FINANCIAL RISK MANAGEMENT STRATEGY FOR STARTUPS

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirements for the Degree of Master on Business Studies (MBS)

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **FINANCIAL RISK MANAGEMENT STRATEGY FOR STARTUPS.** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Menuka Khadka has defended research proposal entitled **FINANCIAL RISK MANAGEMENT STRATEGY FOR STARTUPS.** The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Dr. Pitri Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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We have examined the dissertation entitled **FINANCIAL RISK MANAGEMENT STRATEGY FOR STARTUPS** presented by **Menuka Khadka,** a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva-Voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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ACKNOWLEDGEMENTS

I would like to acknowledge the following notable personalities who have contributed their valuable efforts in different ways in creation of this research. I would express my profound gratitude to my thesis supervisor Dr. Pitri Raj Adhikari of Shanker Dev Campus for his valuable guidance and kind support to me all the way through this thesis his co-operation in the revision of this thesis has precisely helped me to groom and bring it in this form. I also owe deep gratitude to all reputed authors whose writings have provided me the necessary guidance and invaluable materials for the enrichment of my research papers in all possible ways. My special appreciation goes to my colleague and to all my family members, teachers and friends for their continuous encouragement and help to complete this work directly or indirectly. I Have taken utmost care to avoid errors, but I know they are inescapable, so I shall be obliged if they are forgiven.

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ABBREVIATIONS

BAFIA	: Banking and Financial Institution Act
CFMP	: Cash Flow Management Practices
Contd.	: Continued
CS	: Capital Structure
CV	: Coefficient of Variance
e.g.	: For example
Etc.	: Etcetera
FFP	: Financial Forecasting and Planning
FSR	: Financial Stability or Risk Exposure
i.e.	: That is
MEC	: Market and Economic Conditions
N/A	: Not Applicable
No.	: Number
NRB	: Nepal Rastra Bank
Pearson's r	: Pearson's Correlation Coefficient
RMP	: Risk Management Practice
S.D	: Standard Deviation
SPSS	: Statistical Package for the Social Sciences
T.U	: Tribhuvan University
USD	: United States Dollar

ABSTRACT

This study investigates the financial risk management practices in startups, with a focus on how they assess, manage, and mitigate financial risks during their early stages. Given the volatile nature of startup environments, understanding the financial risk management strategies employed by these ventures is critical for their survival and growth. The research identifies key independent variables such as capital structure, cash flow management practices, financial forecasting and planning, market and economic conditions, and risk management practices, and examines their influence on the dependent variable: financial stability and risk exposure in startups. A mixed-methods approach was used, combining quantitative surveys with qualitative interviews to gather comprehensive data. The sample comprised 385 technology startups at various stages of development, focusing on those with significant financial challenges. Descriptive and causal-comparative research designs were employed to explore the relationships between the independent variables and the financial stability of startups. Statistical analysis, including correlation and regression techniques, was applied to examine the strength and direction of the relationships between the variables. The study found significant positive correlations between financial forecasting and planning, market conditions, and financial stability, suggesting that startups that actively engage in long-term planning and stay attuned to market changes are better equipped to manage financial risks. Cash flow management practices were also found to play a crucial role in minimizing financial risk exposure. On the other hand, some variables such as capital structure and risk management practices showed weaker relationships with financial stability, implying the complexity of their direct impact. The findings suggest that startups must prioritize effective financial planning, maintain adequate cash flow, and adapt to market fluctuations to improve financial stability. The study also highlights the need for ongoing research into the dynamic and evolving risk management strategies of startups. Policymakers and investors can use these insights to create more supportive environments for startup growth, while entrepreneurs should focus on enhancing their financial management capabilities to navigate uncertainties and secure long-term success.

Keywords: financial stability, financial risk management, startups, capital structure, cash flow management, financial forecasting, risk management practices, market conditions.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Business digitalization refers to the process of integrating digital technologies into every aspect of an organization's operations and business model. This transition is revolutionizing the way companies manage data, interact with customers, and execute daily operations. Digital technologies, such as data analytics, artificial intelligence (AI), and mobile applications, enable businesses to streamline processes, reduce operational costs, and improve value delivery to customers. For instance, startups can leverage AI and data analytics to forecast market trends, analyze consumer behaviors, and make more informed decisions. Additionally, e-commerce platforms and mobile applications have allowed businesses to expand their reach to global markets and offer more personalized services, increasing customer satisfaction (Abramihin, 2023; Agustin & Abidin, 2023).

However, this shift to digitalization also brings about a set of challenges. One of the primary concerns is the increase in cyber security threats as businesses rely more on digital technologies. These threats, including data breaches and cyber-attacks, require organizations to implement robust security measures to protect sensitive information and systems. Furthermore, digitalization demands significant investment in technology and employee training. Startups, in particular, face financial constraints and need to balance their resources effectively to keep up with technological advancements. Additionally, digitalization often necessitates structural changes in a company’s organizational culture to ensure flexibility and adaptability in a rapidly evolving technological environment. Despite these challenges, the long-term benefits of digitalization such as increased competitiveness, innovative products and services, and improved customer satisfaction make it a crucial strategy for startups aiming for sustainable growth in the digital era (Akbar et al., 2024; Arutiunian, 2024).

For startups, managing financial risks is an essential aspect of surviving and thriving in the digital age. Financial risks ranging from operational and compliance risks to liquidity and market risks pose significant threats to startups, especially when they lack sufficient capital, experience, or robust risk management frameworks. The inability to identify and

mitigate financial risks can lead to business failure, particularly during the critical early stages of development. Unlike established businesses, startups often operate in volatile environments with minimal funding and face heightened competition from more mature organizations. To succeed, startups must develop comprehensive financial risk management strategies, which involve the identification, assessment, and mitigation of risks to safeguard their financial health and ensure long-term success (Atamirzaevich, 2024; Avci, 2024).

The research aims to examine the financial risks faced by startups and to explore the factors influencing risk management practices during the transition from early-stage to scaling-up operations. As startups are characterized by innovation, growth ambitions, and market unpredictability, their approach to risk management must be agile and tailored to their unique challenges. The study will focus on startups' financial planning, including cash flow management and budgeting, both of which are vital for maintaining liquidity during early growth stages. Effective financial planning and risk management enable startups to navigate the uncertainties of the business environment and capitalize on emerging opportunities (Baporikar, 2023; Banerjee, 2024).

In conclusion, startups must place a strong emphasis on managing financial risks from the outset. This requires establishing solid financial plans, maintaining liquidity, and preparing for unforeseen challenges. By proactively addressing financial risks and fostering resilience, startups can position themselves for success in the competitive and ever-changing business landscape. Moreover, research on how startups can mitigate financial risks and implement effective risk management strategies is crucial for ensuring the long-term sustainability and growth of these emerging businesses (Ebong & George, 2021; Firmansyah & Susetyo, 2022). The findings of this study will contribute to understanding how startups can better manage their financial health and thrive in the face of digitalization and rapid technological change.

The selection of this topic, focusing on financial risk management for startups in the digital age, is both timely and relevant given the growing influence of digital technologies on business operations. As startups increasingly rely on digital tools to enhance productivity, expand market reach, and drive innovation, they also face

heightened financial risks that can hinder their growth and sustainability. Understanding how these companies can effectively manage risks ranging from liquidity issues to cyber security threats is critical for their long-term success. By exploring the factors influencing financial risk management in startups, this study addresses a gap in current research, offering valuable insights into the unique challenges faced by early-stage businesses in a rapidly evolving technological landscape. This research has the potential to provide practical strategies for startups, policymakers, and entrepreneurs, ultimately supporting the growth and resilience of emerging businesses in an increasingly digital world.

1.2 Problems Statement

Beginning with problem monitoring, risk identification and collection, risk measurement, and decision-making about risk management, acceptance, mitigation, or refusal, the process culminates in the development of a risk monitoring system (Olsson, 2002).

A critical area that startup managers and founders need to focus on is financial risk management. Startups confront a range of financial risks in the digital age, including operational, compliance, and market risks as well as liquidity and liquidity risk. Even before businesses enter a substantial growth phase, the incapacity to identify and mitigate these risks might result in business failure (Atamirzaevich, 2024).

Risk identification, risk measurement, and mitigation techniques are the main elements of financial risk management. Determining every possible financial risk that an organization can encounter, from both internal and external sources, is known as risk identification. To determine the extent of a risk's impact and likelihood of occurrence, a variety of quantitative and qualitative techniques are used in risk measurement (Bielialov, 2022).

Various variables, including market fluctuations, fierce rivalry, poor management, and economic uncertainty, might give rise to financial hazards (Gorbunova, 2023). Startups can employ strategies like portfolio diversification to lower concentration risk, hedging to defend against price swings, and insurance to safeguard intellectual assets. Furthermore, in times of market volatility, maintaining operational sustainability also requires possessing an emergency reserve fund. Startups can enhance their resilience to obstacles and seize significant development prospects by instituting extensive risk management (Greco, 2022). It is important to emphasize that risk management is the process by which

a business addresses relevant risk issues in an organized manner in order to ensure that the operation produces long-term advantages, both in specific areas and when taken as a whole (Sitek, 2009).

Startups face significant challenges in managing financial risks, particularly in the early stages of development, where they are vulnerable to operational, market, and liquidity risks. The inability to properly identify, assess, and mitigate these risks can lead to financial instability or even business failure. Factors such as limited resources, inexperience, and the rapidly changing business environment make it difficult for startups to implement effective risk management strategies. Moreover, external factors like market fluctuations, competition, and economic uncertainty can exacerbate financial threats. As a result, startups often struggle to prioritize and manage risks adequately, which undermines their ability to make informed decisions, secure funding, and achieve sustainable growth. This study aims to examine how startups assess and address these financial risks, and the impact of factors such as financial resources, market conditions, leadership decisions, and prior experience on their risk management practices. Regardless of size small, medium-sized, or large the risk management and finance process needs to be integrated with other business operations in order to operate effectively (Korombel, 2013).

Thus, the purpose of this study is to learn more about how startups handle risk assessment, risk management, and the process of identifying the best risk financing options that could lower their business risk.

i. How do startups assess and prioritize the financial risks they face in their early stages of development?

ii. In what ways do financial resources, market conditions, leadership decisions, and prior experience influence the risk management strategies adopted by startups?

iii. What are the key challenges startups must overcome in order to effectively implement and execute sound risk management tactics?

1.3 Objectives of the Study

i. To assess position of the financial risks handled by startups.

ii. The study aims to explore how financial resources, market conditions, leadership decisions, and prior experience influence the risk management strategies employed by startups.

iii. To analyze the startups must overcome in order to put good risk management tactics into practice.

