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EXPLORATION OF FINANCIAL MANAGEMENT PRACTICES IN TECHNOLOGY STARTUPS WITH A FOCUS ON CAPITAL AND RISK MANAGEMENT

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Abstract

This research aims to explore financial management practices in technology startups in Indonesia, with a focus on capital and risk management. Qualitative methods were used through in-depth interviews, observation and document analysis. The research results show that funding from venture capital is the main source for startups, which is used to support operations, product development and marketing. Working capital management is focused on cash flow efficiency to maintain financial stability amidst income fluctuations.

Risk management is a significant challenge for startups, especially in the face of market volatility, intense competition and rapid technological change. Risk mitigation strategies include product diversification and assistance from venture capital. This research also found that the risk management systems in many Indonesian startups are still less integrated compared to companies in developed countries. These findings fill a gap in previous research and provide a perspective on financial management in developing country startup ecosystems. This research concludes that venture capital and effective risk mitigation strategies are key elements for the sustainability of technology startups. Further research is needed to understand the role of financial technology in startup financial management.

Keywords: Financial Management, Technology Startup, Venture Capital, Risk Management, Working Capital.

INTRODUCTION

Management is the process of planning, organizing, directing and controlling resources to achieve organizational goals effectively and efficiently (Brigham & Houston, 2018). One important branch of management is financial management, which focuses on how a company manages assets, liabilities, and capital to achieve stability and growth. Kasmir (2018) states that financial management plays an important role in making strategic decisions, including managing cash flow, financing and investment.

Technology startups, as a form of innovative start-up company, face major challenges in financial management. Capital and risk management are two crucial aspects of startup success. According to Erdogan and Koohborfardhaghighi (2019), startups often face high market uncertainty, so financial risk management is an important component to maintain business continuity.

This research was conducted on several technology startups in Indonesia, which is known as one of the largest centers of digital economic growth in Southeast Asia (Google, Temasek, & Bain, 2023). Startups operating in the fields of financial technology (fintech), e-commerce and educational technology (edtech) are the main focus because of their significant contribution to the growth of the national digital economy.

Factors that influence financial management in startups include access to funding sources, management team competency, adoption of financial technology, and government regulations. Hidayat and Pranoto (2022) found that fintech adoption can increase the efficiency of cash flow management. Apart from that, support from venture capital also acts as a catalyst for startup growth (Wijaya, Utama, & Yulia, 2023).

An interesting phenomenon is the high rate of startup failure due to a lack of good financial management skills. Based on the CRMS Indonesia report (2023), around 70% of startups fail in the first three years of operation due to an inability to manage capital and risk effectively. This shows that even though they have innovative ideas, without proper financial management, the continuity of a startup business remains vulnerable.

The main problems faced by startups in financial management are difficulties in obtaining funding in the early stages (seed funding) and challenges in managing cash flow. Apart from that, startups also often face financial risks such as exchange rate fluctuations, regulatory changes, and intense market competition (Chen, 2019). Sitinjak et al. (2024) stated that a lack of understanding of risk management strategies is also the main cause of startup failure in Indonesia.

Previous research has studied many aspects of startup financial management. Erdogan and Koohborfardhaghighi (2019) conducted a systematic review of financial risk management in startups and found that the use of analytical technology can help in financial decision making. Meanwhile, research by Rahmawati, Mustika, and Santosa (2020) highlights the role of fintech in increasing access to capital for MSMEs and startups.

Although much research has been conducted, there are several gaps that need to be filled. Previous research tends to focus on technical aspects of financial management such as risk analysis and cash flow management, but does not explore the interaction between financial management and external factors such as government regulations and organizational culture. In addition, research examining financial management practices in technology startups in Indonesia in the context of dynamic market changes is still limited. Thus, an in-depth exploration of how technology startups manage capital and risk in a complex environment becomes relevant and urgent.

