A LOOK INTO THE CHALLENGES FACED BY START-UPS IN DEVELOPING COUNTRIES

Written by ***Sambriddhi Pandey*, Sanskriti Giri** & Rojeena Thapa******

** High school graduate, Rato Bangala School, Kathmandu, Nepal*

*** High school graduate, Rato Bangala School, Kathmandu, Nepal*

**** High school graduate, St. Xavier's College, Kathmandu, Nepal*

ABSTRACT

Young businesses in the process of developing innovative and viable business models are referred to as start-ups. Start-ups have taken on a worldwide form as a result of advances in technology and business education, and they have emerged as an intriguing means of development and revolution. As a result, the number of such enterprises has surged not only in industrialized countries but also in emergent nations. Innovators, entrepreneurs, and investors have begun to recognize the market's intricacy. However, there is no flourished corporate climate or stable foundation for start-ups in developing regions, which has put pressure on their efficiency.[i] As a result, such businesses confront a variety of challenges and dangers as they work to establish themselves as a viable firm. This study attempts to comprehend the subject of "start-up" by providing a brief history on the concept as well as addressing the obstacles encountered by businesses in developing nations. The article closes with some final observations after evaluating the idea and difficulties. The goal of this research is to learn about the most difficult challenges that entrepreneurs face while establishing new services that fulfil people's needs and contribute to a more prosperous society. This will, in fact, give entrepreneurs a heads up on the harsh realities of their enterprises and equip them to face and overcome such complications as entrepreneurs. To put it another way, this article informs readers about substantial and serious difficulties that they must confront in order to succeed in their jobs and develop as individuals. With inferential and statistical analysis, evaluation, and investigation, this report helps to provide people with a deeper knowledge of the world of infant business industry.

Keywords: Entrepreneurship**,** Start-up, Developing nations, Challenges

BACKGROUND

As shown in a burgeoning viewpoint in entrepreneurship, businesses often modify their business model through ongoing testing and learning.[ii] Looking back, the history of start-up dates back to the time of the Great Depression where it started with the setup of International Business Machine (IBM) in 1911.[iii] In the ensuing years, Silicon Valley was considered the melting pot from which many businesses boomed. Silicon Valley which currently holds over two thousand companies has its history. Considered the founding father of Silicon Valley, Frederic Treman, wanted to see Stanford's graduates come up with their start-ups in the valley itself.[iv] The first company that emerged from the valley was a garage setup. Silicon Valley's alliance with the US military proved to be beneficial as it was the depot for radar and aerospace companies. Fast forward decades, Google was initially launched as an experiment. This very own experiment proved to be successful and now provides scope for sprouting businesses. Through the internet and technology, tech businesses such as Facebook, Linked In, and Twitter achieved great heights which can be numbered to billions.

Through the International trade market and policy of import and export, developing countries are also taking baby steps towards a start-up. Globalization with its trend of promoting technology along with goods and services has a colossal impact on emerging nations. It provides an inducement for productivity and represents the motivation and willingness of the opportunistic. Start-ups have become a full-fledged phenomenon where even developing countries are influenced by globalization to have incubation centres and provide a platform for unique ideas. Not only that, but Start-up companies can also borrow ideas from already established firms through franchises and flourish the businesses in many parts of the world. South Asian developing countries such as India were amongst the top five countries in the world in terms of start-ups, with 10,000 or perhaps more, dominated by the United States, which has 83,000 or more companies, with 43 percent of them being tech-based and 9% managed by women entrepreneurs. [v]This shows that globalization has a great impact on promoting start-up ideas in every corner of the world. The start-up officially caught pace in developing countries like India with the establishment of Tata Consultancy Services which has now successfully become the most valuable brand worldwide. Furthermore, African nations such as Ghana have come up with fully functioning ventures called MeQasa which provides a listing site for Real Estate. Likewise, start-ups like MakaPads initiated by Dr. Moses Kizza Musaazi from Uganda produce biodegradable sanitary napkins which are easily available for women who would otherwise be marginalized with the inability to afford the alternatives.[vi] This is not only an innovative solution but also a social and cultural turnover in developing nations. Start-ups like this not only promote the economy but also the societal ethos.

