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# An Analysis of Financial Constraints and Sustainability Challenges of Startups in the Digital Economy.

## Article History:

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**Abstract:** The present study aims to explore the financial constraints and sustainability challenges faced by startups in the digital economy and assess the impact of the usage of digital platforms on financial sustainability. The digital economy has recorded remarkable growth over the years with the development in information technology. This has created opportunities for startups to expand their business. However, startups face many financial constraints and operational challenges. The present study has been based on the primary research conducted by gathering information from 126 respondents, such as students, entrepreneurs, and working professionals, using structured questionnaires. The Likert method has been used to prepare the statements in the questionnaire. The study has also been based on the secondary research method by gathering information from different journals, articles, and reports. The study has used different statistical tools such as percentage analysis, mean score method, correlation, regression, ANOVA, chi-square tests, etc. The results showed that financial constraints play a significant role in the sustainability of the startup. The results showed that financial constraints impact startup sustainability. This showed that one of the challenges faced by the startup is the limited access to funds and financial resources. The results also showed that sustainability challenges such as revenue stability and customer retention are faced by most startups. However, there was no significant difference in the results based on the different roles played by the respondents. The results also showed that the usage of digital platforms has a significant positive impact on financial sustainability. This showed the importance of the usage of digital platforms in the context of financial sustainability. The study concluded that financial management and financial knowledge are important in the context of financial sustainability.

**Keywords:** Digital Economy, Financial Constraints, Sustainability Challenges, Digital Platforms, Financial Sustainability.

## INTRODUCTION

Over the past few years, the digital economy has affected the way businesses operate, offering startups opportunities for growth through digital technologies. Technologies like social media, online commerce, and mobile applications have made it easier for startups to grow by enabling them to reach their customers at relatively lower costs. Startups, however, face significant challenges, mostly related to finance. Lack of finance, high

operating costs, and unstable income have made it difficult for startups to grow and survive. Other sustainability issues like high competition, unstable customer demand, and rapid changes in technology have affected their sustainability. Digital technologies have helped startups by reducing marketing costs and reaching their customers. However, startups have been unable to effectively use digital technologies. Students' and future entrepreneurs' awareness is an important factor in

determining the future of startups. This research is based on the financial constraints faced by startups, sustainability issues, the impact of digital technologies on startups, and the awareness of financial sustainability among future entrepreneurs.

### PROBLEM STATEMENT

Although digital technologies have made it easier for startups to grow, they face significant problems in their sustainability. Issues like lack of finance, poor financial planning, operating costs, and lack of loans have affected their growth. In addition, unstable income, customers, competition, and technology have affected their sustainability. Although digital technologies have helped startups by reducing costs and reaching their customers, startups have been unable to effectively use digital technologies. Awareness about financial sustainability among future entrepreneurs is still unknown.

### OBJECTIVES OF THE STUDY

1. To examine the effect of financial constraints on the growth and survival of startups in the digital economy.
2. To identify the major sustainability challenges faced by startups and examine whether these challenges differ across respondents current designation.
3. To evaluate the influence of digital platform usage on the financial sustainability of Startups.

### SIGNIFICANCE OF THE STUDY

This study will be helpful in understanding the financial and sustainability challenges faced by startups. This study will also provide useful insights to the audience to plan and take financial decisions effectively. This study will also be helpful in framing effective funding mechanisms to sustain the startup industry. This research will also add value to the existing research on the subject matter, i.e., digital entrepreneurship and financial management. This study will also help in creating awareness among students and aspiring entrepreneurs about the importance of financial discipline and sustainability in the context of the digital world.

### SCOPE OF THE STUDY

This study has focused on the financial challenges and sustainability challenges faced by the startups in the digital economy. This study has also focused on the impact of digital platforms on startup businesses. Additionally, the study has focused on the awareness and perception of students, aspiring entrepreneurs, and working professionals regarding financial sustainability. This study has been based on the primary research method and structured Likert-scale questionnaire.

### LIMITATIONS OF THE STUDY

This study has a few limitations. First and foremost, the study has a limited sample size. This study has been based on the primary research method and structured Likert-scale questionnaire. However, the responses obtained in the study might be based on the bias response. Additionally, the study has focused on a few variables and has not covered all the variables affecting the startup businesses.

