ISSN: 2583-6285 ***Volume 2, Issue 6; Dec 2023***

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYSIS IN COMMERCE AND MANAGEMENT

IJRACM

Web: https://www.iarj.in/index.php/ijracm/issue/archive

2. Artificial Intelligence in Financial Forecasting

Vinita Vinode
Research Scholar,
BU Bhopal.

Prof. Rishi Sharma
Sagar Institute of Research & Technology,
Impact of Factors Influencing on Financial Performance of Startups,
MP.

ABSTRACT

Thisarticlestudiestheimpactofmicroandmacrofactorsonfinancialperformanceinthecontextof startups a contributor on economy of the country. Studying various literature reviews present study shows that financial performance used by startup organizations helping the entrepreneurs for their growth as managerial purpose, such as making products and services. Present study focuses on variables of financial performance, depends upon the nature or size of the startup organisation and sometimes necessity of the organisation to decide the period of performance improvement. Today every organization chooses the financial performance for the growth of startup organisations. Present study is conducted mainly at the identification of effectiveness of financial performance for startup organisations. This is purely a descriptive type of research undergone doing survey and conducting interviews. Findings suggested that the startup organization should improve their performance to survive in a competitive and fast changing market. The startup organization in India has a very bright future and is considered as one of the basic infrastructures required for the development and growth of the economy.

KEYWORDS

Financial Performance, Startups, Entrepreneurs.

1. Introduction:

The financial performance always drawn main attention from every manager, because it plays avital position within the structure and development of a firm, however, that aim is often challenged by many factors, leading to allow level of firm performance. Studying determinants of financial performance is getting necessary to startup organizations in MP, especially the startup organizations who takes a lot of advantages of macro economy and many priorities given to them. Startup India Movement launched which is entirely different from earlier "Old wine in new bottle" approach. This new policy has been designed in such a manner that the objective of employment generation via changes the mind set of the youth can simultaneously be achieved. Startup India is one of such policy which was initiated by Government of India in 2016. When the Government an alyzed the entire situation and it was felt that if the ideas, talent and capabilities of young generation can be converted in to small businesses, then new areas of jobs and growth pattern can be created. In our study, we focusing on the impact of different factors on financial performance of startup in Bhopal. Startup India Movement launched which is entirely different from earlier “Old wine in new bottle” approach. This new policy has been designed in such a manner that the objective of employment generation via changes the mind set of the youth can simultaneously be achieved. Startup India is one of such policy which was initiated by Government of Indiain2016. When the Government an alyzed the entire situation and it was felt that if the ideas, talent and capabilities of young generation can be converted in to small businesses, then new areas of jobs and growth pattern can be created.

2. Literature Review:

2.1 Financial Performance:

Firm financial performance is used as a tool measuring an organization current development and potential growth. Although there are many indicators estimating financial performance, the choice of appropriate ratios depends on the characteristics of studied objects and study purposes. Considerable research has been done in the area of financial performance, an in-depth review of the literature this study identifies the several research gaps. Study identifies the major variables of financial performance affects the performance of entrepreneur. Study observes the importance and an effect of financial performance in startups separately or in certain combination in different settings, particularly in startups. Investors need to understand the interests and passion of startups. Pushing their own decisions over them can be suffocating. The interesting thing is that no one is wrong in this case. While startup might be having knowledge about the leading ideas about themselves and their talent.

The partial situation can effectively be handled by an entrepreneur. They can rescue both the parties by providing them enough knowledge regarding a startup. With detailed knowledge about various growth and associated skills, career advisors provide effective help by comparing all the choices that one is considering. Finding a financial performance platform is definitely a major thing to do. In studies, return on assets (ROA) return on equity (ROE) and return on sales(ROS) are two of the most used ratios to measure financial performance. Study used ROA, ROE and ROS to measure the company’s financial performance and growth in sales in the study of the determinants of financial performance. Study has measured financial performance based on ROA, ROE and ROS to study the relationship between social responsibility and corporate financial performance. Here we evaluate the financial performance of startup organizations.

Many researchers agree that the use of those financial ratios give them valuable information of firm financial performance. While ROE shows the efficiency of equity, ROS reflects the effectiveness of the company’s cost management. In other words, one ratio refers the capacity to use the capital (input of capital), the other refers to the ability to manage the operating cost (output of capital). Therefore, the use of these two financial indicators will help researchers to have more comprehensive conclusions about the financial performance of enterprises.