INTRODUCTION

Innovation is at the core of the economy at all levels in a knowledge-based society. Fortunately, start-ups are deemed as an "engine" of innovation. Start-ups are small businesses that are created with the goal of creating a one-of-a-kind product or service, bringing it to market, and making it enticing to the customers. It is a young business venture with the goal of producing a viable business model to address society's needs by generating a virtuous cycle that results in continuous progress through inventive solutions. Start-ups are based on addressing the inadequacies of existing items or making totally new classes of products and services, causing entire industries to change their methods of thinking and doing business.

When it comes to start-ups, the conventional consensus is that they must be located in a developed country with all of the necessary resources. In reality, that misses the point: start-ups can begin in any country, and the countries with the greatest needs often present the biggest opportunities. As a result, a start-up is most suited to developing economies whose primary goal is to decrease poverty and produce sustainable wealth through new solutions that can address industry-wide issues.

Start-ups are at home in developing economies and countries new to entrepreneurship because each of these environments has undiscovered potential that start-ups may take advantage of not only to make a profit but also to make a difference. In a knowledge-based society, they play a key role in the economic development and increment of productivity. Start-up businesses help to accelerate the development of new technologies and have a direct impact on the cities where they operate. Consider how Infosys changed Bangalore, Alibaba influenced Hangzhou, and how Microsoft changed Redmond. All of these start-ups began small, but as they flourished, they transformed the cities in which they did business. They improved employment patterns by giving both experienced and young professionals job opportunities. Overall, start-ups are critical to the business environment because of their innovations, the creation of new jobs, and the introduction of competitive dynamics.

However, did you know that 90% of start-ups reach their demise within the first five years?[vii] Entrepreneurship is on the high tide. Thanks to increased globalization and digitalization, starting a business in this era may be both easy and challenging. Easy, because there are so many resources available that can assist in learning and moving forward. Challenging, because there are several pitfalls to be avoided while starting a business. Entrepreneurs must raise funds, develop a company strategy and plan, hire key personnel, iron out nitty-gritty aspects like equity stakes for partners and investors, and prepare for the long term. Making a start-up succeed takes a lot of effort.

Start-ups in developing economies require different resources than those in developed economies. The reality is that the business conditions in emerging and developing economies are radically different. Several factors influence the business environment's ability to adapt to innovation and, ultimately, to construct successful businesses in a systematic manner. Developing-country markets, for the most part, lack the benefit of a well-established infrastructure and a diverse industrial development. Start-ups will almost certainly need to develop adjacent efficiencies for their own operations. Such impediments, as well as underlying structural concerns, squeeze out entrepreneurship's dynamism.

Nonetheless, the challenges are not to be dreaded. The ability of an entrepreneur to recognize opportunities and defeat challenges in the market can be translated to the success of a start-up. In order to build successful start-ups in developing countries, there is a need to comprehend the intricacy of the market. The market in a developing country is a far cry from hubs like Silicon Valley which provides the essential framework required for start-ups. Accordingly, markets in developing countries have different demands and obstacles than markets in industrialized countries.

Therefore, identification of the challenges unique to developing nations is the first step in ensuring a start-up's success and survival. An analysis of the obstacles originating from the entrepreneurial environment in developing nations will be provided as part of this study in order to better understand the challenges that start-ups encounter. In other words, the purpose of this research is to evaluate the impact of economic, political, social, and cultural factors on the start-up innovation and entrepreneurship ecosystem in developing countries by first identifying the major difficulties in all of the aforementioned areas.

