason for the failure of various ventures because they make the mistake of betting everything on being able to secure outside financing.

Investors don't invest their capital on a rookie entrepreneur, it is obstacle to find an investor willing to take a risk on you are slim, so it's prudent to start with an idea which requires a more modest amount of initial funding. For that, you should have two plans for market one is for, the growth of the business if you succeed in finding an investor and second for bootstrapping the business if you have to go it alone.

Once you find the investor and raise enough capital the second job is to find the ways to generate ample revenue to cover the cost in the case you run out of funds. But the financial risks, are never going to disappear once your business is in motion, several things affect the cash flow in an operating business such as credit risks, commodity price risks, exchange rate risks, interest rate risks, asset price risks, etc. So to mitigate the risks it's essential to keep a reserve of funds for such circumstances.

VIII. Reasons for Failure of Startups

The leading reasons for the failure of startups are - such as the product had no market, firm ran out of cash, don't have right team, or have pricing issues, having destitute product and marketing strategy, had no investors interests, these reasons substantiate most of the problem and risks that have discussed above.

Here are some examples of Startups and the reason for their failure.

a) Toledo

This startup was being incorporated in 2014 with its two kinds of businesses B2B retail and B2B wholesale; its head quarter was in Noida.

Reason for failure – It says that the colossal reason was the government's demonization step taken in the year 2016 caused flagging sales and underperformance.

b) Doodhwala

Incorporated in 2015, Doodhwala was the delivery platform worked on the model to deliver milk and groceries directly to your doorsteps, offering a service of distribute the product before 7 AM daily at very miniscule delivery charges of Rs. 3.

Reason for failure – Even with such unmatched offerings this venture failed to raise subsequent financing. Still, another sunstantial challenge for Doodhwala was the cluttered market, the presence of prominent players like Big Basket and Swiggy who consumed their child companies like Rain Can and Morningcart (big Basket) and Supr Daily (Swiggy) for their micro Delivery services, making it difficult for Doodhwala to sustain on its own, and finally, competition forced Doodhwala to shutdown.

c) Aditya Birla Payments Bank (Abipb)

ABIPB was being launched on February 22, 2018; it's a joint venture between Aditya Birla Nuvo Ltd. and Idea Cellular with shares distribution of 51 percent with Aditya Birla Nuvo and 49 percent with Idea Cellular.

Reason for failure – the reason for its failure is negative profit-building, as they invested huge capital in setting up the initial infrastructure, which leads to higher operating expenses, and they only in government securities which generate less return as compared to other ventures such as mutual funds. Another reason was that in India, the larger section still prefers the traditional methods of banking transactions, as there isn't awareness and comfort with the technique.

The unviable business model of ABIPB led to its closure.

d) Doc Talk

Doc Talk was being incorporated in August 2016 as an app, where you can get detailed prescriptions by your doctor, store medical files, save your medications, etc. As in India, the leading healthcare facilities are still offline due to which the Doctors faced the problem of follow up and calls of the patient.

Reason for failure – the reason for the failure of Doc Talk as it did not have the backup plan in case the primary business model fails, the planned transition into the electronic medical record solution business from the existing business model didn't yield the acceleration that is needed. The company had to close the entire health tech concept, and aid off a majority of its employees.

IX. Pragmatic Risks Management

After discussing various hazard while starting a new venture, it has become quite clear that risks are an inevitable and integral part of all startups that means you can't eliminate it, Hence, it's better to learn how to manage risks to protect and strengthen the growth of the business. But that doesn't mean that building a startup is overawing; you should focus on having a system to point out and cure vulnerabilities and threats to the venture and other sections related to it.

The process of risk management is prioritizing and identifying the probable risks before it strike by taking the preventive steps to reduce and curtail them. To analyse and attenuate risks for your venture, you need to establish a pragmatic risk management plan consist of the following steps.

In the first step, you have to think about all the possible things that could cause substantial harm to your startup.

Secondly, you have to categorize the risks into different categories, which we have discussed above; this categorization helps you to know who might be best qualified to manage that particular risk.

Now in the third step, think of the correlative probability to demonstrate that particular risk as critical, moderate, or ignorable.

In the fourth step, elucidate what would happen to the business if that particular risk manifests itself.

In the fifth step, you have to compile all the things which can be used to curtail probability or lessen the impact of the consequences of any particular risk manifests itself. Choosing the appropriate tactic is a very crucial job, so don't employ any tactic just because it is visible.

In the sixth step, think about the cost of implementation of the chosen tactic.

Lastly, once you have taken all the above steps you need to decide the mitigating tactic you are going to implement, keep this in mind that there is no right or wrong; your choice of plan always depends on individual risk tolerance.

After developing your risk management plan, its time to take the perspective of your advisors and team members as we all have made different mistakes and have learned different lessons, so its good to have multiple view point. The plan of risk management needs to get revised as the circumstances evolve.

Even, you have a well-developed risk management plan you shouldn't obsess over it; It's neither possible nor practical to forecast all potential risks. Because no matter how intelligent you are or how focused you are in assessing the situation, you can't think of everything.

So, this risk management isn't about identifying and attenuate the probable sources of risks, it's about engaging common sense to recognize and mitigate the most obvious risks in a cost-effective manner, using some of the measures described above and creating a culture of responding to unanticipated developments that are, putting out fires in a calm, rational way. Building a startup is itself a risk-taking job; by robust risk management, you can beat the odds and form a prosperous and gratifying venture by learning to identify and attenuate risks.

X. Conclusion

In the planet of finance, risk management refers to the applying of identifying potential risks beforehand, analyzing them, and taking precautionary steps to curb the chance. When a startup founder makes an investment decision, it exposes itself to a variety of commercial risks. The portion of such risks depends on the sort of economic instrument. These financial risks could be within the assortment of high inflation, volatility in capital markets, recession, bankruptcy, etc. So, as to attenuate and control the exposure of investment to such risks, fund managers and investors practice risk management.

A decent risk management plan should state strategies techniques to being accustomed to recognize and confront threats and vulnerabilities facing the corporate and supply possible solutions to the matter.

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