

WORKING CAPITAL MANAGEMENT OF START-UPS IN KERALA

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Abstract: Start-ups are nowadays gaining prominence by contributing towards the development of the economy. But majority of the start-ups couldn't survive due to insolvency or lack of profitability. Inefficient working capital management is one among the major reasons for failure of start-ups. Start-ups are initially financed through private finance of the entrepreneur and hence proper management of working capital is necessary in order to utilise the funds effectively. Otherwise they may run out of cash because like any other business start-ups also take some time to reap profit from its business. It is during that period many start-ups fail due to inefficient working capital management. Hence a study was conducted to know the working capital management of start-ups in Kerala where the researcher analysed that there is inefficiency in working capital management of Start-ups. Lack of proper financial guidance from the experts adds to the inefficiency of working capital management and thereby failure of start-ups.

1.1. INTRODUCTION

Start-up implies an organization, registered or incorporated in India that isn't before 10 years, with annual turnover not surpassing ₹100 crores in any preceding financial year, and dealing towards innovation, deployment development, or commercialization of new products, services or processes or driven by technology or intellectual property as long as such entity isn't shaped by splitting up, or reconstruction, of a business already in existence. The young generation is very eager to become entrepreneurs by putting their own ideas into practice. The joy of innovation and creation, an urge to do something for the society etc. adds to their entrepreneurship. Start-up is the best and prominent way to satisfy all these needs. But for a start-up to be successful it needs to have an adequate level of working capital. Working capital is an inevitable factor for every business organisation. No business can survive and succeed without adequate working capital. An adequate level of investment in working capital should be maintained by every business organisation including start-ups for meeting their day to day expenses and in order to carry out their operations smoothly and effectively which is possible only through effective and efficient management of working capital. Management of working capital is the process of planning, organizing, directing and controlling the current assets (cash, accounts receivables and inventories) and current liabilities (trade payables) in order to maintain an optimum level of working capital in the business so that there will be a trade-off between liquidity and profitability of the business organisation. The lack of working capital, also referred to as liquidity shortage, troubles many companies and has been identified as one of the major reasons for a company's failure.

1.2. STATEMENT OF THE PROBLEM

Working capital management is necessary for the smooth and successful conduct of the start-ups. Most of the start-ups fail due to liquidity issues which arise as a result of the inefficient management of working capital. Most start-ups face severe financial constraints and hence they are initially financed through entrepreneur's savings which won't be available throughout the functioning of start-ups. Like every other business, start-ups also take time to reap profit from its business. During such time period they face severe working capital crisis which is one among the major reasons for start-up failure in the initial stage itself. Lack of expertise in managing the finance, lack of proper mentoring from the financial experts etc. lead to such situations. The study covers the challenges faced by the start-ups in working capital management, especially start-ups in Kerala.

1.3. SIGNIFICANCE OF THE STUDY

The concept of start-up is gaining prominence in this current scenario. Start-up is a platform for the young entrepreneurs to expose their innovative and competitive ideas which can push the economy to future growth and development. GDP or Gross Domestic Product of our Nation is also influenced by the Start-up. Hence higher the investment in Start-up means larger the production of goods or rendering of services to the economy which ultimately lead to increase in GDP of our nation thereby contributing to the future growth and development of the nation. A start-up business, which is new to the market and facing severe competition, requires more effort in the area of working capital management. Therefore it is necessary to prevent the start-ups from failure due to inefficient working capital management and to make start-ups contributing towards the economic development of the nation.

1.4. OBJECTIVE OF THE STUDY

- To evaluate how effectively the start-ups can manage their working capital requirements

1.5. RESEARCH METHODOLOGY OF THE STUDY

Nature of data

Both primary and secondary data were used for the purpose of the study. Primary data were collected using questionnaires through Google forms from 100 Start-up units across Kerala. Secondary data were collected from published sources like Books, Newspapers, Journals etc. Internet facility was also used for collecting the necessary information.

Scope of the study

The study on the 'Working Capital Mangement of Start-ups in Kerala' was limited to Kochi, Trivandrum and Kozhikode and the period of the study was 5 years.

Sampling

For the purpose of the study, the population was divided into 100 samples. The respondents were selected mainly from Kochi, Trivandrum and Kozhikode on a random basis.