CHALLENGES

1) SUPPORT MECHANISM

When a start-up is built, the business owners might struggle with their work and be unsure of how an enterprise works. Entrepreneurs may want more resources, a mentor, or more knowledge to assist them in developing the firm so that the operation and finances are more readily sustainable.[viii] Due to this reason, support mechanisms are extremely important for overcoming the hurdles that the start-ups may face. Businesses require assistance and support from a variety of sources in order to continue to expand. Any start-up's rapid growth and success can only be achieved and is most often generated when support mechanisms like accelerators, incubators, venture capitalists, and investors are consistently present and identify a start-up's potential. However, the start-ups can be negatively affected if there is a lack of such support structures. Underdeveloped nations especially face several challenges associated with the assistance structures. The majority of them are linked to a lack of education, a lack of creative ideas, a lack of capital, and inadequate state assistance.[ix] The next section focuses on the issues that such systems cause, as well as the obstacles that start-ups in developing economies confront as a result of them.

(i) Accelerators/Incubators

Accelerators assist start-ups with defining and developing their early products, identifying prospective consumer groups, and acquiring resources such as funds and employees.[x] Likewise, by providing a supporting atmosphere, business incubators attempt to increase the odds of start-up firms succeeding which usually entails providing managerial help, mentorship, finance, adjustable and reduced leases, and more. [ix] Incubators provide an environment for entrepreneurs and financial partners to interact and network. One incubator in India, for example, was routinely called by investors searching for good start-ups to invest in, according to the Asian Development Bank. [xi] As amateur start-ups require a lot more nurturing than usual, accelerators and incubators can help them grow through mentorship. In India, for example, 11.4 percent of businesses polled said they had investment through an incubator or accelerator.[xi]

Given that such skilled and experienced subordinates play an important role in the success of a start-up, an entrepreneurial business will struggle to stay afloat and provide high-quality services in their absence. It is certain that business incubation is growing more essential in developing nations; yet, incubators face additional challenges. [ix] In an equity-based model, the incubator invests in its more potential corporate clients and has the opportunities to raise money via profit sharing, and transaction cost on obtaining capital, which necessitates a large initial investment and a considerable deal of patience as revenue generation might take up to ten years. [xii] A large quantity of working capital is necessary to run a start-up and many businesses, especially those in their early phases, are bootstrapped, meaning they are self-funded or rely on funding from friends and family. [xiii] In such a case, start-ups might not be able to find an incubator to work with due to lack of initial funds required for the process. This can immensely hamper the growth of such starting businesses. Furthermore, entrepreneurs' mindsets frequently prevent them from giving up equity in their businesses. [ix] The unwillingness of the entrepreneurs to share a certain proportion of their equity with the incubators and lack of trust on the outsiders might hinder the start-up as a whole and can prevent the business from reaching new heights. Similarly, finding qualified people to work in incubators might be much more difficult than it is in advanced nations. [ix] Thus, lack of incubators and accelerators in the business field might hamper the young start-ups which are in need of such support mechanisms for constant guidance and networking.

(ii) Angel Investors

Financing start-ups is one piece of the entrepreneurial puzzle and is as crucial as the management team's quality or other factors of venture formation. Raising money is vital to the success of many of the high-growth new businesses that create jobs and wealth around the world. One source of funding for start-ups is angel investment. [xiv]Angel investors, also known as private investors or seed investors are high-net-worth individuals who invest their personal assets in early-stage, non-family and friend companies and provide management help, akin to formal venture capitalists.[xv] Angels provide finance by taking equity and therefore require repayment. [xi] Angel investments are usually made early in the life cycle of a start-up. In many circumstances, their assistance is a lifesaver for start-ups going through the "valley of death" stage.[xiv] Successful angel investing requires a robust entrepreneurial ecosystem. Entrepreneurship isn't something that happens in a vacuum. It can only thrive in a strong entrepreneurial ecosystem in which a variety of players, such as entrepreneurs, investors, large corporations, universities, governments, service providers, and others, play a part. [xvi] A growing economy, on the other hand, is prone to fluctuations in aggregate demand, investment, exports, and exchange rates, making it difficult for a start-up to succeed. The unfavourable state of the economy may have a detrimental impact on entrepreneurship.[xvii] This in turn might create an unfavourable investment environment for angel investors. In a research conducted by Scheela and Jittrapanun [xviii] the following issues were reported by 20 Thai-Chinese business angels as a result of the weak investment climate in Thailand's business angel industry :