1.4 Rationale of the Study

The importance of this study resides in its ability to give Objective a strong framework for managing financial risk, which is crucial for negotiating the uncertainties present in the startup environment. The goal of the study is to provide the organization with practical ways to manage financial risks, protecting its financial health and fostering sustainable growth, by methodically identifying and evaluating these risks. Furthermore, a well-structured financial risk management strategy can boost investor trust, making it easier to recruit money and support for future initiatives. In the end, this research will assist Objective in strengthening its operational resilience and establishing a competitive position in the market, allowing the startup to take advantage of new opportunities and reduce risks.

1.5 Limitations of the Study

The limitations of the study are as follows:

i. The fast-paced nature of the startup ecosystem means that financial risks can change quickly, potentially making the findings of the study obsolete over time.

ii. The study relies on the availability of accurate and accessible financial data, which can be difficult to obtain, especially for startups with limited historical records.

iii. Qualitative evaluations used in the study may vary based on individual perspectives and experiences, which could introduce biases or limitations in the findings.

iv. Factors such as changes in regulations, market volatility, or economic downturns that occur after the study may affect the applicability of the recommended risk management strategies.

v. Due to the constantly evolving nature of market conditions and external factors, the strategies or conclusions derived from the study may not be universally applicable in the long term.

CHAPTER II
REVIEW OF LITERATURE

This chapter goes over the ideas covered in the textbook on the topic area. It also goes into earlier research that has been done on the topic of this study. In a similar vein, students from many colleges and universities have also completed a quick assessment of their theses. Furthermore,

- Theoretical Review
- Conceptual Review
- Empirical Review
- Research group

2.1 Theoretical Review

Financial risk management principles, which place an emphasis on the methodical identification, assessment, and mitigation of risks that could have an influence on an organization's financial health, serve as the theoretical foundation for this subject. The Risk Management Framework, which describes an organized method for managing risks through detection, analysis, response, and monitoring, is one of the key ideas pertinent to this assessment. Furthermore, the Modern Portfolio Theory (MPT) sheds emphasis on diversification as a tactic for lowering financial risk by emphasizing the value of distributing investments throughout a range of assets to lessen exposure to any one risk.

A. Modern Portfolio Theory (MPT)

Organizations employ theoretical models of financial risk management as conceptual frameworks to comprehend, quantify, and control the financial risks they encounter. These models evaluate the possible effects of various risks, including market, credit, and liquidity risks. They are frequently based on economic, statistical, and financial concepts. One of the traditional models that emphasizes diversity to lower risk is Modern Portfolio Theory (MPT), created by Harry Markowitz (Corelli, 2024). Investments in MPT are chosen to attain the best possible balance between risk and return. A common application of the VaR (Value at Risk) model is to calculate, with a given degree of confidence, the

maximum loss that can occur in an investment portfolio over a given period of time (DBA, 2023).

B. The Capital Asset Pricing Model (CAPM)

It is one of the other important theoretical models. The link between market risk, or unverifiable risk, and an asset's expected return is calculated using the Capital Asset Pricing Model (CAPM). The risk-free rate of return plus a risk premium multiplied by the asset's beta a measurement of the volatility or systematic risk of an asset in relation to the market as a whole is how the CAPM calculates the expected return of an investment or portfolio. Other models that offer crucial viewpoints and instruments for managing financial risk include the Black-Scholes Model for options and Arbitrage Pricing Theory (APT) (Dempsey, 2021).

C. Arbitrage Pricing Theory (APT)

Arbitrage Pricing Theory (APT) is a financial theory that explains the return of an asset (such as a stock or bond) as a linear function of various macroeconomic factors or risk factors. It provides a framework for understanding asset prices through multiple sources of systematic risk, as opposed to just relying on a single factor, as is the case with the Capital Asset Pricing Model (CAPM). APT assumes that asset returns are influenced by multiple factors, such as inflation, interest rates, GDP growth, and other macroeconomic or firm-specific factors, rather than just the market return.

D. Carhart Four-Factor Model (CFFM)

Carhart Four-Factor Model (CFFM) extends the Fama-French Three-Factor Model by adding a fourth factor momentum to better explain stock returns. The model includes four factors: (1) the market excess return (market return minus the risk-free rate), (2) size (SMB, the difference between small and large-cap stocks), (3) value (HML, the difference between high and low book-to-market stocks), and (4) momentum (MOM, the difference between stocks with high past returns and those with low past returns). The model aims to capture additional return patterns, particularly the momentum effect, where stocks that have performed well in the past continue to perform well, and vice versa for poorly performing stocks. By incorporating these factors, the Carhart model

provides a more comprehensive framework for explaining cross-sectional variations in stock returns.

Financial managers frequently utilize these theoretical models to create practical risk mitigation plans, as they serve as the foundation for risk management procedures in the actual world. But it's important to take into account the assumptions and constraints of each model. According to Duan et al. (2021), the financial markets may not always mirror the assumptions made by CAPM and MPT, which include efficient markets and rational investors. Thus, for more comprehensive and all-encompassing risk management, a combination of theoretical models and qualitative judgment is frequently required. A thorough comprehension of these theoretical models enables businesses to reduce the impact of financial risks and make wiser financial decisions.

2.2 Conceptual Review

Financial Risk Management

The process of locating, evaluating, and reducing financial risks that could jeopardize an organization's stability and profitability is known as financial risk management. There are many different things that might cause financial risks, such as changes in interest rates, market turbulence, economic unpredictability, and currency volatility (Berry, 2023). Companies can take proactive measures to safeguard their assets, guarantee cash flow, and uphold long-term financial health through financial risk management. To manage and reduce these risks, strategies and tools include scenario analysis, insurance, diversification, and hedging are frequently employed (Bhatti, 2024).

Risk identification, risk measurement, and mitigation techniques are the main elements of financial risk management. Determining every possible financial risk that an organization can encounter, from both internal and external sources, is known as risk identification. To determine the extent of a risk's impact and likelihood of occurrence, a variety of quantitative and qualitative techniques are used in risk measurement (Bielialov, 2022). Among the methods that aid in measuring risk are sensitivity analysis and Value at Risk (VaR). Companies must create risk management strategies after identifying and quantifying their hazards. These could include diversifying one's portfolio, establishing reserve cash, and purchasing insurance (Chambers & Lu, 2021).

Plans and policies are just one aspect of efficient financial risk management; another is an ongoing monitoring system that oversees and evaluates the efficacy of the mitigation measures put in place. In order to regularly assess risks and adjust their plans in response to shifts in the market and the economy, companies must also prepare accurate and transparent financial reports (Chen, 2023). To guarantee that every person of the organization is aware of the risks involved and the actions to be taken to lessen their impact, it is also crucial that all levels of management receive training and participate in the risk management process. Organizations can strengthen their financial resilience and guarantee long-term company continuity by adopting a comprehensive and integrated strategy to financial risk management (Cloutier & Mikkelson, 2023).

Startup Financial Strategy

For companies to achieve long-term success and sustainable growth, a sound financial plan is crucial. Cash flow management and budget planning are two essential elements of this technique. To efficiently manage their financial resources, startups must have a comprehensive budget plan that accounts for marketing, product development, operating expenses, and other charges (Ebong & George, 2021). Effective cash flow management is critical, particularly in light of the fact that many businesses struggle to sustain liquidity throughout their early stages of expansion. Accordingly, cash flow estimates and routine monitoring assist new businesses in making sure they have enough money for ongoing operations and steer clear of liquidity problems that could impede their ability to expand (Firmansyah & Susetyo, 2022).

A startup's financial performance depends on a variety of factors, including budget preparation and funding strategy. There are numerous ways to obtain finance, including as bank loans, venture capital, angel investors, crowdfunding, and private fundraising. Every funding source has advantages and disadvantages that need to be taken into account. For instance, venture capital may demand a sizeable equity stake in exchange for its substantial financial and strategic support (Frank, 2024). However, without sacrificing control or equity, crowdsourcing can be a useful tool for gauging consumer interest. Based on the startup's needs, development stage, and long-term growth strategy, the best source of funding should be chosen (Gasparian et al., 2021).

Finally, a startup's financial plan ought to include financial risk management as a key component. It entails locating, evaluating, and reducing risks that could jeopardize the operational and financial health of the startup. Various variables, including market fluctuations, fierce rivalry, poor management, and economic uncertainty, might give rise to financial hazards (Gorbunova, 2023). Startups can employ strategies like portfolio diversification to lower concentration risk, hedging to defend against price swings, and insurance to safeguard intellectual assets. Furthermore, in times of market volatility, maintaining operational sustainability also requires possessing an emergency reserve fund. Startups can enhance their resilience to obstacles and seize significant development prospects by instituting extensive risk management (Greco, 2022).

Financial Risk Management in Startups

One of the most important factors that frequently decides whether new businesses succeed or fail is financial risk management. Startups frequently confront particular difficulties, like a lack of funding and unstable markets, which call for careful financial risk management. Creating a realistic budget and financial projections based on many company scenarios is one of the essential tasks in financial risk management (LEE & MOUSSAVOU, 2022). Startups may identify their funding needs at every stage of development and keep close tabs on spending with the help of a well-crafted budget. Furthermore, financial estimates assist businesses in anticipating their cash requirements and determining whether to seek out further funding (Lin & Huang, 2020).

Reliance on technology and data carries problems of its own in the digital age. Startups need to spend money on cyber security to safeguard client and company information against attacks. In addition to causing large financial losses, a data breach can harm a startup's brand and obliterate its chances of attracting investors and customers (Liu, 2023). Thus, operational risks resulting from cyber-attacks and technological system malfunctions should also be assessed and mitigated as part of financial risk management. Startups need to ensure that they have solid security protocols as well as enough insurance to defend against any losses.

Furthermore, financial risk management must to incorporate tactics aimed at diminishing reliance on a single revenue stream or market. Investigating new company ventures or

markets can help diversify revenue and lower the likelihood of an unexpected decline in sales. This implies that startups need to stay abreast of market developments and promptly adjust to shifts (Mamun, 2023). Startups can detect possible risks and opportunities early on and take the appropriate steps before financial issues become serious by participating in long-term financial planning and routinely assessing risk. Startups can achieve sustainable growth and become more resilient to market shocks by implementing effective financial risk management (Marjan et al., 2021).

Risk Type

The following are risk types:

1. Business Risk

According to Olsson (2002), business risk is the chance that plans and strategies will not be effective, that resources will not be sufficient, or that the economic or competitive environment will change and business objectives and goals will not be met.

2. Financial Risk

Internal organization behavior particularly that of persons, processes, and systems, is referred to as financial risk. An organization's vulnerability to changes in market prices as well as its dealings with buyers, sellers, and counterparties in transactions give rise to financial risk, (Horcher, 2005).

3. Operational Risk

Operational risk is the term used to describe loss resulting from actions taken by people, systems, processes, technology, or other entities that have an operational impact (Olsson, 2002).

