

An Analysis of Funding Management Issues and Countermeasures for Startups

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Abstract. In the current economic landscape, startups function as critical engines of innovation and employment, playing a significant role in economic growth. However, most startups face the risk of cash flow disruption due to weak financial management capabilities, with approximately 60% ceasing operations within five years of establishment due to financial distress. This situation underscores the urgency of researching cash management challenges in startups. This paper focuses on startup capital management, aiming to identify core challenges and propose optimization strategies grounded in empirical case studies. The research adopts a mixed-methods research design integrating literature review and case analysis: first, it synthesizes scholarly findings on startup capital management; second, it examines real-world cases from Ukraine, Indonesia, and Africa to conduct an in-depth analysis of capital management dilemmas. The study identifies three key core issues in startup capital management: irrational financing decisions, inadequate development of financial monitoring systems, and inadequate investment risk governance. By implementing strategies such as establishing robust budget management systems, improving capital risk control mechanisms, and strengthening investment analysis, startups can substantially enhance capital management efficiency and mitigate operational risks.

Keywords: Startup enterprises, Capital management, Financing decisions, Financial monitoring, Investment risk

1. Introduction

In the market economy, startups are a pivotal force driving technological innovation and industrial upgrading. Wang Mingyue points out that in China alone, more than 1 million new startups were established in 2024. These enterprises have not only created a large number of jobs but also facilitated technological advancements in fields such as artificial intelligence and biomedicine [1]. However, startups face numerous challenges in their development, among which capital management is the most prominent. Jiang Haixia's research shows that 70% of startups encounter failure stemming from inadequate capital management, such as capital chain breaks and imprudent investments [2]. This data indicates that capital management has become a key factor constraining the survival and development of startups. In the past three years, research and practice have shown new trends: global venture capital has cooled down, with investment in seed-stage startups dropping by 45% in 2024. Bridge financing and down-round financing have increased, leading to heightened

financing difficulty and prolonged cycles. Meanwhile, academic circles have paid greater attention to practical strategies such as dynamic cash flow management and lean cost control, emphasizing the importance of risk reserve funds and diversified financing channels. Previous studies have mostly focused on problem categorization or single countermeasures. Combined with the new background of a deteriorating financing environment over the past three years, this study focuses on analyzing the linkage response logic of "financing dilemma—cash flow control—risk early warning", aiming to provide startups with a streamlined capital management framework adapted to the current environment, address the deficiencies of existing research in environmental adaptability and practicality, and thus have greater practical guiding value.

The research methods include literature review and case analysis. By systematically organizing relevant literature, the theoretical framework and existing research conclusions of startup capital management are summarized; combined with practical cases of startups in Ukraine, Indonesia and other regions, the specific manifestations and causes of capital management problems are analyzed to ensure that the research conclusions have both theoretical and practical validity [3]. For the startup group, the research results can provide practical financing, budgeting and monitoring strategies. Capital is the "lifeline" of startups, and scientific capital management is crucial to their survival and sustainable development.

2. The necessity of financial management for startups

Firstly, sound capital management enables startups to mitigate financial risks. Qin Dan points out that startups have insufficient operational experience and weak risk resistance. If capital management is improper, they are prone to problems such as debt defaults and capital chain breaks [4]. On the basis of risk control, capital management also needs to provide support for business expansion.

Secondly, good capital management underpins the steady development of startups. Taking supply chain management startups as a case in point, Wang Mingyue notes that such enterprises have the characteristics of high transaction volumes and prolonged accounts receivable cycles [1]. If they cannot effectively manage capital turnover, they are likely to face the dilemma of "having orders but no funds for production". A logistics startup established a capital budgeting system to proactively forecast and allocate the capital needs of procurement, transportation and other links in advance. This not only facilitated the seamless operation of its business but also increased its market share by 15% within a year. This shows that capital management can help startups clearly grasp their financial situation and provide stable capital support for business expansion.

Finally, effective capital management contributes to the optimization of startups' operating costs. Jiang Haixia mentions that startups can effectively reduce unnecessary waste by monitoring the allocation and utilization of capital expenditures [2]. For example, by analyzing capital flow, a startup found that marketing expenses accounted for a disproportionately high share of total expenditures while yielding low returns. It then adjusted its marketing strategy, reducing the expense ratio from 30% to 15% while maintaining steady sales growth. It is evident that scientific capital management can help startups achieve cost-effectiveness, improve capital use efficiency, and enhance market competitiveness.