2.1.1 State Ownership:

Relating to this matter, some researchers spend at tension on the influence of the existing state ownership on financial performance. Although there are a lot of researches on that issue, the conclusion of its influence is still argued. On the one hand, some researchers agree that state ownership is considered as a “helping hand” that could provide an abundance of capital, thereby improve firm financial performance. On the other hand, many people describe it as “grabbing hand” which assumes that firm’s profit could be more extracted to some politician purposes.

Theoretically, in the property rights perspective in economics and the residual claimant theory, economists in dicate the public ownership in efficiency. Empirically, study show that for SOEs firm, their characteristics can predict external successions. Qi*etal.* (2000)indicates that the performance of public SOEs firms could be influenced by the ownership structure and relative control by either the state or legal-person share holdings.

2.2 Quick Ratio:

According to Van Horne and Wachowicz(2005), ratios measuring liquidity is a tool to help analysts determine the company’s ability to fulfill short-term financial obligations. Study indicates that “liquidity” has a crucial position in the success of a firm, because the failure to meet its obligation indue time could lead to allow credit rating by the creditors, decrease in the value of growth in the market and finally a reduction in capacity to have more capital in the future. Mean while, the capital is the core of a good financial performance.

There is a rage of financial ratios to measure the corporate liquidity, and the choice of appropriate ratio depends on the characteristics of studied objects. For startup organisations having a large amount of short-term debt like food processing firms, the quick ratio (QR) is commonly used. The study of Seema *etal.* (2011) increases in QR brought a strong impact on financial performance.

2.3 Total Assets Turn Over Ratio:

According to Stephen *etal.*(2010), this ratio helps managers know how efficient they are in using company assets to generate sales. Theatrically, a high total assets turnover partly shows some potential developments of a company relating to increasing its sales, expanding its market share, finally, improving its financial performance. Empirically, study an alyze empirically the factors affecting business performance of listed startup enterprises. Research results show a significant positive relationship between the ratio of financial performance and total asset turnover of firms.

Seema *et al.* (2011) evaluates corporate performance by using total as set turn over, long-term as set turn over and short-term as set turnover. The authors point out that low turnover is a sign of ineffective use of available resources and that the company has not fully exploited its capacity or assets. Similarly, Dinh and Sha (2011) use total asset turnover to evaluate business results of enterprises. Analysts conclude that the higher the efficiency of assets use, the better the company’s operating efficiency.

2.4 Leverage:

Leverage indicates the level of the debt. It is directly related to the capital used in a company, so it is an issue interested by many people like managers, share holders, investors, creditors. Therefore, there have been researches carried out to identify the influence of that variable on financial performance of a company, but there is not the final conclusion to that problem. Some researchers such as Al-Jafari and Samman (2015) found that leverage is negatively correlated to financial performance; the reason is that high debt requires more resources to pay the debt. However, others like Humera *et al.* (2011) argue that additional debt can be implemented in a good investment, which will increase financial performance.

2.5 Firm Size:

Firm size could influence its financial performance in many ways. A larger company could more affect its current and potential investors, creditors, its stake holders, even its consumers. That is proved by the high business performance of conglomerates and multinational corporation sing lobal economy.

As a consequence, firm size is considered as a determinant of financial performance by many researchers. However, there are various result of the effect between firm size and financial performance. Erasmus (2013) found a positive influences between firm size and financial performance and suggested that the firm size also have a negative effect to the financial performance.

2.6 Growth in Sales:

According Deitiana (2011), high growth in sales is one of signs of a firm business success in the past, and it could be used as a tool to predict the development in the future. It partly shows that the capacity of the company to expand the market share or launch new products. In addition, that good ratio also helps the firm to interest more investors. Therefore, there have been also numerous researches in the influence of that variable on firm financial performance, and many of them like studies done by Yazdan far(2013) found a positive and significant relationship between firm growth and performance.

2.7 Consumer Price Index:

In this study, the consumer price index (CPI) is selected to represent the group of factors, because one of characteristics of food processing industry is to be strongly influenced by the change in price and inflation. Although there have been a range of researches on the influence of this factor on firm financial performance, their finding is different from each other.

Booth *etal.*(2001) show that the increase of CPI can lead to the decrease of the use of debt in enterprises, and reducing the degree of debt is able to make the company’s business performance increased. Meanwhile, Deng *etal.*(2009), point out that as the CPI increases, startup organisations will find that many of the benefits of using financial leverage diminish, which makes many managers hesitate to use debt to finance your business.