- Weak legal protection
- High business risk
- Underdeveloped capital markets
- Lack of understanding of Thai culture by foreigners
- Complacent and inexperienced investors
- Government corruption
- Too much bureaucracy/red tape

Governments can assist by ensuring that the necessary legal and financial framework conditions are in place, as well as by resolving market failures. Angel investors, however, must be the primary participants in the development of the angel market. [xvi] Entrepreneurs in developing countries have a difficult time raising capital to launch their businesses. Apart from banks, there are few finance institutions, and business angels are nearly unheard of, with a few exceptions. For example, in Lebanon, an emerging economy, commercial banks are the only source of funds for entrepreneurs. [xix]

(iii) Venture capitals

The majority of venture capital fund investors are huge organizations like pension funds, banking businesses, insurance companies, and university endowments, all of which spend a small portion of their overall wealth in high-risk projects. Over the course of the investment, they anticipate a return of between 25% and 35% every year. [xx] Venture capital firms invest institutional equity and provide managerial support to unlisted small and medium-sized businesses with great growth potential (SMEs) .[xxi]

According to Meyer (2001), in industrialized countries, fully developed institutions can reduce transaction costs by reducing uncertainty and creating a stable structure to promote interactions, such as formal and informal (BA) venture capital discussions between investor and investee.[xxii] Because of the lack of a formal institutional structure in emerging nations, transaction costs for formal and informal venture capital firms will be greater than in industrialized ones. [xxiii] In the developing world, challenges such as an inadequate legal framework [xxiv] and a lack of institutional backing for venture capitalists exist.[xxv] Institutions in developed economies, particularly legal and financial institutions, are more developed and transparent than institutions in developing or emerging economies.[xxvi] Limited private savings, poor financial intermediaries, shallow stock markets, uncertain property rights, and underdeveloped legal systems are all characteristics of emerging economies.[xxvii] In emerging economies, the lack of functional institutions can have a negative impact on the start-up and growth potential of entrepreneurial businesses. [xxviii] Internal finance accounts for the majority of financing for small and medium firms in most developing nations, reflecting the bleak prospects for entrepreneurial success. In order to establish their enterprises, entrepreneurs in emerging nations rely extensively on informal sources of finance; these sources provided between 87 % and 100 % of the outside cash raised by entrepreneurs.[xxix] Bank lending and venture capital, which are often targeted by development finance institutions interested in expanding access to finance in emerging countries, play a relatively limited role in financing entrepreneurs at the moment, at least in the start-up stage [xxix] An interesting finding from Vandenbeg, Milagrosa, Helble, 2020 research has shown that in many developing Asian countries, venture capital investors, particularly foreign ones, are uneasy with corporate regulation and legal processes. [xi] As a result, they frequently demand that companies register in a country with a well-established legal structure. This is the case in Cambodia, Thailand, and Vietnam, where domestic start-ups are asked to register in Singapore – or feel obligated to do so. Furthermore, foreign start-ups operating in ASEAN (The Association of Southeast Asian Nations) countries register in their home country or in another high-income economy they trust.

2) GOVERNMENT AND LEGAL POLICIES

In the last decade, the number of individuals establishing businesses has skyrocketed, with millions of people becoming entrepreneurs. Small company development is becoming increasingly important in both developed and developing countries. Every country strives for business expansion and market strength in order to achieve economic progress. With that stated, there are several factors that influence a company's ability to succeed and grow quickly. The involvement of government and legal regulations is one of the most critical factors affecting the start-up sector. It has a crucial impact on start-ups, transforming the way they operate and contributing significantly to their success and development.