4. Reputational Risk

Reputational risk is the possibility that an organization's standing will be tarnished (Olsson, 2002).

5. Legal/Regulatory Risk

The risk of not adhering to legal or regulatory requirements is known as legal or regulatory risk (Olsson, 2002).

Risk Measurement

Risk measurement is calculating the likelihood that a risk may materialize as well as its possible consequences (Horcher, 2005). Value at Risk (VaR), Monte Carlo Simulation, and the Analytical Hierarchy Process are a few techniques for measuring risk. Monte Carlo simulation involves regularly recreating the random processes that control market prices and rates. Value at Risk (VaR) is a statistical measure that defines a specific degree of loss in terms of its odds of occurrence (Crouhy, 2014). The Analysis Hierarchy Process (AHP) was therefore employed as the decision-making technique in this study because of its hierarchical nature, which enables it to identify criteria all the way down to the lowest sub-criteria. Furthermore, AHP may compare the preferences of each member in the hierarchy to examine multi-criteria weights (Saaty, 2008).

One general theory of measuring is called the Analytical Hierarchy Process (AHP). Ratio scales can be obtained from discrete and continuous paired comparisons using AHP. Real measurements or a basic scale reflecting the relative strengths of preferences and sentiments can be used for these comparisons. AHP is concerned with consistency violations, measurement errors, and inter- and intra-group dependencies among the constituent pieces of its structure. It is most versatile when it comes to planning, allocating resources, resolving conflicts, and making multi-criteria decisions (Saaty, 1987).

Thomas L. Saaty, a mathematician from the University of Pittsburg in the United States, created the AHP approach, which is a technique for decision-making processes, in the 1970s.

AHP seeks to measure the supplied set's relative importance using the suitable value scale. The ultimate decision is made based on the judgment of the person tasked with determining priorities and making the final decision. Consistency and correlation between the options that have been compared throughout the decision-making process are crucial (Saaty, 2008).

According to Saaty (2008), in order to produce goals in an organized manner, we must break down a decision into the following steps:

1. Identifies the problem and the kind of expertise needed.

- Enumerate the risk or selection criteria, arranging them from broad to detail.
- Based on choice goals, establish a decision hierarchy at the top. Next, establish goals from the middle to the bottom level, taking a broad view.
- Construct the matrices for pairwise comparisons. A higher level element is used to compare a lower level element.
- Compare the priorities of the next lower level using the comparison's resultant priority. Every component should be used in this process. The weighted value should then be added to obtain the total priority. Once the lowest level is identified as the ultimate priority, keep adding and weighing.

Pairwise comparison, in Saaty's definition, is a direct one-on-one comparison of two distinct items. A pairwise comparison starts with a scale that Saaty created, ranging from 1 to 9. The degree to which one component is superior to another is measured using a scale ranging from 1 to 9. The three basic levels of intensity that the human brain can distinguish between are Low, Medium, and High. All elements are compared on an equal footing using this scale. In order to get a consistency ratio (CR) of less than 1.0, or 10%, Saaty suggested calculating a consistency index first.

Financial risk management for startups involves identifying, assessing, and controlling potential financial risks that could impact the company’s survival and growth. Startups face unique challenges such as limited access to capital, cash flow volatility, high uncertainty, and operational risks. To manage these risks, startups can employ strategies like effective cash flow forecasting, diversifying funding sources, controlling costs, and using financial tools like hedging or insurance to mitigate market risks. Here are some of the key strategies startups can use to manage their financial risks:

1. Identifying and Assessing Risks Early

Startups should begin by recognizing the types of risks they face. A simple way to do this is through risk mapping or a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats). This helps highlight areas of concern, so the startup knows what risks to focus on and how severe they might be.

2. Cash Flow Management

Effective cash flow management is essential. This means tracking how money comes in and goes out, and planning ahead to avoid running out of cash. A simple approach here is to forecast cash flow regularly, so you can predict when money might be tight. You can also create a cash reserve (like an emergency fund) to cover expenses during dry periods.

3. Diversifying Sources of Funding

Since startups typically rely on external funding (like investors or loans), managing how and when to access capital is important. One strategy is to keep multiple funding options available. This means not only relying on a single investor but having backup sources, like grants, crowdfunding, or even loans.

4. Hedging Risks

While not all startups use hedging, it's useful for those dealing with market risks like fluctuating commodity prices or foreign currency exchange rates. Hedging means using financial tools (like options or futures contracts) to offset potential losses. For instance, if a startup imports materials from abroad, they might use a currency hedge to protect against unfavorable exchange rate movements.

In conclusion, effective financial risk management is crucial for startups to navigate uncertainty, protect cash flow, and ensure long-term success. By identifying risks early, diversifying funding, controlling costs, and planning for the unexpected, startups can strengthen their financial stability and improve their chances of thriving in a competitive environment.

2.3 Empirical Review

Cubukcu et al., (2017) investigated the risk management in startups: How using Lean principles Helps Startups Manage Their Risks More Efficiently. This paper's objective is to examine the startup businesses that employed lean concepts to expand. Starting a business is a difficult endeavor fraught with uncertainty. Consequently, startups that put lean concepts into reality lower their risks and improve their chances of surviving. While risk management for corporations has been extensively studied in the literature, risk management for startups is a relatively new topic that requires more research. This essay

initially emphasizes how risk management is becoming a more popular topic among startups. After outlining lean concepts, it looks at case studies of three startup businesses Delta, Zappos, and Groupon to demonstrate how implementing lean principles contributed to their success. The work's conclusions and suggestions for potential future research areas round out the report.

Todeschini et al., (2017) explored the risk management from the Perspective of Startups. The study looks at risk management procedures used by startups and suggests solutions that are suitable for the job. Surveys and interviews were used to gather information, and a risk management strategy was recommended. The findings demonstrated that startups have distinct perspectives on risk and that skepticism and unfamiliarity with risk analysis are unrelated to time and money invested. Consolidated strategy startups have more organized risk management procedures. The study intends to close a gap in the literature by offering startups in the context of innovation useful implications.

Abreu et al., (2018) investigated the risk management in the Evaluation of Investment Projects in Startup. This article's goal is to determine whether Brazilian startup entrepreneurs' use of risk management reduces investor uncertainty when assessing their projects and endeavors. To achieve this goal, the study's methodology mainly involved obtaining a theoretical framework for the investigation by evaluating the literature on the subjects of risk management and startup. In addition, field research was conducted with two groups: a) representatives of supporting institutions, accelerators and investors; b) startup founders. The purpose of the field survey, which used a deliberate sample, was to find out how respondents felt about the seven different categories of risks that are common to projects of this kind and whether or not startup entrepreneurs' management strategies helped to lower these uncertainties. The findings revealed: a) a lack of understanding regarding risk management; b) a marginal overlap between the groups regarding the significance of each risk category; and c) the three risk categories whose management strategies demonstrated a reduced frequency of utilization by business owners.

Pukala et al., (2018) examined the risk management and financing among Start-Ups. This article examines how start-ups, a class of creative businesses not usually included in

conventional statistics, employ risk financing tools and risk management strategies. Using surveys and expert comments, the study focuses on 25 start-ups at the Podkarpacki Science and Technology Park in Poland. Ten experts conducted the investigation, which revealed that startups mostly treat risk as self-insured retentions and do not use risk management tools. Insurance was found to be the best risk financing option for this group. The results can be applied in practice to reduce business risk and can also be used to inform future research on startup activities exposed to volatile business risk.

Prada (2018) analyzed the risk management among Startups - Strategies & Solutions. Entrepreneurs take on a lot of risks when starting a business, and they frequently ignore important dangers that could result in losses or the closure of the company. Due to the novelty of startups and their effect on economic growth, risk management is becoming increasingly important to entrepreneurs. To obtain a competitive edge, entrepreneurs must not only recognize and control risks, but also effectively manage them. By incorporating risk management into business planning, entrepreneurs may better assess and control operational hazards as well as comprehend the business system.

Holmberg (2019) revealed the value of risk management in a young startup. It have performed a case study of a young venture capital backed startup based in Sweden. It have received a rare opportunity to learn more about how the case company's entrepreneurs handle risk and uncertainty in their business as it have complete access to the company's management and insight into all internally gathered data and projections. Real option appraisals, in which the company was valued both with and without risk management, were carried out to determine the value that these procedures provide to the organization. The results contradict earlier research, which claims that risk-takers are risk-lovers who deliberately and consciously accept taking on danger. Rather, it discovered that the business owners are conscientiously controlling both risk and uncertainty by breaking down all internal initiatives into two-week "sprints" in which the effectiveness of each project is continuously assessed and tracked in order to reduce the chance of wasting time and resources on failed concepts. Additionally, the estimates suggest that the instance company's risk management strategy might boost its worth by a factor of 4.17x.

Ikhasari and Faturohman (2021) assessed an article Risk Management of Start-up Company (Case Study: SM Company). In industrial infrastructure 4.0, PT. Telkom Indonesia, under the management of Amoeba Management, is strategically important. A prosperous startup called SM Company has introduced VR and AR products. SM Company has been impacted by the Covid-19 epidemic, which has created uncertainty and necessitated efficient risk management. The business determined six risk categories financial, operational, reputational, legal/regulatory, and business after implementing ISO 31000. There were nine high-risk and twenty-four medium-risk categories. An action plan including methods to handle and minimize risks was included in the implementation plan and timeline, which were designed for high-risk levels.

Bilelialov (2022) determined the risk management of startups of Innovative Products. Through the use of situational and design methods, simulation, structural-functional modeling, and BPMN notation, this paper modernizes the marketing of novel products. It creates a plan for cutting expenses and improving clarity while evaluating the promotion process management's economic efficiency. After researching Hideez Technology Ltd.'s risk management method, a profit of USD 20,000 was made. The steps for making management decisions while putting the plan for creative product promotion process management into practice are also described in the article.

Mcconinell (2022) evaluated the strategic risks facing start-ups in the financial sector. Startups are dangerous businesses; while many fail, some manage to achieve notable success. Many entrepreneurs devote their time, money, and resources to following their dreams in spite of the obstacles. For investors and entrepreneurs, risk management is essential, with strategic risk being of particular importance. A strategy is a broad plan that outlines the competition, objectives, and policies of a company. Strategic positioning risk is especially crucial for startups. This article offers a rough road map of probable mistakes to avoid while identifying significant strategic risks, particularly those affecting start-ups in the finance industry. The study illustrates how crucial choices handled strategic risks by citing three case studies of prosperous banking industry start-ups. The goal is not to discourage entrepreneurs from the enormous task but to provide a rough map of potential pitfalls to avoid.