LITERATURE REVIEW

Financial management

Financial management focuses on planning, organizing, controlling, and supervising financial resources to achieve company goals. Brigham and Houston (2018) emphasize that effective financial management includes decision making in three main aspects: investment, funding, and dividend policy. In technology startups, financial management is crucial due to limited resources and the need to continuously innovate. Therefore, the main focus of technology startups lies on efficient management of initial capital and thorough financial risk planning. Startups need to ensure cash flow

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remains positive while managing the uncertainty of a rapidly evolving market and rapid technological change.

Venture Capital

Venture capital is the main source of funding for startups that face high risks but have great growth potential. Gompers and Lerner (2018) stated that venture capital not only provides funds, but also provides managerial and strategic support. This support is very important for startups, especially those operating in the technology sector, to develop financial management capacity and mitigate business risks. Startups that receive venture capital tend to have greater opportunities to develop because investors not only inject funds but also play an active role in the strategic decision-making process, helping startups face the challenges of a dynamic and developing market.

Risk Management

Risk management is the process of identifying, analyzing and controlling risks that can affect the achievement of organizational goals. According to Kaplan and Mikes (2012), risks in startups can be categorized into three types: preventive risks, strategic risks, and external risks. Preventive risks relate to prevention efforts, strategic risks relate to long-term business decisions, and external risks include factors that come from outside the organization. Technology startups, characterized by market uncertainty, rapid technological change, and intense competition, require specific mitigation strategies to overcome these challenges and ensure business continuity.

Digital Economy Growth

The digital economy has created huge opportunities for technology startups in Indonesia. According to a report by Google, Temasek, and Bain (2023), the technology sector in Southeast Asia, especially Indonesia, is experiencing rapid growth with a significant contribution to gross domestic product (GDP). In this context, the theory relevant to this research is that technology startups not only need solid financial management but also the ability to adapt to a rapidly developing digital ecosystem. Technological developments affect various aspects of business, from funding models to resource management, which increasingly relies on technology in every operational process.

METHOD

Research Approach

This research uses a qualitative approach with a case study design. This approach is suitable for exploring financial management practices in technology startups in depth, especially in the aspects of capital and risk management (Yin, 2018). Case studies allow researchers to understand the specific context, interactions, and factors that influence managerial decisions in complex situations.

Location and Research Subjects

This research was conducted on several technology startups in Indonesia that were in the early growth stage. Research subjects include financial managers, startup founders, and venture capital investors. Subject selection was carried out using a purposive sampling technique, which ensures that informants have relevant experience and knowledge related to capital management and risk management. This approach allows researchers to gain in-depth insights from individuals directly involved in financial decision making and risk mitigation strategies at startups, as well as understand the challenges they face in managing limited financial resources (Palinkas et al., 2015).

Data collection technique

Data is collected through three main methods:

1. In-depth Interview
   Interviews were conducted in a semi-structured manner to explore the views and experiences of financial managers and startup founders regarding capital management and risk mitigation. This approach allows researchers to gain direct insight into the strategic decisions taken by relevant parties in facing financial challenges and business risks.
2. Participatory Observation
   Researchers directly observed financial management practices in the startup work environment. These observations provide insight into daily financial decision making, including how capital is managed and risks are faced in the startup's daily operations.
3. Documentation
   Researchers analyze documents such as financial reports, funding proposals, and company strategic plans. This analysis helps gain further understanding of the financial policies implemented and how capital and risk management strategies are outlined in official company documents.

Data Analysis Techniques

The data in this research was analyzed using the thematic analysis method, which is a qualitative approach that allows researchers to identify, analyze and report patterns or themes that emerge from the data. The analysis process begins with data coding, where the researcher marks segments of information that are relevant to the research topic. Next, relevant themes were identified and analyzed to gain a deeper understanding of capital and risk management in technology startups. This approach helps researchers organize qualitative data systematically and compile clearer findings. In this way, thematic analysis allows researchers to explore patterns that might be missed in more traditional analyzes and provides new insights that are useful for startup development in Indonesia.

