

## A STUDY ON CHALLENGES FACED BY STARTUPS IN THEIR EARLY GROWTH STAGE

\* Ms. Gauri Purshottam Patil, \*\* Mr. Yugant Praful Dubey, \*\*\* Ms. Pari Manish Bajaj,  
\*\*\*\* Mr. Yash Mangesh Yadav & \*\*\*\*\* Ms. Mamta Rambachan Yadav

B. K. Birla College Of Arts, Science & Commerce (Autonomous) Kalyan

### Abstract:

Startups have an important role in promoting innovations, employment and economic development. However, they have to overcome various challenges during their early growth stage. Thus, this study aims to explore the major key challenges faced by startups during their initial phase. The major challenges may include funding issues, competition in the market, managerial inexperience, regulatory hurdles and technological hurdles. This research is based on descriptive research and uses primary and secondary data. In this paper the findings of the study show that funding issues, lack of awareness among customers and operational inefficiency are the major hurdles for the growth of startups. Thus, this paper concludes that with good financial planning, guidance, support of the government and effective business planning, startups can overcome their challenges during their early growth phase.

**Keywords-** Startups, Early Growth Stage, Entrepreneurship, Innovation, Funding, Business Development, Challenges

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### Introduction:

In last few decades, start-ups are the booming sector in the economy. They are considered as one of the vital element in contribution to economic developments and job creation in the world. These new ventures are known for introducing fresh ideas, taking risks, and developing scalable business models that can transform industries. Because of their impact, governments, investors, educational institutions, and policymakers are increasingly encouraging entrepreneurship and supporting start-up ecosystems. Start-ups are now viewed not just as business ventures, but also as drivers of tech advancement and sustainable growth.

However, despite their rising importance, many start-ups fail within the first few years. The early growth stage is especially difficult and often determines whether a start-up will succeed or fold. This phase starts from first stage when the business shifts from developing ideas to expansion. During this phase the focus is on increasing customer retention, creating finance or revenue, building a efficient team and stable working capital. Besides, the business shows early growth still new difficulties are created by managing growth. One of the major challenges is limited resources. Unlike established companies, start-ups usually operate with restricted financial

capital, limited infrastructure, and a small workforce. As the business expands, expenses increase for marketing, technology improvements, employee salaries, and operational needs. Raising funds from investors or banks can be difficult because start-ups are considered risky investments. Thus, many start-ups meet cash flow problems and financial pressure.

Managerial and organizational challenges also occur with financial issues. Many founders cannot manage their business effectively despite of having strong technical and managerial skills. Systems that are informal and effective at the stage of starting often becomes inactive with the expansion of business. Without clear roles, proper planning, and structured processes, communication problems and poor decision-making can occur. Balancing strategic planning with daily operations becomes a big responsibility for founders. During growth of any start-ups, market related challenges also arise. Start-ups must continuously keep eye on customers needs or likes and dislikes. Building brand reputation, affordable prices, retain customers, and come differently from existing brands are difficult tasks. Rapid tech advancements and unpredictable market behaviour add to the uncertainty that growing start-ups face.

There is another challenge in early-stage startups that is human resource. Grooming and attracting talented and knowledgeable employees is difficult as start-ups may not be in the position to pay high amount or provide job security to members. Thus, specialized skills are required with the growing business expansion. If the right talent is not hired in time, productivity and innovation may decline. Keeping employees motivated and managing work-related stress in a fast-paced setting also create challenges. Technological and operational problems also affect start-ups during growth. Scaling operations requires better systems, improved infrastructure, and efficient processes. Cybersecurity threats and technical failures occurs more when we are relying on digital platforms. Company's reputation and customer retention is also affected by problems occurring in supply chain and quality control.