Erwin (2024) explored the financial risk management strategies for Startups in the Digital Era. An integrated strategy used by startup businesses to recognize, reduce, and manage financial risks occurring in a dynamic digital environment is called Financial Risk Management Strategy for Startups in the Digital Age. Creating reasonable financial estimates and budgets, investing in insurance and cyber security, and diversifying revenue sources are all part of the plan. The goal is to attain sustained corporate growth and strengthen the company's resistance to changes in the market and online threats. This research used the literature research approach for its examination.

The findings indicate that there are three primary approaches that can assist new businesses in risk management. First, at every level of development, entrepreneurs may track costs and determine their funding needs with the aid of accurate budgeting and financial projections. Investing in sufficient cyber security and insurance is crucial in safeguarding business and customer data from cyber threats and mitigating potential financial losses resulting from data breaches or system malfunctions. Thirdly, revenue diversification makes startups more resilient to changes in the market, enabling them to take a more proactive and adaptable approach to risk management.

Table 1

Summary of Empirical Review

Authors	Variables	Methodology	Major Findings
Cubukcu et al. (2017)	Lean principles, risk management, startup success	Case study analysis of three startups (Delta, Zappos, Groupon)	Startups using lean principles lower their risks and enhance their survival chances. Lean methodologies (e.g., iterative processes, customer feedback) help manage risks more effectively and allow for quicker adaptations to market demands.
Todeschini et al. (2017)	Risk management strategies,	Surveys and interviews with startup founders	Startups have distinct perspectives on risk management. A more consolidated strategy leads to

	startup risk perceptions, skepticism	and risk management experts	better risk management. Skepticism and unfamiliarity with risk analysis are not linked to the amount of time or money invested in the startup.
Abreu et al. (2018)	Risk management, investor uncertainty, startup entrepreneurs	Literature review, field survey (interviews with investors and founders)	Startup entrepreneurs' use of risk management practices can reduce investor uncertainty. However, there is a general lack of understanding of risk management, and entrepreneurs frequently underutilize certain categories like financial and operational risks.
Pukala et al. (2018)	Risk management tools, financing strategies, self-insurance	Survey and expert comments from 25 startups at the Podkarpacki Science and Technology Park in Poland	Startups typically self-insure risks and rarely use formal risk management tools. Insurance is the most common risk financing method. This highlights a gap in the adoption of formal risk management frameworks.
Prada (2018)	Risk management strategies, startup success	Literature review and conceptual analysis	Risk management is crucial for startups to assess, control, and mitigate risks, which are vital for maintaining competitiveness. Incorporating risk management into business planning improves operational hazard management and decision-making.
Holmberg (2019)	Risk management practices,	Case study of a Swedish venture-backed startup, real	Entrepreneurs use "sprints" to break down projects and evaluate effectiveness regularly. This

	business value, project effectiveness	option appraisals	proactive approach to risk management can increase the company's value by up to 4.17x. The study contradicts previous notions that startups thrive on risk-taking by showing they actively manage and control risks.
Ikhasari & Faturohman (2021)	Risk categories (financial, operational, reputational), risk management	Case study of SM Company, implementation of ISO 31000 risk framework	The company identified six risk categories, including financial, operational, and reputational risks, and created action plans for managing them. The COVID-19 pandemic highlighted the importance of effective risk management in uncertain times.
Bilelialov (2022)	Risk management methods, marketing of innovative products	Situational methods, simulation, structural-functional modeling	Risk management in promoting innovative products led to cost reductions and clearer decision-making. By applying risk management methods, Hideez Technology Ltd. was able to generate a profit of USD 20,000 and improve the overall effectiveness of their marketing strategy.
Mcconinell (2022)	Strategic risk, startup survival, financial sector	Case studies of startups in the banking industry	Strategic risks, especially related to competition and market positioning, are critical for startups in the finance sector. The study provides a roadmap of common pitfalls to avoid and emphasizes

			the importance of strategic positioning.
Erwin (2024)	Financial risk, digital risks	Regression and correlation analysis.	Financial risk management in the digital era includes accurate budgeting, financial projections, cyber security investments, and revenue diversification. These strategies help startups navigate the challenges of a rapidly changing digital environment and provide resilience against market fluctuations and digital threats.

2.4 Research Gap

This study on Financial Risk Management Strategies for Startups, there are several key research gaps that need to be addressed. First, there is a lack of comprehensive frameworks specifically tailored to the unique financial risks that startups face, as most existing models are designed for established firms (Erwin, 2024). Additionally, while investor relationships play a crucial role in startup success, limited research explores how different types of investors influence risk management decisions (Ikhasari & Faturohman, 2021). Another gap lies in the exploration of non-traditional funding sources like crowd funding and revenue-based financing, which are increasingly relevant but underexplored in the context of risk management. Other gaps include the insufficient focus on regulatory and compliance risks, the balance between short-term survival and long-term sustainability in risk management, and the underutilization of technology and data analytics (Bilelialov, 2022). Addressing these gaps can provide valuable insights and practical strategies for improving financial risk management in startups. Hence, each of these research gaps presents an opportunity to contribute valuable new insights to the field of financial risk management for startups. Addressing these gaps could provide actionable solutions for entrepreneurs, investors, and policymakers, helping to improve the financial stability and success rates of startups (Mcconinell, 2022).

CHAPTER III
RESEARCH METHODOLOGY

This chapter explains the methodology employed in the study. This chapter deals with the research design and methodology. This chapter includes introduction, research design, population and sampling, nature and sources of data and instrumentation of data collection, method of analysis and finally research framework and definition of variable.

In order to achieve the expected results and contribution, this section explains the selection of a single case study organization as well as a survey questionnaire to collect primary data. It also explains data collection procedure, the rationale of chosen sampling method, and the detailed measurement process of the variables of the questionnaire.

3.1 Research Design

This study has used both descriptive and causal-comparative approaches to explore how startups managed financial risks. The descriptive design provided a comprehensive understanding of the financial challenges startups faced, such as cash flow issues and market volatility. Surveys or structured questionnaires were administered to startup founders, financial managers, and other key stakeholders to collect data on the financial risks encountered and the strategies employed to address them. The causal-comparative design examined the relationships between factors like financial resources, market conditions, leadership decisions, and prior experience, and how these influenced the risk management strategies startups adopted. By analyzing the collected data, the study identified significant patterns and correlations, shedding light on the factors that impacted the financial resilience of startups. The research aimed to assess how effective financial risk management practices contributed to the stability and growth of startups, as well as the challenges they faced in implementing such practices.

3.2 Population and Sample, and sampling design

The population for this study consisted of technology startups based in the nation. These startups were early-stage companies that were inherently vulnerable to financial risks, such as cash flow problems, funding shortages, and market volatility. The study focused

on startups at various stages of development, including seed, early growth, and expansion stages, to capture a broad range of financial risk management practices.

Due to practical constraints, the study focused on a sample of 400 technology startups. Among them 385 were response the questionnaire they are the sample size of this study. These startups were selected based on their operational stage (seed, early growth, or expansion) and the presence of significant financial challenges. The sample was diverse, including startups of different sizes (small, medium, and large), ensuring a representative view of financial risk management across various scales of operation.

Purposive sampling was used to select startups that met specific criteria, such as stage of development, size, and financial risk exposure. Stratified sampling further ensured that different types of startups (small, medium, and large) were represented within the sample. This combination provided a comprehensive understanding of how startups in different contexts approached financial risk management.

3.3 Nature and Sources of Data, and the Instrument of Data Collection

This study relies on primary data collected to address specific research objectives, using a structured questionnaire survey method. Primary data can be sourced through various methods such as interviews, observations, or experiments, but this study employs a questionnaire to provide a comprehensive understanding of how startups in different contexts approached financial risk management. The data was gathered through a questionnaire designed with a 5-point rating scale, where responses ranged from 1 (Strongly Agree) to 5 (Strongly Disagree). The data for this research was sourced primarily from online questionnaires. The respondents were selected from the sampled area. After gathering the primary data, it was organized into tables for analysis. The analysis was conducted using SPSS and Microsoft Excel, along with various statistical tools.

3.4 Methods of Analysis

Various statistical tools, including mean, median, standard deviation, and correlation, were employed to analyze and interpret the data collected from primary sources. SPSS was utilized for data analysis, which involved processing the data through tabulated

frequency distributions. Correlation techniques were applied to assess the strength of relationships between variables. The analysis aimed to carefully examine available facts to draw conclusions based on established principles and sound logic. The data were tabulated, categorized, and analyzed using appropriate statistical and financial tools. Additionally, open-ended questions were included in the questionnaires. Comparative analysis was conducted using percentages, graphs, and charts. The statistical tools used to present the comparative results include:

Correlation analysis

Correlation is a statistical tool used to assess the strength and direction of the relationship between two or more variables. It measures how changes in one variable are associated with changes in another. Correlation does not imply causation; it only indicates the degree of association between variables. The correlation coefficient ranges from -1 to +1. A value close to +1 indicates a strong positive relationship, where an increase in one variable is associated with an increase in another. A value close to -1 shows a strong negative relationship, meaning an increase in one variable corresponds to a decrease in another. A value around 0 suggests a weak or no linear relationship between the variables. Pearson's correlation coefficient (r) is commonly used to evaluate these relationships, with values close to +1 or -1 signifying a strong correlation, and values near 0 indicating a weak correlation.

Regression Analysis

Regression analysis is a statistical method used to explore and estimate the relationships between a dependent variable and one or more independent variables. It serves two main purposes. Firstly, it is employed for prediction and forecasting, where it helps estimate future values of the dependent variable based on the values of independent variables. This application is widespread in fields such as finance and machine learning. Secondly, regression analysis can be used to infer causal relationships, helping to determine how changes in independent variables might affect the dependent variable. This use of regression is important for understanding the impact of various factors on outcomes. Overall, regression analysis is a valuable tool for both making predictions and examining causal connections.