The role of governments in successful start-up ecosystems in wealthy and industrialized nations has proven to be extremely prevalent. We only envision the essential role that entrepreneurs play when we think about companies and a thriving start-up culture. The governments in developed countries have gradually played a vital part in the development of a start-up culture by enacting better laws, improving infrastructure, lowering tax burdens, facilitating talent movement, and so on.[xxx] Governments have also aided in the establishment of a culture of invention and research by establishing programs and educational institutions to foster talent and technological advancements, which in result has promoted start-up growth and have aided in raising the countries' living standards and economy. [xxx] Creative Solutions Canada (ISC), for example, assists in the funding of inventive start-ups by determining the needs of state agencies and pushing businesses to meet those needs which, in result, rewards businesses for their efforts while also enabling them to apply their innovations to the test in a real-world environment. [xxxi]

However, the situation does not seem to replicate in developing economies. While governments in emerging countries are fully aware of the critical role they play in implementing legislation and creating a start-up environment, there have been several issues that have hampered the growth of the start-up business. The following sections outline and explain the issues that start-ups in developing nations confront as a result of poor government policies.

(i) Licensing and permit issues

A business should run in such a way that its resources are used in productivity rather than paying fines and penalties for smooth operation, thus it is important that a firm obtains the appropriate licences and permits from the relevant organizations before beginning operations. Starting a business needs a variety of government approvals. However, due to government inefficiencies and lack of assistance, the process continues to be difficult. For instance, obtaining permits from government agencies is not always simple or quick, and it may take a long time and cost a lot of money. For example, labour rules, intellectual property rights, and dispute resolution requirements are stringent in India, taking roughly 30 days to comply with compared to just 9 days in Organization for Economic Co-operation and Development (OECD) countries.[xxxii] Due to the complexities of government processes, it can be difficult for start-ups to register and get the appropriate licenses and permits. The absence of government abetment, as well as the additional time, money, and effort necessary for the procedure, may discourage some entrepreneurs who are just establishing their professions.

(ii) Employee rights, protection and safety

Organizations all around the globe have made workplace safety one of their top concerns. Employers are attempting to develop innovative ways to keep their mobile and frontline staff happy and secure, as safe workplaces are also productive workplaces. Social security and basic values and rights at work are inextricably linked, interconnected, and mutually supporting, as stated in the ILO Declaration on Social Justice for a Fair Globalization (2008) [xxxiii] Nevertheless, in the developing world, more than half of private-sector workers do not get legally required employment protections where the rules are usually imposed by national governments, and both public and private employees respect them.[xxxiv] For example, the contribution-based Social Security Scheme, which was launched in November 2020, is one of Nepal's most ambitious programs, with the goal of protecting and securing private sector employees whose safety and wellbeing have long been a source of worry.[xxxv] However, the early enthusiasm did not last, and the initiative did not accomplish what authorities had planned. Workers are conflicted about the scheme, which is mostly due to a lack of accurate information about the government program. Many employees have been affected by the government's lack of transparency and accountability. In this situation, many start-up and business workers have found it to be one of the most challenging issues they have faced in recent years.

(iii) Tax and revenue

Entrepreneurial decisions are influenced by the tax system, which frequently taxes successful businesses at a greater rate than unsuccessful.[xxxvi]According to a recent study by Wen and Gordon (2014), tax progressivity affects people's occupational choices between self-employment and paid work, with higher progressivity, people are less likely to choose the former.[xxxvii] This means that consumers are less inclined to choose a start-up business because pursuing one might be a tax and revenue headache. In developing economies, money is short to pay adequate wages to tax officials and to computerize the operation without a well-educated and excellently trained workforce, while taxpayers have limited capacity to keep accounts, making it difficult to develop an effective revenue collection. As a result, rather than constructing reasonable, contemporary, and effective tax systems, governments frequently choose the route of low effort, creating low tax services that give them an opportunity to take advantage of whatever choices are available.[xxxviii] For example, the Good and Services Tax (GST) in India, which was implemented in 2017, still has a lot of ambiguity about how it works and which products are taxed or not. Even if they have yet to produce any income, entrepreneurs must submit their taxes on a regular basis.[ixiii]