3. Methodology:

The study is secondary in nature. The area of study is Madhya Pradesh and it is based mainly on the secondary data. For identification of the problems of some of the startup businesses of the state, interview method was adopted. The secondary data collected from various reliable sources such as various study reports published by Government of India, special report on startup from various institution like FCCI, NASSCOM, publication of various reports by state governments and other researches at national and international level, World Employment Social Out look Reports by International Labour Organization, various surveys conducted by National Sample Survey Organization, Global Entrepreneurship Development Institute, Ease of Doing Business Report published by World Bank etc. The data and information so collected were further processed through summarization and tabulation and simple statistical tools were used to analyze the processed data.

4. Discussion and Conclusion:

Startup organizations manufacturing food products play an important role in the Vietnamese economy, but the financial performance of firms in this industry is not as high as the expectation, therefore, studying determinants of their financial performance is a necessary activity. First, two variables consisting of total assets turnover ratio (ATR) and growth in sales significantly influence financial performance when it is measured by ROE or ROS. However, while growth influences positively both ROE and ROS, the impact of ATR on ROE is in contrast to that on ROS. Those results are reasonable for startup organizations and the solutions to increase growth in sale are used by numerous leaders, because the profit on each product is rather low, so increasing sales can help startup organizations ensure their financial performance.

In addition, consumers are affected a lot by their buying habits, therefore, managers often want to capture the largest market share as soon as possible to avoid huge costs and losses in the future. Regarding the impact of ATR, its negative effect on ROS can be understood due to the economic nature of these two financial ratios, where as its positive influence on ROE reveals a fact that for food processing startup organizations, the efficiency of the use of capital is able to change the ROE. Though, these obstacles did not seem to be difficult to them, and the increase in ATR still leads to ROE enhanced. However, empirical results evoke following point, depending on the goals of company, measures for ATR should be carefully considered. By contrast, if the company wants to show that it is highly effective to increase sales to capture market share, solutions to decrease that ratio could be more appropriate.

Second, leverage significantly negatively impacts return on sale of firm, so when leaders want to enhance ROS, controlling the use of debt could minimize the financial cost and help them to reach their business aim. The effect of leverage can be explained by their mis use of debt. Due to the short production cycle of food products, many businesses depend heavily on debt, leading to high financial costs, which is particularly not beneficial during a period of many fluctuations in raw material prices and interest.

Finally the study concludes that there are differences in financial performance and the effect of predictors on dependent variable “ROS” between SOEs and non-SOEs, the financial performance of startup organizations is higher.

In fact, the result is reasonable, because until now, the management activities of SOEs, especially in the financial sector have not been good, and bureaucratic and subsidized ideology still exists in the leadership, leading to a negative impact on business performance. While ATR have the significant impact on financial performance of startup organizations. The causes that are identified by decomposition analysis come from the component effect. As a result, depending on the level of State ownership of each firm, managers should consider suitable solutions to improve its financial performance.

Furthermore, startup organizations are going through a critical financial situation and are suffering from a huge drop in profitability. A negative growth rate is observed in its total income during the period under review. Here it was suggested that startup organization should improve their performance to survive in a competitive and fast changing market. The startup organization in India has a very bright future and is considered as one of the basic infrastructures required for the development and growth of the economy.

References:

1. Adams, M. and Buckle, M.(2003), "The determinants of corporate financial performance in the Bermuda insurance market", *Applied Financial Economics*, Vol. 13 No. 2, pp. 133-143.
2. Al-Jafari, M.K. and Al Samman, H. (2015), "Determinants of profitability: evidence from industrial companies listed on Muscat Securities Market", *Review of European Studies*, Vol.7 No.11,
3. pp.303-311.
4. Booth, L., Aivazian, V., Demirguc-Kunt, A. and Maksimovic, V. (2001), "Capital structures in developing countries", *Journal of Finance*, Vol. 56, pp. 87-130.
5. Burja, C. (2011), "Factors influencing the company's profitability", *Annales Universitatis Apulensis -Series Oeconomica*, Vol. 13 No. 2, pp. 215-224.
6. Deitiana,T.(2011),"Theeffectoffinancialratios,salesgrowthanddividendsislimitedstock prices",
7. *Journal of Business and Accounting*, Vol.13 No.1, pp.57-65.
8. Demirguc-Kunt, A. and Maksimovic, V. (1999), "Institutions, financial markets, and firm debt maturity", *Journal of Finance Economics*, Vol. 54, pp. 295-336.
9. Deng, L. and Luo, H.(2009), "An empirical study of the macro economic factors that affect the capital structure of agricultural listed companies", *Journal of Market Modernization*,Vol.11,pp.28-29.
10. Ding, H. and Sha, R. (2011), "Empirical analysis of the impact of capital structure on performance in Jilin Forest Industry Co., Ltd", *Issues of Forestry Economics*, Vol. 31 No. 2, pp. 141-144.
11. Dhawan, R. (2011), "Firm size and productivity differential: theory and evidence from a panel of US firms", *Journal of Economic Behaviour and Organization*, Vol. 44, pp. 269-293.
12. Erasmus, F.K. (2013), "Impact of size and age on firm performance: evidence from micro finance in stitutions in Tanzania", *Research Journal of Finance and Accounting*, Vol.4 No.5, pp.105-116.
13. Hu, R. and Michael, A. (2006), "Antecedents and performance outcomes of diversification: a review and critique of theoretical perspectives", *Journal of Management*, Vol. 16, pp. 461-509.

14. Humera, K., Maryam, M., Khalid, Z., Sundas, S. and Bilal, S. (2011), “Corporate governance and firm performance: case study of karachi stock market”, *International Journal of Trade Economic and Finance*, Vol. 2, pp. 39-43.
15. Jiang, F., Huang, J. and Kim, K.A. (2013), "Appointments of out siders as CEOs, state-owned enterprises, and firm performance: evidence from China", *Pacific-Basin Finance Journal*, Vol.23, pp.49-64.
16. Krishnan, V.S. and Moyer, R.C.(1997), “Performance, capital structure and home country: ananalysis of Asian countries”, *Global Finance Journal*, Vol. 8 No. 1, pp. 129-143.
17. Liu, Q. (2010), “Establishing a model of firm financial performance evaluation”, *Accounting and Auditing*, Vol. 6, pp. 249-250.
18. Martin, S. and Parker, D. (1997), *The Impact of Privatisation: Ownership and Corporate Performance in the UK*, Routledge, London.
19. Oaxaca, R.L.(1973),“Male-female wage differentials in urban labor markets”, *International Economic Review*, Vol. 9, pp. 693-709.
20. Owolabi, S.A. and Obida, S.S.(2012), “Liquidity management and corporate profit ability: case study of selected manufacturing companies listed on the Nigerian stock exchange”, *Business Management Dynamics*, Vol. 2 No. 2, pp.10-25.
21. Qi, D., Wu, W. and Zhang, H.(2000), “Share holding structure and corporate performance of partially privatized firms: evidence from listed Chinese companies”, *Pacific Basin Finance Journal*,Vol.8 No. 5, pp. 587-610.
22. Ruf, B.M., Muralidhar, K., Brown, R.M., Janey, J.J. and Paul, K. (2001), “An empirical investigation of the relationship between change incorporate social performance and financial performance: a stakeholder theory perspective”, *Journal of Business Ethics*, Vol. 32, pp. 143-156.
23. Salman, A.K. and Yazdan far, D. (2012), “Profitability in Swedish SME firms: a quantile regression approach”, *International Business Research*, Vol. 5 No. 80, pp. 94-106.
24. Van Horne, J.C. and Wachowicz, J.M. Jr (2005), Fundamentals of Financial Management, Prentice Hall: Financial Times.
25. Waddock, S.A. and Graves, S.B.(1997), “The corporate social performance—financial performance link”, *Strategic Management Journal*, Vol. 18 No. 4, pp. 303-319.
26. Yazdanfar, D.(2013), “Profitability determinants among micro firms: evidence from Swedish data”, *International Journal of Managerial Finance*, Vol. 9No.2,pp.150-160.
27. Zeitun, R. and Tian, G.G.(2007), “Capital structure and corporate performance: evidence from Jordan”, *Australasian Accounting, Business and Finance Journal*, Vol.1No.4, pp.40-61.
28. Seema, G., Jain, P.K. and Yadav, S.S. (2011), “Impact of MoU on financial performance of public sector enterprises in India”, Journal of Advances in Management Research, Vol. 8 No. 2, pp. 263-284.
29. Stephen, A.R., Randolph, W.W. and Bradford, D.J. (2010), Fundamentals of Corporate Finance, McGraw-Hill, New York, NY.