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Data Validity

The validity of the data in this research is guaranteed through method triangulation, which involves comparing the results of various data collection techniques, such as interviews, observation, and document analysis. This approach aims to ensure consistency of information obtained from different sources. Apart from that, the member checking process is carried out by providing interim results to informants to obtain input and clarification. This allows the researcher to ensure that the interpretation of the data is consistent with the informants' views, thereby increasing the credibility and validity of the research findings. With these two techniques, researchers can minimize bias and increase the accuracy of research results (Creswell & Poth, 2018).

RESEARCH RESULTS AND DISCUSSION

Research result

This research explores financial management practices in technology startups in Indonesia, with a focus on capital and risk management. Based on analysis of data obtained through interviews, observation and documentation, the main findings of this research are as follows:

1. Main Source of Funding

   Technology startups in Indonesia rely heavily on venture capital for funding in the early stages. These funds are used to develop products, expand marketing, and support company operations. Startup founders stated that without external financial support, they would have difficulty surviving and competing in a highly competitive market. One respondent added, "Venture capital gives us the opportunity to grow faster and cover financial gaps, allowing us to focus on innovation and expansion." This funding is clearly the key to startup growth.
2. Working Capital Management

   Startups prioritize efficiency in managing working capital, especially in managing sustainable cash flow. They implement strict cost control strategies and plan fund allocation in accordance with business priority needs. This includes monitoring and adjusting non-essential spending as well as allocating greater funds to areas that can have a direct impact on growth, such as marketing and product development. Their primary focus is ensuring cash flow remains positive, despite fluctuations in revenue, to support long-term sustainability and expansion.
3. Risk Management

   The main risks faced by startups include market volatility, intense competition, and rapid technological change. To overcome this challenge, startups are implementing various mitigation strategies. One of them is product diversification to reduce dependence on one business line. In addition, they also manage financial risks by using instruments such as insurance or hedging, which help protect them from exchange rate fluctuations and financial losses. This approach allows startups to be more flexible and ready to face market uncertainty and ensure business continuity.

4. Assistance from Venture Capital

   Venture capital investors not only provide funding, but also serve as strategic partners who offer valuable insights. They provide assistance that includes advice on financial management, marketing strategy planning, and appropriate business expansion steps. Startup founders often state that input from investors is very beneficial, especially in managing emerging risks and facing competitive market challenges. With this support, startups can be more confident in making business decisions that will affect their sustainability and growth in a dynamic market.

Discussion

The results of this research provide insight into the importance of capital and risk management for the sustainability of technology startups in Indonesia. The following discussion compares these findings with previous research.

1. Source of Funding

   The finding that venture capital is the main source of funding for technology startups in Indonesia is in line with research by Gompers and Lerner (2018), which shows that venture capital is the main funding for high-risk companies, such as technology startups. In their research, Gompers and Lerner explain how venture capital provides needed funding in the early stages of product development and market expansion, allowing startups to grow rapidly despite facing high risks. The existence of these venture capital investors provides not only funding, but also strategic guidance that is important for the company's long-term success.

   However, in contrast to conditions in developed countries which have wide access to various alternative sources of funding such as crowdfunding and mechanisms for raising funds through initial public offerings (IPO), startups in Indonesia still face limitations in accessing these funding options. This limited access creates challenges for startups to obtain additional funding that can accelerate expansion and product innovation. This shows that the funding ecosystem in Indonesia still needs development, both in terms of supporting regulations and financial infrastructure that makes it easier for startups to access various alternative funding sources. Developing this ecosystem will be the key to encouraging the growth of technology startups in Indonesia.

2. Working Capital Management

   Efficient working capital management is a top priority for startups, as explained by Hadi and Nugroho (2021), who state that stable cash flow is the key to business sustainability. Effective cash flow management allows startups to avoid financial difficulties and ensure operations continue to run smoothly. In the context of technology startups, cash flow management becomes more complex due to the ongoing need to invest in product development and technological innovation. Expenditures for research and development, marketing and expansion are an integral part of the working capital management strategy.