Financial stability or Risk Exposure (FSR) = α+b_1 CS+ b_2 CFMP+ b_3FFP+ b_4 MEC+ b_5SA+... T_n

Assumed that,

α= Financial Stability or Risk Exposure; FSR: (Dependent Variable)

b_1 = Capital Structure; CS: (Independent Variable)

b_2 = Cash Flow Management Practices; CFMP: (Independent Variable)

b_3 = Financial Forecasting and Planning; (FFP): (Independent Variable)

b_4 = Market and Economic Conditions; MEC: (Independent Variable)

b_5 = Risk Management Practices; RMP: (Independent Variable)

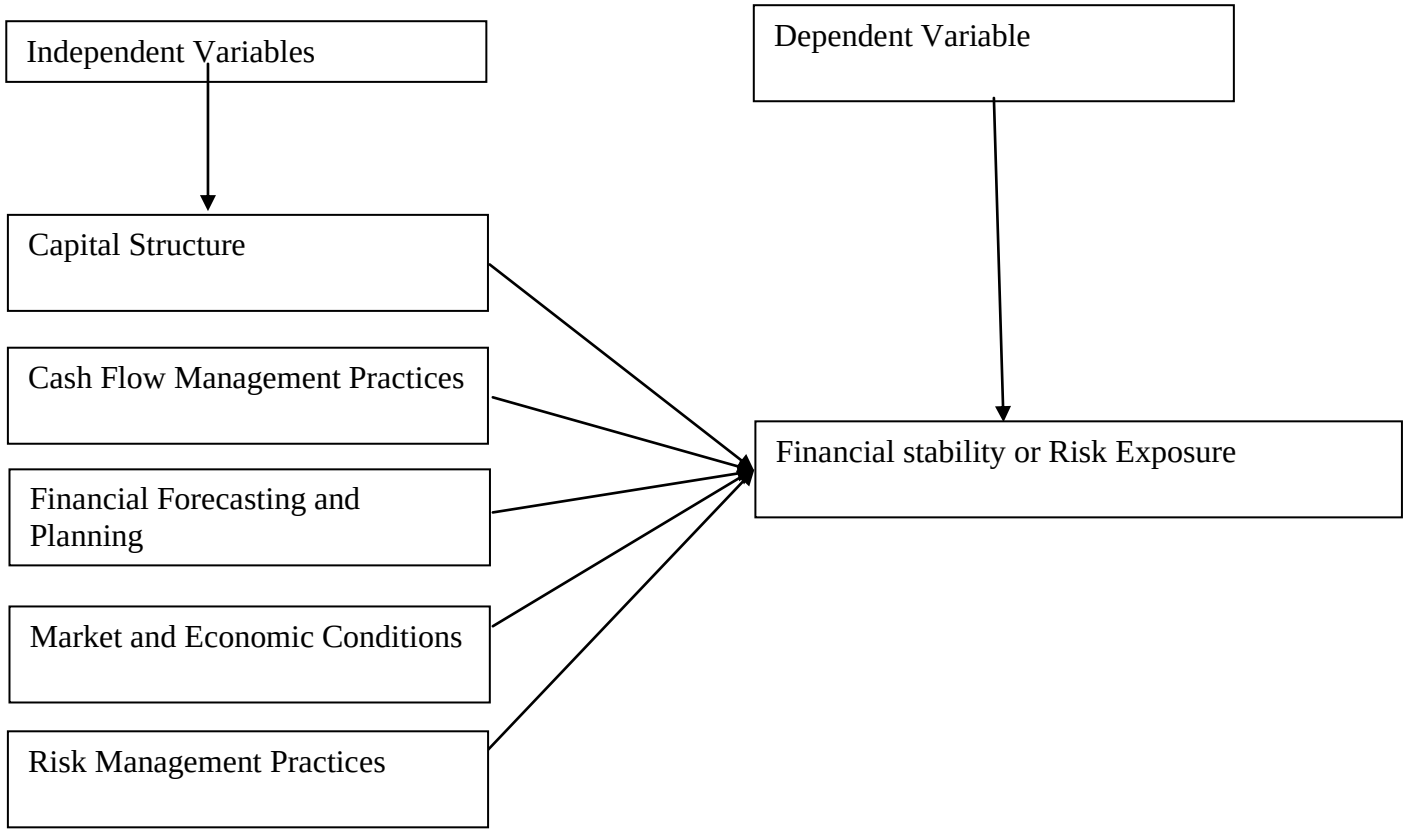
Tn = Others

3.5 Research Framework and Definition of the Variables

The research framework in this study focuses on understanding how different factors affect the financial stability and risk exposure of startups. The dependent variable in this framework is financial stability and risk exposure, which refers to how well startups manage financial risks and maintain stability.

Several independent variables influence this, including capital structure (the mix of debt and equity a startup uses), cash flow management (how a startup manages its money to avoid liquidity problems), financial forecasting and planning (how well a startup predicts and prepares for future financial challenges), market and economic conditions (external factors like market trends and economic stability), and risk management practices (how startups identify and deal with risks).

These variables work together to shape how startups handle their finances and the risks they face, which helps determine their long-term success and survival.



(Sources: Todeschini et al., 2017)

Figure 1: Research Framework

Dependent Variable:

Financial Stability or Risk Exposure

The dependent variable in this study is financial stability and risk exposure, which refers to the ability of a startup to maintain its financial health and resilience against various financial risks. Financial stability is characterized by consistent cash flow, profitability, and a sound financial position, whereas risk exposure pertains to the likelihood of encountering financial difficulties that could potentially threaten the business's survival (Todeschini et al., 2017). Financial stability is often determined by factors like liquidity, solvency, and the startup's capacity to generate sustainable profits. In contrast, financial risk exposure includes external and internal risks such as market volatility, cash flow disruptions, and operational inefficiencies.

Independent Variables:

Capital Structure

Capital structure refers to the mix of debt and equity financing that a startup uses to fund its operations and growth. This variable is crucial because it directly impacts a company's risk profile and cost of capital. A well-balanced capital structure can help minimize financial distress, while an over-reliance on debt may increase financial risk. Research suggests that the optimal capital structure enhances financial stability by balancing the trade-off between risk and return (Todeschini et al., 2017).

Cash Flow Management Practices

Cash flow management involves the strategic planning and control of cash inflows and outflows to ensure that a startup has enough liquidity to meet its obligations. This variable includes practices such as forecasting cash flow, monitoring expenses, and optimizing working capital. Effective cash flow management is critical for startups to mitigate financial risks and maintain day-to-day operations without facing liquidity shortages (Todeschini et al., 2017). Poor cash flow management is often cited as one of the leading causes of startup failure.

Financial Forecasting and Planning

Financial forecasting and planning refer to the processes by which startups predict future financial performance based on past trends, market conditions, and growth expectations. This variable helps startups anticipate future financial risks and opportunities, thereby making informed decisions regarding investments, costs, and revenue generation. Financial forecasting is essential for startups to avoid potential cash flow crises and to plan for long-term sustainability (Todeschini et al., 2017).

Market and Economic Conditions

Market and economic conditions refer to the external factors such as industry trends, market demand, and economic stability that influence the financial performance of startups. These conditions can either mitigate or exacerbate financial risks faced by a startup. For instance, a booming economy can increase demand for products and services, improving cash flow and profitability, whereas economic downturns or market

disruptions can lead to reduced revenue and higher risk exposure (Todeschini et al., 2017).

Risk Management Practices

Risk management practices involve the strategies and techniques that startups implement to identify, assess, and mitigate financial risks. These practices may include risk assessment frameworks, insurance, hedging, and contingency planning. By adopting sound risk management practices, startups can reduce their exposure to both financial and operational risks. Effective risk management is a key determinant of a startup's ability to navigate uncertainties and achieve long-term financial stability (Todeschini et al., 2017).

CHAPTER IV

RESULTS AND DISCUSSION

This chapter focuses on the presentation and analysis of data. It details how the information gathered from respondents is organized and examined based on their feedback. The researcher personally distributed and collected all the questionnaires. The data collected were analyzed using various tools and techniques. The results obtained from this analysis are presented systematically and interpreted with careful consideration in the subsequent sections.

4.1 Results

There were presented the demographic and statistical analysis.

Nature of the Respondents

The respondent profile reveals a diverse group of startup investors. The findings show that startup investment attracts a broad demographic.

Table 2

Respondent Profile

Variables	Component	Frequency	Percent
Gender	Male	221	57.40
	Female	164	42.60
	Total	385	100.00
Age Group	18-20	154	30.00
	20-40	85	22.08
	40-60	77	20.00
	60+	69	17.92
	Total	385	100.00
Education	Intermediate	136	35.32
	Bachelor degree	115	29.88
	Master degree	98	25.45
	M. Phil/PhD.	36	9.35
	Total	385	100.00
Investment amount	0-20 lakhs	116	30.13
	20-40 lakhs	105	27.27
	40-60 lakhs	87	22.60
	60-80 lakhs	69	17.92
	80 lakhs above	8	2.08
	Total	385	100.00

Source: Field Survey 2024

Table 2 shows that the demographic profile of the 385 respondents in this study reveals a diverse group of individuals with varying characteristics. A majority of the respondents were male (57.33%), while females accounted for 42.67%, indicating a balanced gender representation. In terms of age, the largest group of respondents (30%) were between 18-20 years old, followed by those in the 20-40 age group (22%), highlighting a strong interest from younger individuals in startup investments. The 40-60 age group made up 20% of the respondents, suggesting the participation of more experienced investors, while 18% of participants were over the age of 60. Regarding education, a significant portion of respondents held intermediate-level education (35.33%), with others possessing bachelor's (30%) or master's degrees (25.33%), reflecting a relatively well-educated sample. Only 9.34% had advanced degrees like M. Phil or Ph.D., indicating that while most participants had solid educational backgrounds, the study also attracted a smaller, highly qualified group. As for investment amounts, the largest portion (30%) invested between 0-20 lakhs, with others investing moderately higher amounts, ranging from 20 to 80 lakhs, suggesting that most respondents were making moderate investments in startups. Only a small fraction (2%) invested amounts exceeding 80 lakhs. Overall, the sample consisted of young, educated individuals with a range of investment capacities, providing diverse insights into financial risk management strategies in startups.

Descriptive Analysis

Descriptive statistics are employed to analyze the data gathered from respondents throughout the research. This section presents the frequency distribution for each service dimension, which constitutes the dependent variables in the study. It also provides additional information, including the mean, and standard deviation for each variable. Ratings were assigned on a scale from 5 (Strongly Agree) to 1 (Strongly Disagree).

Financial stability or Risk Exposure

Financial stability refers to a startup's ability to maintain sustainable operations despite financial risks like cash flow fluctuations, market volatility, and funding challenges. It is crucial for long-term success and is typically measured through indicators such as profitability, liquidity (e.g., current ratio), solvency (e.g., debt-to-equity ratio), and cash

flow stability. Effective financial risk management strategies, such as budgeting, cash flow forecasting, and diversified funding sources, help startups manage these risks and ensure their continued operational health. Startups often face a delicate balance between financial stability and risk exposure. Financial stability ensures a startup can sustain operations and grow by managing cash flow, revenue streams, and capital structure effectively. However, many startups struggle with unpredictable revenues, high burn rates, and dependence on external funding, which can threaten stability. On the other hand, risk exposure includes market, operational, financial, competitive, and technological risks that could jeopardize a startup's success. Proper risk management strategies, such as diversification and building reserves, are essential. While financial stability can help absorb risks, a high risk exposure without proper management can lead to instability and potential failure.