### REVIEW OF LITERATURE

**Rao et al. (2023)**, The study explains that financial systems in developing countries are not well developed. The process of taking loans from financial institutions becomes complicated. Moreover, financial knowledge is not adequate in the minds of entrepreneurs. This becomes an additional challenge in accessing finance. Due to this reason, startups face difficulties in managing finance. This leads to the weakening of the performance of startups.

**Alamzadeh and Dana (2021)**, The research shows that startups in emerging markets face difficulties in accessing finance from the equity route. The number of investors who invest in startups in emerging markets is low. Due to this reason, startups in emerging markets rely heavily on personal savings. This becomes an obstacle in the growth and expansion of startups.

**Myers and Majluf (1984)**, The Pecking Order Theory was proposed by Myers and Majluf. The theory explains that the pecking order of finance in every organization is to use internal finance. This happens because the cost and risks involved in taking loans from financial institutions are very high. Startups avoid taking external finance. Due to this reason, they face difficulties in raising finance. The lack of internal finance makes startups dependent on informal finance.

**Nunes, Morioka, and Bolis (2022)**, The study highlights that startups face difficulties in taking loans from financial institutions. Balance sustainability with survival. Due to financial constraints and a lack of expertise, they pay more attention to short-term goals. Long-term sustainability is sometimes ignored. This poses a problem in maintaining a smooth-running business. Startups require more effective strategies in balancing survival and sustainability.

**Shad et al. (2020)**, The study indicates that startups face a number of challenges. They lack the necessary resources and funds. They also lack proper support structures. These factors make it difficult to embrace sustainability. There is also a lack of a proper framework to guide them in the process. This has caused a lot of confusion. As a result, sustainability has become a major challenge to them.

**Hota, Mohanty, and Kumar (2024)**, This research has

indicated that financial instability and poor business strategy affect the sustainability of startups. Technology has also posed a challenge to startups. They require flexibility to adapt to the ever-changing environment. They require proper planning to survive. Flexibility and innovation are necessary in a startup to ensure long-term sustainability. Parker et al. (2016), The study has indicated the role played by digital platforms in connecting different users and resources. Digital platforms generate value by creating interactions and collaborations. They have affected different business sectors. They have altered the traditional business process. Digital platforms have also affected the growth and development of startups. They have become a new form of growth in modern businesses.

**Usman & Sun (2023)**, This study has indicated the benefits associated with the use of digital platforms by startups. They have been effective in the expansion of the market and customer engagement. Digital tools have also been effective in the growth and development of startups. They have helped them in scaling up. They have been effective in the success of startups.

**Kannan and Li (2017)**, The research has focused on the role played by digital marketing in business growth. It allows for real-time communication with customers. Personalized marketing results in better customer experience and satisfaction. This helps in building a strong relationship with customers. Digital marketing is a necessity for modern-day startups.

## RESEARCH AND METHEDODOLOGY

The research design for conducting the research will be descriptive in nature. For collecting the primary data, the researcher will use the questionnaire method for 126 samples of students, entrepreneurs, and working professionals. For collecting the data, the researcher will use the convenience sampling method. On the contrary, the researcher will collect the secondary data from various sources like journals, reports, and credible sources from the internet. For analyzing the collected data, the researcher will use various statistical tools like percentage analysis, mean score analysis, correlation analysis, regression analysis, analysis of variance, and chi-square analysis for evaluating the research objectives and hypotheses.

## DATA ANALYSIS AND INTERPRETATION

### HYPOTHESIS 1: FINANCIAL CONSTRAINTS

#### a. Correlation Analysis: Relationship between Financial Limitations (Q7) and Startup Survival (Q9)

Variables	Q7	Q9
Q7	1	0.358
Q9	0.358	1
Sig. (2-tailed)		0.000
N	126	126

Source: Primary Data

#### INTERPRETATION:

The above table indicates that the Pearson correlation coefficient between financial limitations (Q7) and startup survival (Q9) is **0.358**, which is positive and statistically significant ( $p = 0.000$ ). This shows that there is a **moderate positive relationship** between financial constraints and startup survival challenges.