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This shows that startups need to develop a financial management system that is adaptive and responsive to changing market conditions and income fluctuations. A successful startup will have a system that is not only efficient in allocating funds, but also able to anticipate changes in operational costs and fluctuating income. In addition, startups should pay attention to managing cash reserves to deal with frequent uncertainties in the market, allowing them to continue operating despite financial challenges. With this approach, startups can maintain business continuity and support their long-term growth.

3. Risk Management

Kaplan and Mikes (2012) group risks into three main categories: preventive, strategic, and external risks. In this study, strategic risks, such as intense competition and rapid technological change, are a major concern for many startups. This risk affects the company's competitiveness and survival, so it is important to overcome it with the right strategy. The mitigation approaches used by many startups, such as product diversification and the use of insurance to reduce the impact of losses, are in line with mitigation strategies suggested in previous research, which emphasizes the importance of systematic risk management.

However, despite mitigation efforts, startups in Indonesia still tend to underutilize more complex financial risk mitigation tools, such as the use of derivative instruments. The use of derivatives, which is commonly implemented by companies in developed countries, can help manage market fluctuations and exchange rate risk. This shows that although there is awareness of the importance of risk management, the funding ecosystem and knowledge regarding more sophisticated financial tools still need to develop further in Indonesia to support startups in facing greater challenges.

4. Venture Capital Assistance

The role of venture capital as a strategic partner, as identified in this research, supports the findings proposed by Gompers and Lerner (2018). They state that venture capital investors not only function as providers of funds, but also play an important role in providing strategic guidance and advice. Venture capital investors help startups in making important decisions regarding market expansion, product development, and effective marketing strategies. Therefore, the relationship that exists between startups and investors is a key factor in facing competitive market challenges.

This shows that collaboration between startups and investors is very important to achieve sustainability and stable growth. Support provided by investors can provide access to a broad network, expertise in managing risk, and experience in dealing with market dynamics. With this mutually beneficial relationship, startups can increase their competitiveness and formulate more mature strategies, which ultimately contribute to sustainable business development.

Although the results of this study are in line with previous studies, there are gaps that need to be considered. This research finds that many technology startups in Indonesia do not yet have an integrated risk management system, in contrast to the findings of Kaplan and Mikes (2012) which show that companies with good risk management systems tend to be more resilient to external shocks. A structured risk management system can help startups deal with uncertainty related to market and technological changes. In addition, the existing literature focuses more on startups in developed countries, so this research contributes by providing a perspective from the startup ecosystem in developing countries. This is important to understand the challenges and potential solutions relevant to the local context in Indonesia, where infrastructure and access to resources are still limited.

CONCLUSION

This research explores financial management practices in technology startups in Indonesia with a focus on capital and risk management. The research results show that venture capital is the main source of funding for startups, which supports business development and helps them face market challenges. Apart from that, startups in Indonesia tend to prioritize efficient working capital management to maintain positive cash flow. This is important to ensure operational continuity even when facing uncertain income fluctuations.

In terms of risk management, startups face big challenges, such as market volatility and intense competition. Risk mitigation approaches, such as product diversification and strategic assistance from investors, are the main strategies implemented by most startups. However, research findings show that the majority of startups in Indonesia do not have an adequate integrated risk management system, which indicates a gap in implementing more complex risk mitigation strategies.

This research also highlights the importance of mentoring from venture capital investors, who not only provide funding, but also strategic guidance that strengthens startups' competitiveness in the market. These findings provide an important contribution to understanding the startup ecosystem in developing countries like Indonesia. Further research is needed to examine more deeply the role of financial technology and alternative access to funding that can increase the sustainability of startups in Indonesia, considering the great potential they have in supporting economic growth.

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