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A Study On Financial Performance Of Startups In Bhopal.

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Abstract

In the perspective of startups as contributors to the national economy, this article examines the effects of macro and micro factors on financial performance. The current study's analysis of numerous literature studies demonstrates how startup firms employ financial performance to support their founders' growth and managerial objectives, such as producing goods and services. The current study focuses on financial performance characteristics, which vary depending on the startup organization's size and nature as well as the organization's need to determine whether to increase performance. These days, the financial performance of new businesses is the criterion that every corporation looks to for expansion. The primary goal of the current study is to determine how successful financial performance is for newly established businesses. This study was conducted via a survey and is solely descriptive in nature. The new firm should enhance its performance to endure in a fiercely competitive and rapidly evolving market, according to the findings. Indian startups have a very bright future ahead of them and are regarded as one of the essential building blocks needed for the expansion and advancement of the national economy.

Keywords: Financial Performance, Startups, Entrepreneurs.

1. Introduction

Financial performance is always the goal of every manager because it plays a significant role in creating and developing the business, but this goal is often challenged by many factors and leads to business failure. Performance levels are low. Studying the determinants of financial performance is a necessary contribution to new businesses in MP, especially those that are profitable and add good value to the business in macroeconomic terms. The launch of the Startup India movement was completely different from the initial approach of "old wine in a new bottle". This new policy was designed to simultaneously achieve the goal of creating jobs by changing the mindset of the youth. Startup India is one such policy launched by the government of India in 2016. In our study, we focus on the impact of various factors on the financial performance of a startup in Bhopal. The launch of the Startup India movement was completely different from the initial approach of ‘old wine in a new bottle’. This new policy was designed to simultaneously achieve the goal of creating jobs by changing the mindset of the youth. Startup India is one such policy launched by the government of India in 2022.

2. Literature Review

The financial performance of the company is used to evaluate the current development and growth of the organization. Although there are many metrics to measure the efficiency of money, the selection of the appropriate ratio depends on the characteristics of the study and the purpose of the study. Many studies have been conducted in the field of finance and this research has identified different areas of research by exploring the depth of the literature. This study identified the key variables of financial performance that affect business performance. The study looks at the importance and impact of financial performance on new businesses, particularly in new businesses, either alone or in some combination in different contexts. Investors need to understand the interest and excitement of new ventures. It can be stressful to have your decisions dictated to them. Interestingly, no one is to blame for this. When beginners can learn important ideas about themselves and their skills.

Entrepreneurs can cope with local situations. They can save both parties by providing sufficient information about the startup. Career consultants with detailed knowledge of various developments and skills provide excellent service by comparing all possible options. Finding a financial performance platform is a reality. In the research, return on assets (ROA), return on equity (ROE) and return on sales (ROS) are the two most commonly used measures of financial performance. This study uses ROA, ROE and ROS in the financial performance study to measure the company's performance and sales growth. The study measures the financial performance based on ROA, ROE and ROS to examine the relationship between corporate social responsibility and financial performance.

2.1 State ownership

Here we measure the financial performance of the new business. ROE shows the efficiency of equity, while ROS shows the efficiency of the company's cost management. In other words, one of the examples expresses the ability to use capital (investment capital), and the other expresses the ability to control operating costs (investment capital). Therefore, using these two financial indicators will help researchers to draw more conclusions about the financial performance of the enterprise about its effects. Although there are many studies on this issue, the results regarding its effects are still controversial. On the one hand, some researchers agree that members of the state are seen as "helpers" who can provide sufficient capital and thus improve the financial performance of the economy. On the other hand, many define it as "insurance", the idea that the company's profits can be obtained more for certain political reasons. Theoretically, economists use the property rights perspective of economics and residual claim theory to demonstrate the inefficiency of public ownership. Empirically, research shows that these characteristics predict external success for state-owned enterprises.