Regulatory and legal compliance adds another layer of complexity. Start-ups must follow the tax, labour and industry rules which are generally time consuming and complicated. Many founders don't know about these rules and hiring experts is costly. If anyone disobey it can lead to high penalties and financial loss. Since many start-ups do not have enough financial reserves they are more likely to be culprit of external factors like economic downturns, technological disruptions and global crises. Besides these challenges many start-ups find solutions to overcome from these scenarios through innovation, research and development, planning and mentorship. Incubators, government programs and universities help and support start-ups to grow. To get better support systems start-ups should identify their key challenges in their early growth stage is important.

From an academic viewpoint, studying these challenges connects theoretical knowledge with real business situations. Although previous research has looked into factors for start-up success, the intensity and nature of challenges can differ based on region and industry. Thus, a detailed exploration of these issues can offer valuable insights for improving start-up survival and long-term performance.

### **Problem Statement:**

It has been found that many startups do not succeed in their first few years of establishment due to various challenges. Even though many support systems and incubators are coming up to support startups, entrepreneurs are facing difficulties in scaling up their startups during their early growth stage. The research problem of the study is to identify the key challenges faced by startups during their early growth stage and to understand the impact of the challenges on their growth and sustainability.

### **Significance of the study:**

This study is relevant because it points out the major problems associated with startups at the early growth stage. The early stage of a startups is very critical since some of the businesses may face problems like finance, inexperience, competition and management. This study helps entrepreneurs understand the problems associated with startups and thus, give better ways to resolve these problems. This study will also help investors and supporters to support and guide startups properly. This research points out the problems and solutions to improve the survival of startups.

### **Limitation of the study:**

Demographic section – the demographic section included variables likes age, gender, education, qualification, (undergraduate, postgraduate, professional degree) Role in startup (founder, co-founder, manager, employee, student) years of experience(less than 1 year, 2-3 years, 3-4 years, more than 5 years )

Convince technique sample technique – the study was done using convince sampling technique where responses were based on accessibility and availability

The study was conducted within a limited geographical area and timespan which may have small sample size and small enterprises

### **Objective of the Study:**

- To identify the key challenges faced by startups in their early growth stage.
- To study market-related challenges such as competition and customer acquisition
- To examine the role of technological and innovation challenges in the early growth of startups.
- To analyse the impact of regulatory and legal challenges on startups during their early growth stage.

### **Hypothesis**

H<sub>0</sub>- There are no significant challenges faced by startups during their early growth stage.

H<sub>1</sub>- There are significant challenges faced by startups during their early growth stage.

### **Review of literature :**

1. Salamzadeh and kawamorita - Startup Companies: Life Cycle and Challenge- In their paper they stated that limited resources, absence of supporters and operational challenges and informed systems develop obstacles in survival of startups especially in expansion stage.
2. Giardino at.al (2015)- The study found out that the key challenges of early growth stage showa that the technological uncertainty and customer retention are vital challenges at early stages especially in technology based businesses.

3. Rizwana and Singh (2019)- They found out that challenges faced by start-ups are scaling operations and identifying those operational and regulatory factors that effectively influence start-ups growth.
4. Singh (2023)- The study found out that there are challenges in infrastructure, finance and policy support. These terms decide the strength and the weakness of the startups and the impact gives the output of success and resilience.
5. Exploratory Study on Challenges Faced by Tech Start-ups in Accessing Funds- This study found that funding is the major challenge faced by various founders. It highlights that research and development costs, inadequate resources and capital make the expansion of business difficult.
6. Navigating the Innovation Process- A Springer chapter on deep-tech startups found how innovation and big commercialization cycle affects challenges for early-stage like technological risk, inadequate knowledge and financial resources.
7. Indian Context and Start-ups Ecosystem Challenges- These studies on Indian startup landscape found that there are regulatory problems, insufficient financial resources, inadequate capital funding and talent retention are the major and key challenges faced by start-ups during their early growth stage.