3. Structural challenges in startup capital management

3.1. Monolithic financing channels

Financing constitutes a core capital source for startups, but most startups make irrational financing decisions, mainly manifested in over-reliance on debt financing and imprudent financing behaviors. According to the pecking order theory of financing, enterprises prefer internal financing first, followed by debt financing, and finally equity financing. This theory also explains why startups, due to insufficient internal funds and high entry barriers for equity financing, tend to prioritize debt financing. Qin Dan further points out that 80% of startups believe that debt financing has "no risk of loss of management rights", so they prefer debt methods such as bank loans and corporate borrowings, but overlook the inherent repayment obligations associated with debt financing [4]. For example, a manufacturing startup raised 5 million yuan only through debt financing to expand production without assessing its own profitability and industry-specific attributes. This resulted in a surge in the asset-liability ratio from 40% to 65%, significantly exceeding the 50% industry average for manufacturing startups. It had to pay 300,000 yuan in interest annually, while its average annual net profit was only 400,000 yuan, eventually landing in the predicament of "being profitable yet facing capital turnover shortages". Furthermore, imprudent financing constitutes another prevalent issue. Wang Mingyue finds that some startups fail to align their financing scale with actual operational needs; either they raise excessive funds leading to idleness, or insufficient funds that hinder operational activities [1]. For example, an e-commerce startup blindly raised 8 million yuan to "seize the market", but actually only needed 5 million yuan for inventory and marketing. The remaining 3 million yuan was idle in the bank due to the lack of a reasonable allocation plan, not only generating no income but also diluting the founder's equity by 20% due to equity financing. Such irrational financing decisions not only augment the financial burden on startups but also potentially undermine corporate control and amplify operational risks. The single financing channel not only exerts substantial capital pressure but also triggers a chain reaction in the financial system [5].

3.2. Fragmentation of the financial system

The imperfect financial monitoring system is another major problem in the capital management of startups, directly leading to chaotic capital use and low utilization efficiency. Jiang Haixia points out that due to their relatively small scale and limited human resources, most startups adopt a practice where a single individual holds both financial accounting and cash management roles, making it impossible to achieve mutual supervision over capital use [2]. For example, the financial staff of a startup was concurrently responsible for capital receipt and disbursement as well as bookkeeping. He once embezzled 200,000 yuan for personal investment purposes, a discrepancy that remained undetected for six months. This incident not only caused direct capital losses to the enterprise but also delayed the payment progress to suppliers, ultimately leading to the termination of cooperative relationships. Furthermore, startups often lack robust budgeting and capital allocation frameworks. Wang Mingyue notes that a supply chain startup failed to develop a clear capital budget and allocated 70% of its capital to long-term projects, leading to a shortage of working capital and failure to fulfill unexpected order requirements, ultimately forfeiting the opportunity to collaborate with large enterprises [1]. At the same time, some startups face challenges in balancing the ratio of long-term capital to working capital: either the proportion of long-term funds is too high, causing

capital idleness, or working capital is insufficient, compromising short-term debt-servicing capacity. Both scenarios diminish capital utilization efficiency and impede enterprise growth [6].

3.3. Arbitrary investment decisions

To pursue high returns, some startups blindly participate in high-risk investments, disregarding their own risk-bearing capacity, and ultimately suffer financial losses. Taking a financial startup as a case study, Qin Dan indicates that the enterprise allocated 40% of its capital to financial instruments such as stocks and futures, and also participated in real estate projects with uncertain payback periods [4]. However, due to market fluctuations, the enterprise sustained losses of 1.5 million yuan from its financial instrument investments, while capital tied up in real estate projects remained unrecoverable in a timely manner, making it unable to repay maturing loans and severely damaging its business reputation.

Furthermore, startups generally lack systematic investment analysis frameworks. Sukachova's research on Ukrainian startups revealed that 60% of investment decisions are made by founders based on experiential judgment without conducting systematic market research or risk evaluation [5]. The founder of an agricultural technology startup, "optimistic about the prospects of organic agriculture", invested 3 million yuan in building an organic farm without comprehensive analysis of market demand. Eventually, due to high product pricing and low market acceptance, it lost 800,000 yuan annually with its capital chain teetering on the brink of collapse. Such blind investment not only wastes the limited funds of startups but also risks triggering chain reactions that plunge enterprises into operational crises [7].