2.2Quick ratio

According to Van Horne and Wachowicz (2005), the ratio that measures income is a tool that helps analysts evaluates the company's ability to meet its short-term financing obligations. Research shows that "liquidity" is important for business success because failure to meet obligations on time can lead to lower interest rates for borrowers, lower economic growth rates, and ultimately reduce the ability to have more capital in the future. At the same time, capital is the key to good financial performance. There are many financial ratios for evaluating the resources of firms, and the selection of the appropriate ratio depends on the characteristics of the product being studied. For newly established organizations such as food processing companies with short-term debt, the quick ratio (QR) is often used. Seema et al. (2011) states that increase in QR has a positive impact on financial performance.

2.3Total assets turnover ratio

According to (2010), this example can help managers understand how they use the company's assets to generate sales. From a very positive perspective, all high turnover assets are partly indicative of some improvements in the company's ability to increase sales, expand the business and ultimately improve financial performance. The empirical study conducted an empirical analysis of the impact on the performance of listed companies. The research results show that there is a significant relationship between the financial performance of the companies and the total asset turnover ratio. Seema et al. (2011) used total assets, long-term assets and short-term assets to measure the company performance. The authors state that low turnover ratio indicates that the existing resources are underutilized and the company is not using all its resources or assets.

2.4 Leverage

Similarly, Dinh and Sha (2011) used the total assets variable to measure the performance of the companies. Analysts believe that the more productive the assets, the better the performance of the company. It is directly related to the company's use of capital and therefore is an issue that concerns managers, shareholders, investors, creditors and many others. Therefore, studies have been conducted to determine the impact of this change on the financial performance of companies, but no conclusive conclusion has been reached on this issue. Some researchers, such as Al-Jafari and Samman (2015), found that expenses are negatively related to financial performance; However, Humera et al. (2011) argue that additional debt can be used in good investments, which will increase financial performance.

2.4Firm size

Larger companies can have more influence over their current and potential businesses, creditors, shareholders, and even customers. This is also seen in the performance of large companies and international organizations in the international market. Therefore, many researchers consider size to be a determinant of financial performance. However, there are mixed results regarding its impact on sustainability and financial performance. Erasmus (2013) found a positive relationship between sustainability and financial performance, and found that size also has a negative impact on financial performance.

2.5 Growth in sales

Growth is an important measure of a company's past business success and can be used as a tool to predict future growth. This partly shows that the company has been able to expand its market share or introduce new products. Good results also help the company attract more investors. Therefore, there are also many studies on the impact of different factors on the performance of financial institutions; many of the studies conducted by Yazdanfar (2013) found a positive relationship and significance between business growth and performance. Consumer Price Index

2.6 Consumer price index

The Consumer Price Index (CPI) was chosen to represent this process because one of the characteristics of the food sector is that it affects price changes and inflation. Although there are many studies on the impact of the importance of financial transactions, their findings differ. Booth et al. (2001) showed that an increase in the CPI can lead to a decrease in the use of corporate debt, and a decrease in debt can improve business performance. Meanwhile, Deng et al. (2009) suggest that when the CPI increases, start-ups will see many of the benefits of financing diminish, making many managers reluctant to use debt to finance their businesses.

2.7Financing pattern of e-startups

There are various modern and traditional sources available for e-startups from which the companies can mobilize the funds. According to Beck et al. (2008), financing trend of different years in form of debt and equity sources combined makes a capital structure for a company or e-startup. Hackethal and Schmidt (2004) found that the financing patterns mean time period data on the specific financial instrument. They also mention that through financing pattern it can be identified that which source is a more effective source for an entity. On the basis of the above researchers, it can be concluded that a combination of various debt and equity sources makes a capital structure or financial structure or financing patterns for e-startups or any entity.

2.7 Determinants for Financing Patter for business performances

Baxter (2007) stated that the financial performance of startups indicated that how a firm used their assets and also how they generated revenues for their business. According to Berger et al. (2007), financial performance was an instrument to assess the financial health of any entity over a given period of time and that helped in taking the decision after comparing with same type industry or sectors. Thus, the financial performance could be measured through profitability or revenue from operations or in term of sales. Among the firm-specific factors or characteristics are the age of the firm, profitability, growth, the size of the firm, asset structure and leverage.