Data Analysis

Data was analysed using appropriate statistical tools

1.6. LIMITATIONS OF THE STUDY

- Lack of enough time for the respondents to respond since they were busy in the promotion and development of their start-up.
- Lack of adequate knowledge about the start-up for some of the respondents since they were new to this field. Some of them initiated their start-up soon after their education. Hence the researcher could not able to gather more information about the start-up from them.
- Mistakes from the part of respondents while filling the questionnaires

2.1. REVIEW OF LITERATURE

Dr.Shailja Badra and Vivek Sharma (2016) in their study 'Start-up India- New Opportunities for the Entrepreneur' examined that the Indian business community needs to engage in the environment of innovation and exploration in technology and products as well as in every tenet of business. The next leg of development would not come out of incremental capital, but from utilising the intellectual capital to its fullest. They point out that Start-up India is tied in with challenging conventions and stimulate a revolution of unique and emphatic business models. It is the forerunner to India becoming the overwhelming focus in the new world. The study concluded that making capital more available and cheaper, easier patent filing, giving research and development credits, and easier entry and exits are critical to the success of Start-up India

Kamaldeep Kaur (2017) in his article 'Start-up India Challenges and Opportunities' viewed that because of globalization and advancement in technology, competition is increasing day by day that's the reason self-employment consciousness among college students is expanding at fast pace. Moreover, India is a second most populous nation and because of substantial population pressure, it is required to develop entrepreneurial skill among individuals in India so government launch start-up India Plan to help the young inspiring entrepreneur. This Paper aimed at investigating the challenges and opportunities in the way of start-ups in India explored the foremost difficulties confronted by start-ups in India and examined the various opportunities of start-ups in India by exhausting a literature-based analysis. He revealed that the level of learning that business advisors have about regular issues, Multi-window clearances, and tax assessment framework is the most prominent test in the method for accomplishment of Start-up India so the government needs to do a lot of work in this heading.

3.1. DATA ANALYSIS AND INTERPRETATION

Analysis of the Working Capital or Short term Capital requirements of the Start-up

7 questions on five-point scale listed in Table 3.1.1 were asked to the respondents regarding the Working Capital or Short term Capital requirements for the smooth and successful conduct of a start-up. For this the researcher uses full Structural Equation Model to test the hypothesis.

table 3.1.1. attributes identified in connection with the working capital or short term capital requirements of the start-up

Code	Working Capital or Short term capital requirements of the start-up
WC1	Stable and steady working capital is necessary to meet the day to day financial requirements and smooth functioning of the start-up.
WC2	Preparation of Working Capital Budget can help the start-up to manage its future working capital needs effectively.
WC3	My start-up faces difficulty in meeting the day to day financial requirements.
WC4	My start-up could not able to repay creditors without any default.
WC5	My start-up could not able to retain money for the future working capital requirements.
WC6	My start-up couldn't able to provide credit to my customers.
WC7	My start-up could not able to make arrangements with the Bank in order to meet the future contingencies.

Source: Primary Data

The hypothesis set by the researcher for the attributes identified in connection with the Working Capital or Short term capital requirements of the start-up are:-

- H₁:** WC1 has a positive impact on Working Capital or Short term capital requirements
H₂: WC2 has a positive impact on Working Capital or Short term capital requirements
H₃: WC3 has a positive impact on Working Capital or Short term capital requirements
H₄: WC4 has a positive impact on Working Capital or Short term capital requirements
H₅: WC5 has a positive impact on Working Capital or Short term capital requirements
H₆: WC6 has a positive impact on Working Capital or Short term capital requirements
H₇: WC7 has a positive impact on Working Capital or Short term capital requirements

Table 3.1.2. model fit indices for cfa – working capital or short term capital requirements of the start-up

	χ^2	DF	P	Normed χ^2	GFI	AGFI	NFI	TLI	CFI	RMR	RMSEA
Working Capital or Short term capital requirements	15.801	11	.149	1.436	.960	.899	.928	.954	.976	.060	.066

All the attributes loaded significantly on the latent constructs. The value of the fit indices indicates a reasonable fit of the measurement model with data.