Table 3

Financial Stability and Risk Exposure

Statement	N	Mean	Std. Deviation
How would you rate the overall financial stability of your startup, considering both profitability and ability to manage risks?	385	3.70	1.025
To what extent do you feel your startup is exposed to financial risks that could potentially lead to financial distress or failure?	385	3.25	0.551
How likely is it that your startup could face significant financial challenges that would threaten its long-term stability?	385	3.88	1.22
Average Mean	385	3.66	1.057

Source: *Field* Survey, 2024

Table 3 presents survey results on the financial stability and risk exposure of startups. The first statement, asking respondents to rate the overall financial stability of their startup, shows a mean score of 3.70 with a standard deviation of 1.025. This suggests

that, on average, respondents view their startups as moderately financially stable, with some variation in responses.

The second statement, assessing exposure to financial risks that could lead to distress or failure, has a mean score of 3.25 and a standard deviation of 0.551. This indicates a slightly lower level of concern about financial risk, with most respondents feeling somewhat neutral or slightly concerned about potential financial threats.

The third statement, which gauges the likelihood of facing significant financial challenges threatening long-term stability, reports a mean of 3.88 with a higher standard deviation of 1.22, showing that while there is a general awareness of potential challenges, opinions vary widely on the likelihood of such risks materializing.

The average mean of 3.66, with a standard deviation of 1.057, reflects a generally positive view on financial stability, tempered by concerns about the risks that could affect long-term survival. These results suggest that while startups are relatively confident in their financial stability, they acknowledge the presence of financial risks that could pose challenges in the future.

Capital Structure

Capital structure in startups refers to how they finance their operations through a mix of equity, debt, and sometimes hybrid instruments. Equity, often from venture capital or angel investors, dilutes ownership but doesn't require repayment, while debt provides funds without diluting control but introduces repayment obligations and financial risk.

A balanced capital structure helps startups manage risk, retain control, and maintain flexibility for growth. The right mix of funding is essential for sustaining operations, scaling effectively, and positioning the business for long-term success.

Table 4

Capital Structure

Statement	N	Mean	Std. Deviation
To what extent do you think your startup's current mix of debt and equity affects its financial risk exposure?	385	3.96	0.955
How satisfied are you with your startup's current approach to managing debt and equity to maintain financial stability?	385	3.91	0.948
How often do you reassess the capital structure of your startup in response to changing market conditions?	385	3.66	1.114
Average Mean	385	3.84	1.005

Source: *Field* Survey, 2024

Table 4 presents survey results on the capital structure of startups, focusing on the balance between debt and equity and its impact on financial risk. The first statement, which asks respondents to what extent they believe their startup's mix of debt and equity affects its financial risk exposure, shows a mean score of 3.96 with a standard deviation of 0.955. This indicates that respondents generally perceive their capital structure as having a notable influence on their financial risk, with a relatively high level of agreement across the sample.

The second statement, regarding satisfaction with the current approach to managing debt and equity for financial stability, has a mean score of 3.91 and a standard deviation of 0.948. This suggests that respondents are generally satisfied with their startup's current debt-equity management, with little variation in responses.

The third statement, which asks how often startups reassess their capital structure in response to changing market conditions, shows a mean score of 3.66 and a higher standard deviation of 1.114. This suggests that while most startups reassess their capital structure periodically, there is some variation in how frequently this is done.

The overall average mean of 3.84, with a standard deviation of 1.005, reflects a strong positive view on the importance of capital structure in managing financial risk and maintaining stability, though some differences in practices and satisfaction exist across startups.

Cash Flow Management Practices

Cash flow management is crucial for startups to ensure they can meet their financial obligations and sustain operations. Effective practices include forecasting cash flow to anticipate future needs, closely monitoring inflows and outflows, and maintaining a cash reserve for unexpected expenses. Startups often focus on controlling costs, optimizing payment cycles, and negotiating favorable terms with suppliers and customers to improve liquidity. Managing cash flow helps prevent shortfalls, supports growth initiatives, and provides a buffer against economic fluctuations or unforeseen challenges.

Table 5

Cash Flow Management Practices

Statement	N	Mean	Std. Deviation
How effectively does your startup manage cash inflows and outflows to ensure financial stability?	385	4.13	1.019
To what extent do you believe cash flow management reduces the overall financial risk exposure of your startup?	385	3.87	1.212
How frequently does your startup face cash flow challenges that may compromise its financial stability?	385	3.47	1.125
Average Mean	385	3.82	1.12

Source: *Field* Survey, 2024

Table 5 presents the survey results on cash flow management practices in startups. The first statement, asking how effectively startups manage cash inflows and outflows to ensure financial stability, shows a mean score of 4.13 with a standard deviation of 1.019.

This indicates that respondents generally believe their startups manage cash flow effectively, with relatively little variation in responses.

The second statement, which assesses the extent to which cash flow management reduces financial risk exposure, has a mean score of 3.87 and a higher standard deviation of 1.212. This suggests that while most respondents recognize the importance of cash flow management in mitigating financial risks, there is a wider range of opinions on how much it actually reduces risk.

The third statement, regarding how frequently startups face cash flow challenges that could threaten financial stability, shows a mean of 3.47 and a standard deviation of 1.125. This indicates that while some startups do encounter cash flow issues, the frequency is relatively moderate, with a fair amount of variability in responses.

The overall average mean of 3.82, with a standard deviation of 1.12, reflects a generally positive view on the effectiveness of cash flow management in ensuring financial stability and reducing risk, although challenges do persist in some cases.

Financial Forecasting and Planning

Financial forecasting and planning are essential for startups to anticipate future revenue, expenses, and cash flow, guiding strategic decisions. By creating detailed projections, startups can set realistic financial goals, assess funding needs, and identify potential risks. Regularly updating forecasts helps track performance, adjust to market changes, and ensure financial stability.

Effective planning also attracts investors by demonstrating a clear path to profitability and sustainable growth, making it a key component for long-term success.

Table 6

Management Experience

Statement	N	Mean	Std. Deviation
How confident are you in the accuracy of your startup's financial forecasts in predicting future cash flows and risks?	385	3.78	1.170
How often do you update your financial forecasts based on changes in market or economic conditions?	385	3.92	1.219
To what extent do you believe financial planning and forecasting help mitigate risks and contribute to long-term financial stability?	385	3.76	1.191
Average mean	385	3.82	1.193

Source: *Field* Survey, 2024

Table 6 presents the survey results regarding the role of management experience in financial forecasting and planning for startups. The first statement, which asks about confidence in the accuracy of financial forecasts in predicting future cash flows and risks, shows a mean score of 3.78 with a standard deviation of 1.170. This indicates that, on average, respondents feel moderately confident in their financial forecasts, though there is some variation in the level of confidence.

The second statement, regarding how often financial forecasts are updated based on changes in market or economic conditions, has a mean score of 3.92 and a standard deviation of 1.219. This suggests that most startups regularly update their forecasts in response to market or economic shifts, with a wide range of practices observed.

The third statement, which assesses the belief that financial planning and forecasting help mitigate risks and contribute to long-term financial stability, shows a mean score of 3.76 and a standard deviation of 1.191. This indicates a moderate belief in the value of financial planning for reducing risks and ensuring long-term stability, although responses vary.

The overall average mean of 3.82, with a standard deviation of 1.193, reflects a generally positive view on the importance of financial forecasting and planning in managing risks

and maintaining financial stability, despite some differences in confidence and frequency of updates.

Market and Economic Conditions

Market and economic conditions play a significant role in a startup's success. Economic factors such as inflation, interest rates, and consumer spending can impact demand for a startup's products or services. Additionally, market conditions like competition, customer preferences, and industry trends affect growth potential and profitability. Startups must remain adaptable, staying informed about market shifts and economic trends, to adjust their strategies accordingly. By navigating these external forces effectively, startups can identify opportunities, mitigate risks, and ensure long-term viability in a dynamic business environment.

Table 7

Market and Economic Conditions

Statements	N	Mean	Std. Deviation
How much do market and economic fluctuations impact your startup's ability to maintain financial stability?	385	3.91	1.078
To what extent does your startup actively monitor and adapt to changes in market and economic conditions to reduce risk exposure?	385	3.84	0.991
How vulnerable do you perceive your startup to be in the event of significant economic downturns or market disruptions?	385	4.04	1.116
Valid N (listwise)	385	3.93	1.062

Source: *Field* Survey, 2024

Table 7 presents the survey results on how market and economic conditions influence startup financial stability and risk exposure. The first statement, which assesses the impact of market and economic fluctuations on the startup's financial stability, shows a mean score of 3.91 with a standard deviation of 1.078. This indicates that respondents

generally feel that market and economic fluctuations have a moderate to significant impact on their financial stability, with some variation in the responses.

The second statement, regarding how actively startups monitor and adapt to market and economic changes to reduce risk exposure, has a mean score of 3.84 and a lower standard deviation of 0.991, suggesting that most startups are somewhat proactive in adapting to market shifts, though responses show some variability.

The third statement, which asks about perceived vulnerability to economic downturns or market disruptions, shows a higher mean score of 4.04 with a standard deviation of 1.116. This indicates that respondents generally feel their startups are somewhat vulnerable to significant economic or market disruptions, although opinions vary in terms of the degree of vulnerability.

The overall valid mean of 3.93, with a standard deviation of 1.062, reflects a moderate concern about the impact of market and economic conditions, with startups actively monitoring and responding to these changes to manage risk.

Risk Management Practices

Risk management practices are essential for startups to identify, assess, and mitigate potential threats to their business. Key practices include diversifying revenue streams, setting aside contingency funds, and regularly reviewing financial and operational risks. Startups also employ strategies like developing strong contracts, maintaining insurance coverage, and using data analytics to forecast and address market changes. By proactively managing risks, startups can reduce the impact of unexpected challenges and position themselves for sustainable growth and stability.

Table 8

Risk Management Practices

Statement	N	Mean	Std. Deviation
How effective are your startup's current risk management practices in identifying and mitigating financial risks?	385	3.95	1.126
To what extent does your startup regularly review and update its risk management strategies to reflect emerging financial risks?	385	3.59	1.134
How confident are you in your startup's ability to minimize financial risks through its current risk management practices?	385	3.91	1.072
Average mean	385	3.82	1.109

Source: *Field* Survey, 2024

Table 8 presents the survey results regarding the effectiveness of risk management practices in startups. The first statement, which asks about the effectiveness of current risk management practices in identifying and mitigating financial risks, shows a mean score of 3.95 with a standard deviation of 1.126. This suggests that respondents generally view their risk management practices as effective, though there is some variation in opinions.

The second statement, regarding how regularly startups review and update their risk management strategies to address emerging financial risks, has a mean score of 3.59 and a standard deviation of 1.134. This indicates that while many startups review their strategies periodically, the frequency and consistency of these reviews vary across respondents.