According to Davidsson et al. (2005), the factors of firm's growth were sales, profit and employees. Study suggested seven determinants of firm's growth – growth motivation, specific skills, need for achievement, a firm's age, financial performance and extra finance. Finally, it can be concluded that a firm's growth can be evaluated by various factors because literature did not suggest any significant theory for firm growth measurement. Firm size has been measured through various proxies, such as assets, sales and number of employees. The researcher concluded that proportion of assets was considered the main part of the debt-equity ratio. Study found a negative relation between the asset structure and the short-term debt and with it a positive relation between the asset structure and long-term debt. Thus, financing pattern of startups can be affected due to assets structure. Dawar (2014) used the return on assets (ROA) as an index for firm profitability, and they found negative relation between ROA and debt-equity ratio that indicated use of more debt for financing will decrease the profitability.

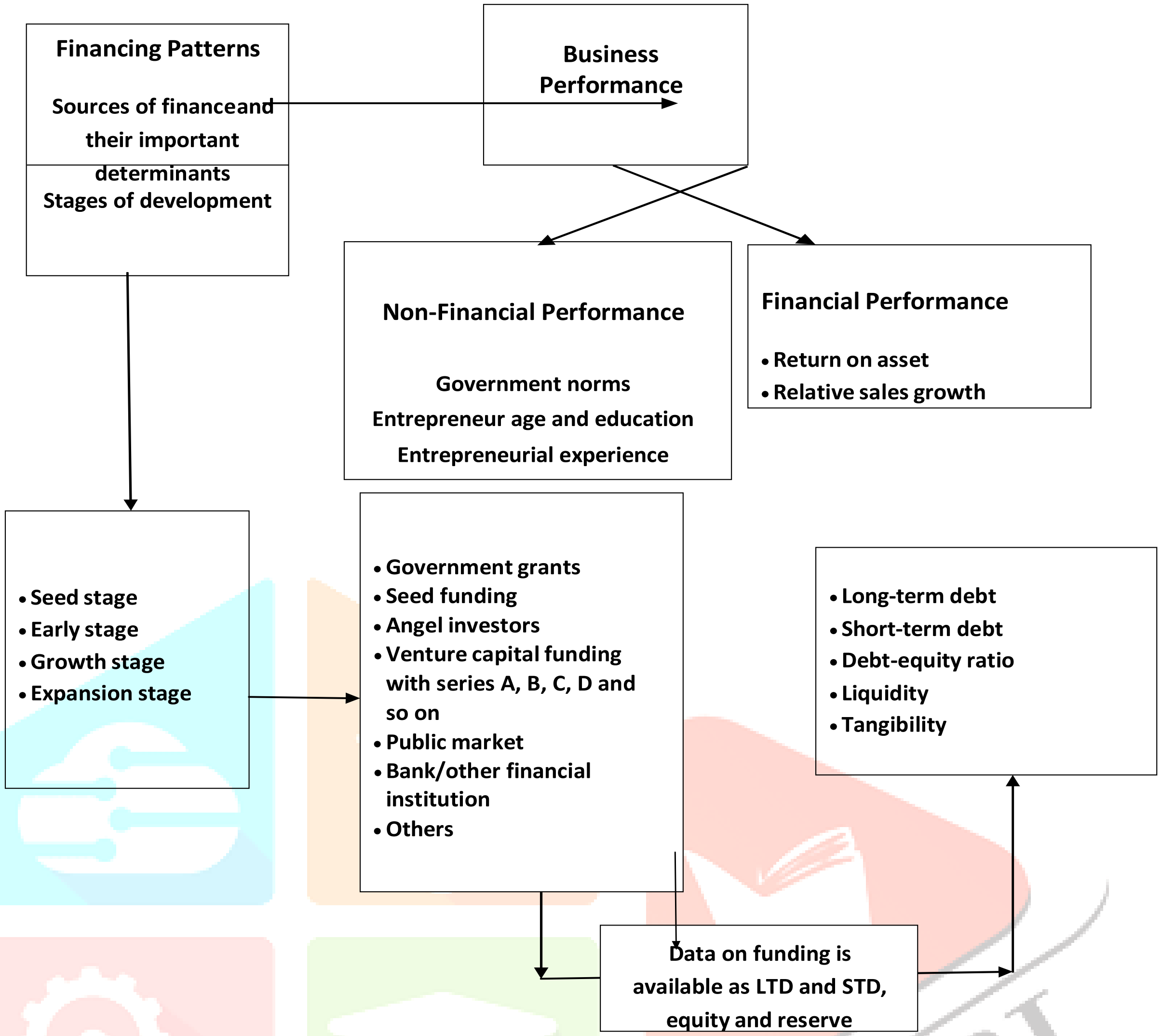

Figure 1 Financing pattern and its determinants
Source: Madan, P and Mittal T. https://www.researchgate.net/publication/34016806

3 Methodology

The nature of the investigation is secondary. Madhya Pradesh is the studied area, and secondary data serves as the primary source of information. The secondary data was gathered from a variety of trustworthy sources, including the organizational websites, newspapers, business reports, outlook reports, published research papers, FCCI's special report on startups, and other reports published by state governments.

4 Discussion and Conclusion

Food product startups are a significant part of the Vietnamese economy, but their financial results are not always what is expected of them. As such, it is crucial to investigate the factors that influence their financial success. First, when financial performance is gauged by ROE or ROS, two factors—the growth in sales and the total assets turnover ratio, or ATR—have a major impact. Growth, therefore, has a beneficial impact on both ROE and ROS; yet, the effect of ATR on ROE is different from that on ROS. Because the profit on each product is relatively minimal, growing sales can assist startup firms ensure that their results are reasonable. Many leaders employ these techniques to increase growth in sales and their financial performance.

