



## Major Issues and Their Probable Solutions in Management of Start-Ups in India

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### Abstract

Startups have been in the limelight in India for a while now. India enjoys one of the top positions for the number of the Startups opening every year. Alas, little attention is paid on the number of startups that close simultaneously at the same time. Although Startup ecosystem is getting stronger day by day some hindrances still persist in growth and success of startups. Management is one of the key challenges as well as the ladder to Startups success. If management issues are dealt properly the chances of startups success get enhanced. The aspects where management needs full focus are recruitment, key personnel, finances, domain knowledge, etc. The government of India has also come up with plans, policies and various schemes to encourage startup entrepreneurship. The opportunities are right around the corner, entrepreneurs just need to tap it to their advantage.

**Key Words:** Startups, Entrepreneurs, Startup ecosystem, Management.

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## **1. INTRODUCTION**

The Startup ecosystem in India has been growing strong for decades, and it has now become much more comfortable for startups to function in the Indian market. These advancements have made India's startups the 3rd largest in terms of numbers globally. There's a robust ongoing trend to invest in Indian startups. The FDI in India is touching new highs of increased investments every financial year. The rise in startups can be partially attributed to the expansion of entrepreneurship education consistent with global initiatives fostering the growth of private enterprises (Global Entrepreneurship Monitor Report, 2016/2017). Unfortunately, the other side of the coin remains in the shadows. After all these facts, it's appalling to see that no emphasis is put upon the number of startups that failed to survive within a few years of their inception. According to IBM Institute of Business Value & Oxford, Economics-90% of Indian startups died within five years. A careful study is pertinent to understand why individual ventures failed and what could have been done to save them. This question needs further probe because if many startups close in the early years, it offsets the benefits of having many startups opening every year. In the year 2020, India's startup ecosystem rank has fallen from 17th position to 23rd position out of 100 countries.[1] In this paper, the reasons for startups' failure are pointed out, primarily focusing upon the management aspect. Management is the arch stone of a startup. From inception and developing the idea of managing the finances, improving the product and marketing strategies, etc., all are challenging tasks undertaken by the entrepreneur. The Startup is a venture where the product/ idea and the HR are its keys to success. The course of action chosen by entrepreneurs can make it a success or lead to its early exit. Thus, it all boils down to that a great product/idea would not survive in the market if the entrepreneur or the startup venture does not appropriately nurture it.

## **2. LITERATURE REVIEW**

In his essay *Startup = Growth* (2012), Paul Graham states that startups are designed to grow fast; every other aspect falls in place along with growth. Startups have ideas required by a large number of people, and one can cater to such people. Startups operate in a niche market that protects as well as defines startups. Graham states startups have three phases, and phases produce an S curve. Graham explains how a startup can work at its best, keeping some factors in mind – mainly focusing on the entrepreneur and his risk-taking and innovation capacity and the ability to think out of the box.

G. Kalyanasundaram, in his paper, *Why Do Startups Fail? Case Study Based Empirical Analysis in Bangalore* (2018) states that startups' failure is exceptionally high, but such loss can guide future entrepreneurs. The paper does a parallel study of failed and successful startups to see which factors were present or absent in successful & unsuccessful entrepreneurs. The author concludes that financial independence and intelligence, and entrepreneurs' characteristics make or break the Startup.

Dr. Suniti Chandok, in her paper *'India the World's Fastest-Growing Startups Ecosystem: A Study'* (2016), starts by stating India's fabulous performance on billion dollars startups. She lays out the funding differences between Indian and foreign startups and how India's Government is

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<sup>1</sup>. Global Innovation Mappings Research by Startup Blink Company

trying to provide a better financial setup for entrepreneurs in India, especially since 2015. She also points out the significant problems faced by businesses. The author also points out foreign investment in Indian startups and discusses the Indian startup financial life cycle. She draws a table comparing Indian Startups to China, Israel, Singapore, Japan & the USA. She concludes by pointing out the best and negative points of Indian Startups.

Abhijit Sarkar is his paper titled 'Startup India - A New Paradigm for Young Entrepreneurs (A Conceptual Study)' (2016). It states how startups have played and will continue to hand in many economies' development significantly. He draws a figure to describe the life cycle of young companies and salient features of startups of India. He jots down points on the growth of startups in India & action plans for Indian Startups. He briefly discusses prospects & challenges for startups in India and concludes by stating that startups need support and encouragement from various perspectives.

Thus, certain factors emerge, which lead to problems in managing a startup. Specific solutions are also pointed out for startup management.