The third statement, which assesses confidence in the startup's ability to minimize financial risks through current risk management practices, shows a mean score of 3.91 with a standard deviation of 1.072. This suggests that most respondents are confident in their ability to manage financial risks effectively, though, again, there is some variation. The overall average mean of 3.82, with a standard deviation of 1.109, reflects a generally

positive outlook on risk management practices, indicating that startups are confident in their ability to manage financial risks, though there is room for improvement in the frequency of reviews and updates.

Correlation Analysis

Pearson correlation analysis is used to determine the relationships between various independent and dependent variables in the research. This method assesses the linear relationship between pairs of variables. The analysis was performed on variables that were measured using straightforward multiple-choice responses. To gauge the strength and direction of these relationships, a correlation matrix was constructed. A positive correlation suggests that as one variable increases, the other variable tends to increase as well. Conversely, a negative correlation indicates that an increase in one variable corresponds with a decrease in the other.

Table 9

Pearson's Correlation Matrix

Variables		Financial stability or Risk Exposure	Capital Structure	Cash Flow Management Practices	Financial Forecasting and Planning	Market and Economic Conditions	Risk Management Practices
Financial stability or Risk Exposure	Pearson Correlation	1	.245	.266**	.442**	.393**	.117*
	Sig. (2-tailed)		.000	.000	.000	.000	.018
Capital Structure	Pearson Correlation		1	.237	.388**	.378**	.119*
	Sig. (2-tailed)			.001	.003	.006	.020
Cash Flow Management Practices	Pearson Correlation			1	.204**	.374**	.134**
	Sig. (2-tailed)				.000	.000	.007
Financial Forecasting and Planning	Pearson Correlation				1	.224**	.166**
	Sig. (2-tailed)					.000	.001
Market and Economic Conditions	Pearson Correlation					1	-.035
	Sig. (2-tailed)						.484
Risk Management Practices	Pearson Correlation						1
	Sig. (2-tailed)						

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: correlation using SPSS

Table 9 presents Pearson's correlation matrix, showing the relationships between various financial management practices in startups. Financial stability or risk exposure has significant positive correlations with most variables, including capital structure (r = 0.245), cash flow management practices (r = 0.266), financial forecasting and planning (r = 0.442), and market and economic conditions (r = 0.393), all significant at the 0.01 level. The correlation with risk management practices is positive but weaker (r = 0.117), significant at the 0.05 level.

Capital structure is positively correlated with cash flow management practices (r = 0.237), financial forecasting and planning (r = 0.388), and risk management practices (r = 0.119), with all correlations significant at either the 0.01 or 0.05 level. Cash flow management practices show a moderate positive correlation with financial forecasting and planning (r = 0.374) and risk management practices (r = 0.134), both significant at the 0.01 level.

Financial forecasting and planning is also significantly correlated with risk management practices (r = 0.166), significant at the 0.01 level. Finally, market and economic conditions has a weak, negative correlation with risk management practices (r = -0.035), but this is not statistically significant (p = 0.484), suggesting little direct influence.

Overall, the results indicate that financial stability, capital structure, cash flow management, and forecasting are closely interconnected in managing financial risks in startups, whereas market and economic conditions have a less direct impact on risk management practices.

Regression Analysis

Regression analysis is limited to determining whether there is a strong link between two variables. Regression analysis, which is used in statistical modeling to focus on the relationship between a dependent variable and one or more independent variables, is a statistical procedure for estimating the relationship among the variables.

The results of a correlation analysis can only indicate whether there is a significant association between two variables. However, even if a correlation coefficient shows that two variables have a strong association. It is used to create predictions and describe the

nature of relationships. To determine the link between dependent and independent variables, linear regression analysis was used.

Table 10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.739[a]	0.546	0.533	0.31669

a. Predictors: (Constant), Capital structure, cash flow management practices, financial forecasting and planning, market and economic conditions, risk management practices

In Table 10, the model summary provides information about the relationship between the variables in the model. R is 0.739, which indicates a strong positive correlation between the predictors and the outcome variable. R Square is 0.546, meaning about 54.6% of the variability in the outcome can be explained by the predictors in the model. Adjusted R Square is 0.533, which is slightly lower than R Square but adjusts for the number of predictors. It still shows that a good amount of the variability is explained. Standard Error of the Estimate is 0.31669, which tells us how much the predicted values deviate from the actual values on average. A lower value would indicate more accurate predictions.

Table 11

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.470	6	4.367	43.547	<.001[b]
	Residual	14.542	378	0.100		
	Total	32.012	384			

a. Dependent Variable: Financial Stability or Risk Exposure

Table 11 presents the results of an ANOVA (Analysis of Variance) for the model predicting financial stability or risk exposure. The Sum of Squares represents the variation in the dependent variable that is explained by the model (Regression) and the unexplained variation (Residual). The regression sum of squares is 17.470, showing how much the predictors (like capital structure, risk management, etc.) explain the variation in

financial stability or risk exposure. The residual sum of squares is 14.542, indicating the unexplained variability. The Mean Square values are calculated by dividing the sum of squares by their respective degrees of freedom (df). The regression mean square is 4.367, and the residual mean square is 0.100. The F-statistic of 43.547 is calculated by dividing the regression mean square by the residual mean square. This high value indicates that the model is statistically significant and explains a substantial amount of the variation in financial stability or risk exposure. The Sig. value is less than 0.001, which means the model is highly significant and the likelihood that the results are due to chance is very low. In simple terms, this ANOVA table shows that the predictors in the model have a strong and statistically significant relationship with financial stability or risk exposure.

Table 12

Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.609	0.281	0.024	2.169	0.031
	Capital Structure	0.578	0.236	0.457	1.009	0.045
	Cash Flow Management Practices	0.052	0.052	0.045	1.004	0.016
	Financial Forecasting and Planning	0.320	0.044	0.314	7.252	0.000
	Market and Economic Conditions	0.221	0.048	0.217	4.623	0.000
	Risk Management Practices	0.076	0.044	0.072	1.717	0.087

Sources: Calculation of using SPSS version 27

The regression analysis results show the influence of various financial management practices on the financial stability and risk exposure of startups. Capital structure has a significant positive effect (B = 0.578, p = 0.045), indicating that startups with a well-balanced mix of debt and equity are more likely to maintain financial stability.

Cash flow management practices also have a positive impact (B = 0.052, p = 0.016), suggesting that effectively managing cash inflows and outflows contributes to stability, though the effect is less pronounced compared to capital structure.

Financial forecasting and planning (B = 0.320, p = 0.000) stands out as the most significant factor, highlighting the crucial role of accurate forecasting in predicting future cash flows and mitigating financial risks.

Market and economic conditions (B = 0.221, p = 0.000) are also important, as startups that adapt to changing market conditions are better positioned to maintain stability.

On the other hand, risk management practices (B = 0.076, p = 0.087) show a marginally non-significant effect, suggesting their influence on financial stability is weaker compared to the other factors.

Overall, the results emphasize that financial forecasting, capital structure, and market adaptability are key drivers of financial stability in startups, while risk management, though important, plays a less direct role in ensuring stability.

4.2 Discussion

The findings of this study revealed that several key factors significantly influenced the financial stability of startups, with capital structure, cash flow management, financial forecasting, market adaptability, and risk management all playing crucial roles. Capital structure, particularly a balanced mix of debt and equity, was found to have the strongest positive impact on financial stability, supporting the idea that startups with careful financial management were more resilient to risks. Cash flow management, while important, had a slightly weaker but still significant effect on stability. Financial forecasting emerged as the most impactful factor, suggesting that startups that engaged in thorough forecasting and financial planning were better positioned to anticipate and mitigate potential risks. Furthermore, the ability of startups to adapt to market and economic conditions was found to significantly influence financial stability, underscoring the importance of being flexible and responsive to external changes. Finally, while risk management practices were important, they had a weaker direct effect on financial

stability compared to other factors, indicating that while risk management was essential, it might not have always been as immediately impactful as other financial strategies.

The findings of this study were consistent with several previous studies that emphasized the importance of financial management in ensuring startup stability. For instance, Cubukcu et al. (2017) argued that startups employing lean principles, which involved careful capital management, were better positioned to manage risks, aligning with the current study's finding that capital structure played a significant role in mitigating financial risks. Similarly, the importance of financial forecasting and planning was supported by Prada (2018) and Holmberg (2019), who both stressed that startups engaging in rigorous financial forecasting were better prepared to handle uncertainty and maintain stability. The findings on cash flow management also aligned with prior research, such as Abreu et al. (2018), which highlighted the critical role of cash flow in managing financial risks. Moreover, the study's emphasis on market adaptability was consistent with Erwin (2024), who underscored the need for startups to be responsive to external market and economic shifts in order to mitigate risks.

However, there were some contrasts between the current study's findings and those of previous research. While studies such as Ikhasari and Faturohman (2021) and McConinell (2022) emphasized the direct role of risk management practices in ensuring startup stability, the current study found that risk management, although important, had a less significant direct impact on financial stability compared to other factors such as capital structure and forecasting. Additionally, Pukala et al. (2018) and Abreu et al. (2018) noted that many startups underutilized formal risk management tools, relying instead on self-insurance or informal strategies, which contrasted with the current study's focus on structured financial practices like forecasting and capital management. This difference suggested that while risk management was recognized as a crucial element, startups may have prioritized other financial practices over formal risk management processes, at least in the early stages.

This study highlighted that a combination of sound financial practices, including capital structure, cash flow management, and financial forecasting, played a crucial role in ensuring the stability and success of startups. While risk management was essential, it did

not always have as direct an impact on financial stability as these other factors. This finding added nuance to the ongoing discussion about the relative importance of various financial practices in startups. The study's emphasis on financial forecasting and planning was particularly significant, as it showed that startups that engaged in long-term strategic financial planning were better prepared to face potential risks and uncertainties.

Overall, while the findings of this study were consistent with many of the themes found in prior research, such as the importance of capital structure, cash flow management, and forecasting, there were notable contrasts, particularly regarding the direct role of risk management practices. This study’s findings suggested that, while risk management was critical, it might not always have been the most immediate or impactful factor in ensuring financial stability for startups. Instead, a comprehensive approach that combined capital management, forecasting, and responsiveness to market changes appeared to offer the most effective strategy for mitigating financial risks and ensuring long-term success. This nuanced understanding enriched the current literature by offering a more detailed perspective on the interplay of financial practices in startup stability.

CHAPTERE V

SUMMARY AND CONCLUSION

This chapter, which includes a summary of the research, a conclusion, and consequences of the study three sections, serve as a summary of the entire chapter. The initial One gives a general review of the research findings and the investigation. The following portion derives the study's conclusion, and the third section makes implications.