Table 3.1.3. the regression coefficients – working capital or short term capital requirements of the start-up

Path	Regression coefficient	Critical Ratio (CR)	P value	Variance explained
WC1 → Working Capital or Short term capital requirements	0.653	7.687	<0.001	42.5
WC2 → Working Capital or Short term capital requirements	0.940	17.118	<0.001	88.4
WC3 → Working Capital or Short term capital requirements	0.589	6.659	<0.001	34.7
WC4 → Working Capital or Short term capital requirements	0.645	7.561	<0.001	41.7
WC5 → Working Capital or Short term capital requirements	0.622	7.112	<0.001	38.7
WC6 → Working Capital or Short term capital requirements	0.896	14.296	<0.001	80.2
WC7 → Working Capital or Short term capital requirements	0.523	6.135	<0.001	27.3

H₁: WC1 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC1 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.653, which is more than the recommended value of 0.4. So the hypothesis H₁ is accepted and concludes that 'Stable and steady working capital is necessary to meet the day to day financial requirements and smooth functioning of the start-up' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₂: WC2 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC2 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.940, which is more than the recommended value of 0.4. So the hypothesis H₂ is accepted and concludes that 'Preparation of Working Capital Budget can help the start-up to manage its future working capital needs effectively' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₃: WC3 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC3 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.589, which is more than the recommended value of 0.4. So the hypothesis H₃ is accepted and concludes that 'My start-up face difficulty in meeting the day to day financial requirements' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₄: WC4 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC4 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.645, which is more than the recommended value of 0.4. So the hypothesis H₄ is accepted and concludes that 'My start-up could not able to repay the creditors without any default' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₅: WC5 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC5 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.622, which is more than the recommended value of 0.4. So the hypothesis H₅ is accepted and concludes that 'My start-up could not able to retain money for the future working capital requirements' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₆: WC6 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC6 has significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.896, which is more than the recommended value of 0.4. So the hypothesis H₆ is accepted and concludes that 'My start-up couldn't able to provide credit to my customers' is a factor that has significant impact on Working Capital or Short term capital requirements.

H₇: WC7 has a positive impact on Working Capital or Short term capital requirements.

The results exhibited in Table 3.1.3. revealed that the regulatory construct WC7 has no significant impact on Working Capital or Short term capital requirements as the standardised direct effect of this construct on Working Capital or Short term capital requirements is 0.523, which is more than the recommended value of 0.4. So the hypothesis H₇ is accepted and concludes that 'My start-up could not able to make arrangements with the Bank in order to meet the future contingencies' is a factor that has significant impact on Working Capital or Short term capital requirements.

4.1.FINDINGS OF THE STUDY

From the study it was clear that start-ups were facing difficulties in meeting the day to day financial requirements (working capital). Major results obtained from the study were:-

- Preparation of working capital budget is necessary for the effective management of working capital. But most of the start-ups do not have a proper working capital budget.
- Start-ups lack the ability to repay the creditors without any default which points out the inefficiency of working capital management.
- Start-ups couldn't able to provide credit to the customers which lead to leakage of customers and also the downfall of market share as they couldn't able to compete with their competitors. This was another major issue faced by the start-ups due to inefficient working capital management.
- They couldn't able to make any arrangements with the Bank to meet the future contingencies as Banks do not support financing the start-ups due to inability of start-ups to repay the creditors on time which also leads them to an illiquid position.
- Start-ups also face crisis in maintaining an adequate level of inventory in the business.
- Start-ups could not able to maintain even an adequate amount of working capital as reserve for meeting the future contingencies.
- The study evaluated that start-ups were facing scarcity of working capital for the day to day operations of their business and it is clear from the financial result of the start-ups that 80% of the start-ups were suffering losses.

5.1. CONCLUSION

Working capital management is an inevitable factor for the smooth and successful conduct of the start-up business. It will help the start-ups to reduce the risk of insolvency and increase the chance of profitability. From the study, the researcher analysed that majority of the start-up businesses were facing working capital crisis due to inefficient working capital management. Start-ups were facing severe liquidity issues like inability to make prompt payments to creditors, inability to retain cash reserve for future contingencies, shortage of inventory, inability to provide credit to customers etc. This working capital crisis leads many start-ups to failure. Start-ups must try to acquire funds from cheaper sources and also manage the present and future working capital requirements effectively. For this an appropriate working capital management strategy should be followed by the start-up business with the help of a financial expert so that it will be prevented from loss and insolvency.

6.1. SUGGESTIONS

- Government should financially support the start-ups as banks and financial institutions were reluctant to support emerging start-up firms.

- Government has put forwarded many plans and policies for start-ups but most of them remain in papers. So execution of those plans and policies as early as possible is must for the development of the start-ups.
- Government should try to provide the financial assistance and other subsidies to the start-ups without any delay so that there will be no shortage of working capital.
- Start-ups should be provided with adequate mentoring for working capital management by financial experts.
- Start-ups should always try to raise working capital from cheaper sources of funds.

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