**Recruitment of Employees:** While recruiting professionals and other staff for a startup job, the main focus should be on the kind of jobs that need to be undertaken. Personnel should be hired according to the jobs they have to perform, be it technical or ground needs. The employees are as important as the product. It's tough recruiting people to a startup as everyone is not flexible enough to work in a startup. "Also, firms face difficulty in attracting talented employees, and recruiting employees of their choice is always a challenge for them." [2] If a startup cannot pay for technical professionals' service, it can offer some stake in the company to such personnel. When people join as partners to a startup, there is a dual benefit a startup enjoys. First, it is not under immense pressure to pay for a professional job in a cash crunch. Second, after acquiring a stake in the company, people have a sense of responsibility and belongingness to the Startup. Undoubtedly, such employees would put in more effort to see the Startup flourish.

The hiring timeline is also critical; often, startups postpone recruitment until the last minute or recruit only after a particular need has been raised, and an extra hand is needed. This is either done to save cash or when there is too much emphasis on product only. But the downside of this approach is that being shorthanded on work puts pressure on the rest of the team, and there is haphazard arrangements, incomplete and insufficient execution. Thus hiring the right number of talented persons at the right time becomes a prime need for the success of a startup.

**Domain Knowledge:** The Indian markets are incredibly fragmented, unorganized, and complex. It is a strenuous exercise for a new venture to operate in such a risky and uncertain demand. Managing product and services operations becomes especially tough because, in India, consumer behavior changes around every 30 Kms. The customer requirements are very diverse and complex, hence catering to their needs simultaneously with the same product is very challenging. Usually, it's easy for startups to operate in a smaller area, but to increase the startup growth rate, the scale and size of operations must be further expanded. It creates a problematic situation as

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2. Williamson, I. O., Cable, D.M., & Aldrich, H. E.(2002), Smaller but not necessarily weaker: How Small Businesses can overcome Barriers to Recruitment, J. Katz,& T.M. Welbourne (Eds), Managing People in Entrepreneurial Organizations, (5), 83-106.

operating in smaller spaces is relatively easier than working in a large heterogeneous area. It's challenging to maneuver the increase in demand, along with different diverse requirements. To overcome all these problems, startups must understand the market's ground realities. A startup should have a well-balanced, specialized, and diverse team of well-versed persons in handling the market's needs and requirements. They should have domain knowledge of the product they work on and the market in which they function. The plan of operations should be flexible to fit the changing demand of customers. The startup team should be well capable of handling the vigorous nature of business and the market. The team should know the market and keep improvising the product and its services, marketing, etc. If a firm takes a long time to develop and improve the product, it becomes obsolete, or business is lost to rivals. The Startup should always work upon customer feedback also. The product is the firm's main star; thus, after the invention of concept and ideas, such image has to be turned into a complete saleable product that can only be done by competent, skillful, and experienced employees.

**Building a Diversified Team:** Usually, an entrepreneur relies on self-efforts to manage and run a startup. But this is practical only in the pre-startup or inception stage. After an idea has been built and finalized upon, an entrepreneur needs a fair and efficient team. Instead of burdening himself with all the works, an entrepreneur should create a group of people with different skills. Hiring people who can run various operations and co-ordinate among themselves is the most desirable startup arrangement. Having a professional person to undertake such technical works will be a significant reason for accomplishing the tasks. It generally found that "successful startups had 83% to 100% technical staff as employees".<sup>[3]</sup> An entrepreneur should ensure a heterogeneous group set, ensuring 360o diverse work field and a formidable team in co. Founder, it's best to have a partner that is complementary to their skills. A multifaceted team will ensure multiple ideas, a healthy competitive environment, a better selection of decisions, and a skillful edge to the Startup.

**Competitors:** New ventures such as startups always face tough competition from existing business houses. Their rivalry upto a certain extent creates a healthy competition where the best products and companies survive. But caution is a must while competing with big business organizations because they often negatively target small businesses. Large firms are very prejudiced towards the entry of a new firm because they fear the loss of sales, popularity, and consumer base shifting. It's often found that big business houses often run in losses for years for a particular product to eliminate the new company. Thus they inhibit the tendency to oppose and kill startups. Other organization counterparts also try and outsmart their rivals by pricing strategy, advertisement, product-updation, promotional strategies, etc. The rival startups are as much of a threat to the firm as big business houses. "19% of startups have underscored the challenge posed by their competitors." <sup>[4]</sup>

Thus, in addition to focusing on one's work and organization, proper attention should be given to the rivals' moves. One should adjust quickly to mistakes should stun its competitors in terms of

<sup>3.</sup> Ganesaraman Kalyanasundaram, Why Do Startups Fail? A Case Study Based Empirical Analysis in Bangalore, *Asian Journal of Innovation and Policy* (2018) 7.1:079-102

<sup>4.</sup> Sunanda, K., How to Start and Manage Startup Companies in India, A Case Study Approach", *International Journal of Engineering Development and Research*, 5(4): 167-174. ISSN:2321-9939, 2017.

products, service, marketing, finance, and management. A well chalked out and flexible plan is a must to tackle the competition and the market.