#### b. Regression Analysis: Impact of Financial Limitations on Startup Survival

Model	R	R Square	F	Sig.
1	0.358	0.128	18.276	0.000

#### INTERPRETATION:

The regression analysis shows that financial limitations explain **12.8% of the variation** in startup survival ( $R^2 = 0.128$ ). The model is statistically significant ( $p = 0.000$ ), indicating that financial constraints have a **significant impact** on startup survival.

Q9- Limited access to loans or investors affects the survival of startups.

Q7-Financial limitations slow down the growth of startups in the digital economy.

### HYPOTHESIS RESULT (H1):

**Correlation Analysis: Since  $p < 0.05$ , the null hypothesis is rejected.**

**H1a:** There is a significant relationship between financial constraints and startup survival.

**Regression Analysis: Since  $p < 0.05$ , the null hypothesis is rejected.**

**H1b:** There is a significant impact of financial constraints on startup survival.

## HYPOTHESIS 2: SUSTAINABILITY CHALLENGES

### ANOVA: Role vs Revenue Instability (Q11)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.214	3	0.738	1.085	0.358
Within Groups	82.992	125	0.680		
Total	85.206	125			

#### INTERPRETATION:

The ANOVA result shows that the p-value (0.358) is greater than 0.05, indicating that there is **no significant difference** in perception of revenue instability across different respondent roles.

### ANOVA: Role vs Customer Retention (Q12)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.391	3	0.797	1.120	0.344
Within Groups	86.823	125	0.712		
Total	89.214	125			

#### INTERPRETATION:

The ANOVA result shows that the p-value (0.344) is greater than 0.05, indicating that there is **no significant difference** in perception of customer retention challenges across roles.

Q11-Maintaining consistent revenue is a major challenge for startups.

Q12-Customer retention is difficult for startups in the digital market.

#### HYPOTHESIS RESULT (H2):

Since  $p > 0.05$ , the null hypothesis is accepted.

**H2:** There is no significant difference on sustainability challenges across respondent roles.

## HYPOTHESIS 3: DIGITAL PLATFORMS

### a. Correlation Analysis: Relationship between Digital Platform Usage (Q15) and Financial Sustainability (Q19)

Variables	Q15	Q19
Q15	1	0.352
Q19	0.352	1
Sig. (2-tailed)		0.000
N	126	126

**Source:** Primary Data

#### INTERPRETATION:

The above table indicates that the Pearson correlation coefficient between digital platform usage (Q15) and financial sustainability (Q19) is **0.352**, which shows a **moderate positive and statistically significant relationship** ( $p = 0.000$ ).

### b. Regression Analysis: Impact of Digital Platforms on Financial Sustainability

Model	R	R Square	F	Sig.
1	0.352	0.124	17.525	0.000

#### INTERPRETATION:

The regression results show that digital platform usage explains **12.4% of the variation** in financial sustainability ( $R^2 = 0.124$ ). The model is statistically significant ( $p = 0.000$ ), indicating that digital platforms have a **significant positive impact** on startup performance.

Q15- Social media platforms contribute to startup revenue generation.

Q19-Financial sustainability is important for startup success.

### **HYPOTHESIS RESULT (H3):**

**Correlation Analysis: Since  $p < 0.05$ , the null hypothesis is rejected.**

**H3a:** There is a significant relationship between digital platform usage and financial sustainability.

**Regression Analysis: Since  $p < 0.05$ , the null hypothesis is rejected.**

**H3b:** There is a significant impact of digital platform usage on financial sustainability.

### **SUGGESTIONS**

- Startups need to enhance their financial planning and cash management skills.
- Entrepreneurs should consider multiple sources of finance like venture capital, angel investments, crowdfunding, etc.
- Financial literacy and financial decision-making capabilities should be improved in the entrepreneurs.
- Startups need to concentrate more on customer retention strategies and revenue generation.
- Digital platforms should be utilized in the best possible way for the business.

### **CONCLUSION**

The study concluded that financial constraints have a great influence on the growth and sustainability of startups in the digital economy, whereas sustainability challenges like revenue volatility and customer retention are common in all the roles of the respondents. The digital platform is very important for improving financial sustainability in terms of reach and efficiency. Therefore, financial management is very important for the sustainability of the startup.

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