Furthermore, managers frequently aim to secure the most market share as quickly as possible in order to save significant expenses and losses down the road because customers' purchasing decisions have a significant impact on them. Regarding the impact of ATR, its positive influence on ROE indicates that, for food processing startup businesses, the effectiveness of the use of capital can modify the ROE, while its negative effect on ROS can be understood due to the economic nature of these two financial ratios. Nevertheless, they did not appear to find these challenges particularly challenging, as the rise in ATR continues to result in improved ROE. Nevertheless, empirical findings suggest the following: measures for ATR should be carefully examined based on the objectives of the firm.

Second, leverage has a negative impact on a company's return on sale. As a result, leaders who wish to improve ROS should restrict their debt usage to reduce costs and achieve their goals. Their mishandling of debt explains the impact of leverage. Food goods have a short production cycle, which means that many firms rely largely on debt. This can result in high financial expenditures, which is especially problematic during a time when interest rates and raw material prices are fluctuating often.

Ultimately, the study finds that while SOEs and non-SOEs differ in their financial performance and the impact of predictors on the dependent variable "ROS," new companies have a better financial performance. Actually, the outcome makes sense since, up until now, SOE management practices, particularly in the banking sector, have not been effective, and the leadership still subscribes to a bureaucratic and subsidized philosophy that has a detrimental effect on company performance. Decomposition analysis identifies the causes based on the component effect. As a result, managers should think about appropriate ways to enhance each company's financial performance, based on the degree of State ownership.

Additionally, fledgling companies are seeing a sharp decline in profitability and a dire financial scenario. Over the time under evaluation, its total income shows a negative growth rate. It was mentioned here that in order to thrive in a market that is becoming more and more competitive, startups need enhance their performance. Indian startups have a very bright future ahead of them and are regarded as one of the essential building blocks needed for the expansion and advancement of the national economy.

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