**Managerial Skills:** The most crucial facet which can break or make a startup is organizational skills; if an entrepreneur possesses managerial intelligence to make the right decisions at the right time, then the success rate remains very high. While handling finance (pitching, procuring, allocating, human resource), sales, marketing, etc., Skillful administrative decisions lead to proficiency in the working model of the Startup. Invariably it brings about better utilization of resources, efficiency in operations, increased output, and profits. The majority of Startups fail to mark because there is dissonance between the corporate good and personal good. Often entrepreneur's loss of original vision and more emphasis on unceasing sales leads to failure.

Sometimes, entrepreneurs having field knowledge and experience also fail to keep the startup floating. They either overlook an essential aspect or get too occupied with their field of expertise. Even people with experience, skill, and knowledge find it challenging to bind every detail together and function as a whole unit. Entrepreneurs often try to replicate Silicon Valley models, which might not be suited for Indian ecosystems. Occasionally they get too fascinated with developing their product only. It only increases their probability of non-performance.

Thus, every entrepreneur should consult and learn before stepping into the arena of competitive ground realities. Entrepreneurial learning is a fundamental requirement for an entrepreneur as it drives the Startup to success(Startup Genome Report,2017).One can always take counsel and information from accelerators and incubators. Accelerators and incubators are such organizations that train and mentor startups. They provide skill and knowledge development, business contacts, organizational support, etc. They help setup the startup business in every possible way. It is of utmost importance as the right guidance and assistance can help the Startup stay intact and running.

**Revenue Expenses and Revenue Income:** Running business operations is an expensive, challenging, and daunting task. Management always has to keep an eye on capital investments, expenses, profits, sales, etc. As the economic theory of product states' life cycle, there is enormous capital expenditure without or significantly less revenue income in the first stage. Similarly, a startup initially has a negative revenue income and massive capital and revenue expenditures. There are cash burn problems, inadequate working capital, fewer sales, more marketing expenses, and decreasing profit margin. Startups are stuck in this situation where they are unable to recover their revenue expenses.

Real and conventional efforts should be taken to enlarge sales volume to reach a break-even point. More marketing strategies should be put into action to increase the demand and popularity of the product. The only way of keeping a startup away from the point of no return is to ensure that capital is spent minimum on revenue expenses; working capital and cash in hand should be kept adequately. Before developing the product, the entrepreneur should ensure that he would possess a certain amount of funds after a Minimum Viable Product (MVP) is launched. Efforts should be directed towards reinvesting profits in the product rather than exhausting one's savings on product development. Repeated investments and informal loans should not be the last resort to fuel production as investments lead to dilution of company management and sometimes a debt trap. According to McKinsey, 43% of SME's in India borrow from informal sources. Here

entrepreneur loses his freedom of independent decision-making. Thus, sales and finance management should be the utmost priority when starting production because these ultimately lead to startups' growth and success.

By all counts, one can safely conclude that managerial skills are of umpteenth importance for a startup's success and prosperity. For the startup idea to flourish, it needs careful construction and execution of the entrepreneur's entire working plan. Thus the right skillset needs to be cultivated by the entrepreneur.

Recognizing that people might not possess the required knowledge and skill, the Government and Private sector have developed accelerator and incubator programs such as TLabs, Nasscom Initiative, Microsoft Scaleup, and Cisco Launchpad, etc. To further promote startups, the Government has launched ample financial assistance schemes like MUDRA, SIP-EIT, Credit Guarantee Scheme for Startups (CGSS), Venture Capital Assistance Schemes, etc. GOI has also tried to create a better ecosystem for startups by bringing initiatives like Startup India, e-BIZ, Single Point Registration Scheme, Ease of Doing Business Reforms, etc. The Government is also determined to provide R&D, skill development, and innovation to entrepreneurs with schemes and programs like ASPIRE, Ministry of Skill Development & Entrepreneurship, Atal Innovation Mission (AIM), Multiplier Grants Scheme (MGS), etc. "The Startup India initiative also has an action plan with three main focus areas- Simplification and Handling, Funding Support and Incentives, Industry-Academia Partnership and Incubation (Startup India, 2016). It has given rise to 30% of new startups since 2016." [5]

Thus, the startup ecosystem in India has recently bolstered up from almost every aspect. Every entrepreneur needs to build upon this momentum and ensure that India just doesn't become a country with the largest number of startup ventures but the country with the highest number of successful startups and unicorns both in net worth and market share.

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