5.1 Summary

This study explores the financial risk management practices of startups, aiming to understand how they assess and prioritize financial risks, the factors that influence their risk management strategies, and the challenges they face in implementing these strategies. The key research questions address the identification of financial risks, the role of financial resources, market conditions, leadership decisions, and prior experience in shaping risk management approaches, and the obstacles startups encounter when trying to establish effective risk management practices.

The study adopts a mixed-methods approach, incorporating both quantitative and qualitative techniques. A structured online questionnaire was distributed to a sample of 385 technology startups at various stages of development, from seed to expansion. These startups were chosen based on their exposure to financial risks, ensuring a broad representation of different financial challenges. The research utilizes a combination of descriptive and causal-comparative research designs. The descriptive design provides insights into the specific financial risks startups face, such as cash flow problems and market volatility, while the causal-comparative design examines how factors like financial resources, market conditions, leadership, and experience influence risk management strategies. Statistical analysis, including correlation and regression analyses, is used to identify patterns and relationships between these variables and their impact on the stability and growth of startups.

The findings of this study suggest that startups face significant financial risks, with cash flow problems and funding shortages being the most prominent concerns. It was found that financial resources, market conditions, leadership decisions, and prior experience play crucial roles in shaping the risk management strategies of startups. Startups with

more financial resources and experience tend to have more structured and effective risk management practices. However, challenges such as limited financial knowledge, lack of resources, and market volatility often hinder the ability of startups to implement these strategies effectively. The study also highlights that while startups are increasingly aware of the need for formal risk management practices, there remains a gap in fully adopting these practices, especially in early-stage companies.

When compared to previous research, the findings of this study are consistent with the general notion that financial risk management is a critical factor for the survival and growth of startups. Many studies have pointed out that early-stage companies are particularly vulnerable to financial risks, and the findings of this research reinforce the importance of financial planning and risk mitigation. Moreover, the study aligns with existing literature by showing that factors such as leadership decisions and market conditions significantly influence how startups manage risks. However, this study adds nuance by highlighting the role of financial resources and prior experience as additional factors that enable more effective risk management.

There are also some contrasts between this study and earlier research. While some studies have suggested that startups often view risk as self-insurance and avoid formal risk management tools, this study found that startups, particularly in more developed markets or industries, are increasingly adopting more structured risk management strategies. Furthermore, earlier research has indicated that startups, especially in developing countries, often struggle with a lack of understanding of risk management. In contrast, this study shows that technology startups are becoming more aware of the need for a comprehensive risk management approach, although they still face barriers to fully implementing these strategies.

This study highlights the importance of financial risk management in the success and sustainability of startups. It reveals that while startups face various financial risks, factors such as financial resources, leadership decisions, and market conditions significantly impact how effectively they can manage these risks. The study also identifies key challenges, including the lack of resources and experience, which hinder the effective implementation of risk management practices. Overall, the findings suggest that while

risk management is becoming more recognized as a critical aspect of startup operations, startups still face significant obstacles in adopting formal risk management frameworks. The results indicate that the model significantly explains financial stability or risk exposure, with a strong correlation and high statistical reliability.

The study contributes to the existing literature by offering a deeper understanding of the factors that influence risk management in startups and by providing practical approvals for improving risk management practices to foster startup growth and resilience.

5.2 Conclusions

This study has provided a comprehensive exploration of the financial risk management practices employed by startups, highlighting the key financial risks faced during their early stages of development. The descriptive findings show that startups face significant challenges, including cash flow issues, funding shortages, and market volatility. The research identifies that financial resources, market conditions, leadership decisions, and prior experience play a critical role in shaping how startups assess and manage these risks. Despite being aware of the risks they encounter, many startups struggle to implement structured risk management practices due to a lack of resources, experience, or financial knowledge. These findings align with existing literature and confirm the importance of having sound risk management strategies in place to ensure long-term stability and growth for startups.

Through the correlation analysis, this study established significant relationships between various factors and risk management practices in startups. Notably, financial resources and prior experience were found to be positively correlated with the effectiveness of risk management strategies. Startups with more financial resources and experienced leadership were better able to assess and mitigate risks. Similarly, market conditions and external economic factors were shown to influence how startups approached risk management, with unstable market conditions leading to more conservative approaches. These correlations emphasize the importance of a well-rounded approach to risk management, where financial stability and leadership experience significantly impact a startup's resilience and ability to navigate financial uncertainties.

The regression analysis further examined the predictive power of these factors on the effectiveness of financial risk management in startups. The model effectively explains financial stability or risk exposure, with strong predictors and high statistical significance. The results are reliable, confirming the model's validity in explaining the outcome. The results indicated that financial resources and leadership decisions were the most significant predictors of effective risk management, with market conditions also playing a notable role. The regression model confirmed that startups with strong financial backing and experienced leadership teams were more likely to adopt structured and effective risk management practices. Additionally, the analysis revealed that while external market conditions do influence risk management approaches, they do not fully determine the strategies adopted by startups. This suggests that internal factors, such as financial resources and leadership, have a greater influence on the decision-making process when managing financial risks.

For future research, it is endorsed to further investigate the role of financial knowledge and education in shaping risk management strategies for startups, particularly in emerging industries or economies. A longitudinal study could offer deeper insights into how risk management practices evolve over time as startups mature and face different stages of growth. Additionally, exploring the impact of digital tools and technologies on the financial risk management practices of startups could provide valuable insights, especially as startups increasingly operate in the digital economy.

5.3 Implications

- This study have several key implications for stakeholders, including policymakers, future researchers, entrepreneurs, and investors. For policymakers, the study emphasizes the need for targeted financial support programs, mentorship, and policies that foster financial literacy and leadership development for startups.
- Governments can help by creating stable economic environments and offering incentives to reduce market volatility for early-stage businesses.
- For future researchers, this study opens avenues to explore how financial risk management strategies evolve over time and the impact of digital tools on startups’

risk mitigation efforts. For entrepreneurs, the study highlights the importance of proactive financial risk management, building strong financial foundations, and continuously adapting strategies as startups grow.

- Effective leadership and financial literacy are essential for navigating uncertain environments. For investors, understanding a startup's risk management practices, along with its leadership team, is crucial for assessing the potential for success and minimizing investment risks.
- The study underscores the importance of sound financial risk management in ensuring startup success and resilience. By addressing financial vulnerabilities through research, policy, and education, we can strengthen startup ecosystems and promote sustainable growth.

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APPENDIX

Questionnaire

Dear Respondent; I am student of Shanker Dev Campus Tribhuvan University. I am pursuing Master of Business studies with Finance as major. As a part of the M.B.S. study, I am conducting a research entitled "Financial Risk Management Strategies for Startups". As an investor of startup business, you are humbly requested to fill this questionnaire. This study is carried out purely for academic purpose and the information given will be treated with confidentiality and for only the purpose of this study. Your response and time is greatly appreciated.

Respondent profile

1) email

2) Name

3) Gender

i) Male

ii) Female

iii) Others

4) Age

i) 18-20

ii) 20-40

iii) 40-60

iv) Above 60

5) Education Level

i) Intermediate

ii) Bachelor Degree

iii) Master Degree

iv) M. Phil/PhD.

6) Investment amount

i) 0- 20 lakhs

ii) 20-40 lakhs

iii) 40-60 lakhs

iv) 60-80 lakhs

v) 80 lakhs above

S.N	**Factor**	**Answer**				
		1	**2**	**3**	**4**	**5**
A.	**Financial Stability and Risk Exposure**					
FSR1	How would you rate the overall financial stability of your startup, considering both profitability and ability to manage risks?					
FSR2	To what extent do you feel your startup is exposed to financial risks that could potentially lead to financial distress or failure?					
FSR3	How likely is it that your startup could face significant financial challenges that would threaten its long-term stability?					
B.	**Capital Structure**					
CS1	To what extent do you think your startup's current mix of debt and equity affects its financial risk exposure?					
CS2	How satisfied are you with your startup's current approach to managing debt and equity to maintain financial stability?					
CS3	How often do you reassess the capital structure of your startup in response to changing market conditions?					
C.	**Cash Flow Management Practices**					
CFM1	How effectively does your startup manage cash inflows and outflows to ensure financial stability?					
CMF2	To what extent do you believe cash flow management reduces the overall financial risk exposure of your startup?					
CMF3	How frequently does your startup face cash flow challenges that may compromise its financial stability?					
D.	**Financial Forecasting and Planning**					

FFP1	How confident are you in the accuracy of your startup's financial forecasts in predicting future cash flows and risks?					
FFP2	How often do you update your financial forecasts based on changes in market or economic conditions?					
FFP3	To what extent do you believe financial planning and forecasting help mitigate risks and contribute to long-term financial stability?					
E.	**Market and Economic Conditions**					
MEC1	How much do market and economic fluctuations impact your startup's ability to maintain financial stability?					
MEC2	To what extent does your startup actively monitor and adapt to changes in market and economic conditions to reduce risk exposure?					
MEC3	How vulnerable do you perceive your startup to be in the event of significant economic downturns or market disruptions?					
F.	**Risk Management Practices**					
RMP1	How effective are your startup's current risk management practices in identifying and mitigating financial risks?					
RMP2	To what extent does your startup regularly review and update its risk management strategies to reflect emerging financial risks?					
RMP3	How confident are you in your startup's ability to minimize financial risks through its current risk management practices?					

Thank You !

FINANCIAL RISK MANAGEMENT STRATEGY FOR STARTUPS

By: Menuka Khadka

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ABSTRACT This study investigates the financial risk management practices in startups, with a focus on how they assess, manage, and mitigate financial risks during their early stages. Given the volatile nature of startup environments, understanding the financial risk management strategies employed by these ventures is critical for their survival and growth. The research identifies key independent variables such as capital structure, cash flow management practices, financial forecasting and planning, market and economic conditions, and risk management practices, and examines their influence on the dependent variable: financial stability and risk exposure in startups. A mixed-methods approach was used, combining quantitative surveys with qualitative interviews to gather comprehensive data. The sample comprised 385 technology startups at various stages of development, focusing on those with significant financial challenges. Descriptive and causal-comparative research designs were employed to explore the relationships between the independent variables and the financial stability of startups. Statistical analysis, including correlation and regression techniques, was applied to examine the strength and direction of the relationships between the variables. The study found significant positive correlations between financial forecasting and planning, market conditions, and financial stability, suggesting that startups that actively engage in long-term planning and stay attuned to market changes are better equipped to manage financial risks. Cash flow management practices were also found to play a crucial role in minimizing financial risk exposure. On the other hand, some variables such as capital structure and risk management practices showed weaker relationships with financial stability, implying the complexity of their direct impact. The findings suggest that startups must prioritize effective financial planning, maintain adequate cash flow, and adapt to market fluctuations to improve financial stability. The study also highlights the need for ongoing research into the dynamic and evolving risk management strategies of startups. Policymakers and