#### **Research Methodology :**

- Research Design: The study uses descriptive research design to analyse the challenges faced by startups during their early growth stage.
- Data Collection: Primary data is collected using five-point Likert scale. Secondary data is collected from journals, articles and websites related to startups and entrepreneurship.
- Sample Size: The sample includes startup founders, co-founders, employees and students from different industries. The total sample collected is 116 from the above.
- Sampling Technique- Convenience sampling method is used for selecting responses.
- Data Analysis Tools- The collected data is analysed with Single Factor Anova and Correlation to test the hypothesis

#### **Data Analysis and Interpretation:**

To analyse whether the startups face significant challenges during their early growth stage- Single Factor Anova test and Correlation test was done. The main aim was to determine if there is any significant relationship between mean responses related to the key challenges faced by startups during their early growth stage.

The result of Anova test is as follows-

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
Q1. Startu	230	918	3.9913	1.17896		
Q2. High e	230	907	3.94348	1.10159		
Q3. Difficu	230	921	4.00435	1.14845		
Q4. Startu	230	913	3.96957	1.05147		
Q5. Early	230	846	3.67826	1.68642		
Q6. Custo	230	920	4	0.91703		
Q7. Startu	230	910	3.95652	0.95007		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	18.3652	6	3.06087	2.66693	0.01407	2.10423
Within Groups	1839.79	1603	1.14771			
Total	1858.15	1609				

The F-value we calculated is 2.6669, which is greater than the critical F-value of 2.1042. The p-value is 0.014068, which is less than 0.05 significance level. This shows that there is significant relationship between the average responses of variables of key challenges. Thus, we reject the null hypothesis and accept alternative hypothesis

**Hypothesis of the study:**

H<sub>0</sub>- There are no significant challenges faced by startups during their early growth stage

H<sub>1</sub>- There are significant challenges faced by startups during their early growth stage.

Since the p-value is less than 0.05 (p<0.05) Reject- H<sub>0</sub> and Accept- H<sub>1</sub>. This means startups do face significant key challenges in their starting stages.

**The result of Correlation test are as follows-**

The correlation matrix shows the relationship value range between 0.46 to 0.77 indicating a moderate to strong positive correlation between the variables. Since all the values are positive, above 0.40 and many above 0.60 it indicates that the key challenges variables move in same direction. When one challenge increases another also increases. Thus, this means startups face significant challenges and they are interdependent.

Q1. Startup	Q2. High e	Q3. Difficu	Q4. Startup	Q5. Early	Q6. Custor	Q7. Startup
1						
0.64331	1					
0.671788	0.776694	1				
0.595916	0.720624	0.711436	1			
0.561648	0.614551	0.72584	0.6288	1		
0.466171	0.608261	0.582957	0.635931	0.656645	1	
0.515401	0.603716	0.648163	0.649661	0.675427	0.673687	1

#### Findings Based on the ANOVA and Correlation results:

The responses show significant variation across different key challenge factors. The average scores of all variables are around 3.6 to 4.0 of anova and correlation is between 0.46 to 0.77, indicating agreement that these challenges exist. This confirms that financial constraints, operational inefficiencies, decision-making issues, and scaling difficulties are important challenges for startups. The statistical evidence shows that early-stage startups face real and significant challenges.

#### Challenges-

- Difficulty in obtaining responses from actual startup founders.
- Time frame limitations in obtaining enough data.
- Obtaining unbiased responses.
- Performing tests and managing statistical data and Interpretation.
- Difficulty in collecting secondary data of journals and other reports.

#### Remedies and Suggestions-

- Financial planning and budgeting should be done in a structured manner for startups.
- Government policies should encourage ease of compliance.
- Mentorship and incubation support should be achieved.
- Scalable technology infrastructure should be invested in.
- Market research and brand building should be done.

#### Conclusion:

The study finds that startups face major challenges during their early growth stage. The statistical analysis with Single Factor Anova and Correlation reveals a significant difference between the identified challenge variables ( $p < 0.05$ )(0.46 to 0.77). As a result, we reject the null hypothesis and accept the alternative hypothesis. This shows that early-stage startups faces several challenges that affect their growth and development

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