4. Optimization strategies for startup capital management

4.1. Expanding financing channels

To address the problem of irrational financing decisions, startups should focus on two core dimensions: "broadening channels" and "optimizing structure" to reduce financing risks. Firstly, rationalize the financing structure to balance debt and equity financing. Qin Dan suggests that startups should reasonably choose financing methods according to their own operational conditions [4]. For example, technology-based enterprises can give priority to applying for government subsidies or equity financing to reduce debt pressure; traditional industry enterprises can appropriately adopt debt financing, but need to control the asset-liability ratio below 50%. Secondly, develop and refine a comprehensive budgeting system. Wang Mingyue proposes that startups should formulate an overall budget at the beginning of the year to clarify the capital needs of each department; regularly monitor budget execution, analyze root causes of deviations, and adjust promptly; and at the end of the year, include the budget completion in employee assessments to motivate employees to improve capital use efficiency [1]. A supply chain startup implemented budget management, reducing the difference between the annual budget and actual operations from 25% to 8%, and reducing capital waste by 12%, effectively improving capital management efficiency. After optimizing the financing structure, a robust financial accounting system is essential to ensure capital security.

4.2. Improve the accounting system

To solve the lack of financial monitoring and high risk of capital security, startups need to construct a financial monitoring framework centered on the "five elements of internal control" integrating

institutional and technical measures. Separation of duties is a core measure in control activities, while information tools are important means to strengthen information and communication. On the one hand, establish a duty separation and mutual supervision mechanism. Jiang Haixia emphasizes that startups must separate the financial and cashier positions and clarify the responsibilities of each position [2]. For instance, the cashier is responsible for capital receipts and payments, the accountant for bookkeeping and financial statement preparation, and an internal audit role is established to conduct regular checks on fund utilization. This approach can mitigate risks such as fund embezzlement and accounting fraud through responsibility checks and balances. On the other hand, leverage information technology to enhance monitoring efficiency. For instance, the cloud financial software mentioned by Muttaqien Halim can synchronize capital receipt and payment data in real time and automatically generate financial statements, enabling enterprise managers to grasp capital dynamics in a timely manner [6]. A digital startup in Indonesia utilized such software to shorten the capital monitoring response time from 3 days to real time, effectively detecting and intercepting an abnormal payment application of 150,000 yuan, thereby further improving its financial monitoring system [8].

In addition, startups should introduce information-based tools to enhance monitoring efficiency. Wang Mingyue mentions that startups can use financial software (such as UFIDA and Kingdee) to realize real-time monitoring of capital flow and automatically generate capital reports, helping managers discover problems in a timely manner [1]. An e-commerce startup utilized financial software to track processes such as order collection and procurement payment in real time, shortening the capital turnover cycle from 45 days to 30 days and increasing the capital utilization rate by 20%. Building on a strengthened financial monitoring system, startups must rationally allocate long-term capital and working capital. Usually, the proportion of working capital should not be less than 40% to meet the needs of sudden orders and short-term debt repayment, avoiding restrictions on operations due to insufficient liquidity.

4.3. Strengthen investment analysis to mitigate investment risks

Startups should establish a scientific investment decision-making mechanism to preclude blind investment. Firstly, startups should conduct comprehensive market research and systematic risk assessment prior to investment. Sukachova argues that startups ought to analyze the payback period, expected returns and potential risks of investment projects [5]. For example, production-oriented enterprises should prioritize projects with short payback periods (1-2 years) and high return rates (above 15%). Prior to investing in a new production line, a manufacturing startup identified via market research that the market demand for the target product remained stable. It then estimated that the investment payback period would be 1.5 years with an expected return rate of 20%, and finally achieved the expected returns after investment.

Secondly, control the scale and scope of investment. Qin Dan points out that the proportion of high-risk investments (such as stocks and futures) in startups' total capital should not exceed 10%, and startups should refrain from investing in fields irrelevant to their core business [4]. A certain startup adjusted the proportion of high-risk investments from 40% to 5% and focused on technological research and development related to its main business, which not only reduced investment risks but also enhanced core competitiveness. Furthermore, startups may engage external experts in their investment decision-making processes, such as inviting financial consultants and industry experts to evaluate the feasibility of projects, thereby minimizing the impact of individual biases on decision-making outcomes [7].

5. Conclusion

By means of literature review and case study analysis, this paper systematically explores the necessity, core challenges, and optimization strategies of capital management in startups. The research reveals that startups primarily confront challenges including irrational financing decisions, inadequate financial monitoring mechanisms and blind investment in capital management. These challenges not only diminish the efficiency of capital utilization but also amplify operational risks. To address the above problems, this paper proposes three optimization strategies: improve the financing and budgeting system, balance the financing structure and control the debt scale; improve the financial monitoring mechanism, implement the separation of positions and introduce information tools; and strengthen investment analysis, conduct in-depth project research, and control investment risks. These strategies have been verified in multiple startup cases. For instance, a supply chain startup enhanced capital efficiency via budget management, which demonstrates that these strategies possess significant practical value.

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