3) HUMAN RESOURCES

Most businesses are founded by people who want to improve the world via their goods and services. Successful start-ups have a culture that is contemporary, vibrant, and innovative, which sets them apart from traditional or old-school businesses. As we know, to succeed in the industry, the work must succeed first. Because the human resource department is in charge of overseeing people, it influences the team's growth in a variety of ways, including creating competitive advantage, establishing company structure, and so on. In the case of developing countries, start-ups are no longer unknown about the global trend of increased competitiveness, and need for educated and professional workers. As a response, they face fierce local and international rivalry, as well as increased need for educated and skilled labour. Despite their relevance and benefits, human resources are still in their early phases of growth in developing countries.[xxxix] Ignoring the need of a human resource strategy, on the other hand, is a significant mistake for businesses that can lead to failure. Therefore, it would be beneficial for entrepreneurs to begin by considering human resources as a network, in which a change in one area might have an influence on another. There are some critical considerations that should be made from the outset to ensure that human resources do not become one of the causes for a start-up's failure. The top five challenges for start-ups in developing countries are listed below.

(i) Training the employees

Strengthening employability and worker productivity, as well as helping businesses become more competent, may aid with structural change and growth of start-ups. Investment in a strong workforce leads to higher efficiency, which leads to improved employment for the present workforce as well as more formal and informal investment in training and education.[xl] Unlike many established firms, most start-ups in emerging nations operate on a shoestring budget because of which they are unable to adequately train their employees. Employees seek to do a good job so that they may advance in the company, feel pleased of a job well done, and advance to a better position; however, employees who are not trained do not understand how to execute their jobs, and none of the purposes can be reached.[xli] Employee turnover is caused by a loss of enthusiasm among employees, and a high labour turnover rate may have a substantial impact on businesses and be one of the factors contributing to their demise.[xli]

(ii) Lack of feedback

Feedback from both start-up management and consumers is one of the most important parts of keeping a business functioning smoothly. Giving feedback to workers benefits both the start-up firm's employees, supervisors, team, and the company as a whole, whether it's applauding them for their hard work or criticising them for mistakes they've done. Employees want to know how well they're performing and what improvements they can make. They're eager for both positive and negative feedback. What are the benefits of using them? Where do they have room for improvement? What are their responsibilities inside the company? [xlii] If, on the other hand, managers neglect to provide feedback on their employees' efforts, it might lead to workplace despair. Individuals will not be able to determine whether they are doing a good job or not if they do not receive adequate advice. Lack of feedback may appear minor, yet it may be a major factor in a start-up's failure.

Furthermore, receiving input from consumers is critical for a start-up's success. It is critical for the company's growth and success to understand how consumers feel and think about the firm and its service. Lack of customers' input via surveys, social media, forums, and bloggers can stymie a firm, resulting in customer dissatisfaction. Even if input is given, obtaining feedback on an early idea might give the motivation to keep going, but an idea is a hazy and ambiguous concept that can be understood differently by various people. The companies should concentrate on creating a physical prototype and receiving feedback on it so that practical questions may be solved. [xliii]

(iii) Hiring the right employees

In this highly challenging corporate environment, worldwide rivalry for talent has risen. It's becoming increasingly tough for businesses to recruit excellent individuals with the necessary talents for various positions and departments.[xliv] In the case of developing countries where conventional markets still exist, failing to hire the proper person for a start-up is viewed as a major issue. Most businesses do not devote a significant amount of time and money to finding the proper personnel for the position. For starters, companies in developing countries do not prioritize passive candidates. A passive applicant is someone who is not actively seeking for new employment and is usually satisfied with their existing employment.[xlv]

Unfortunately, despite their ability to have a positive influence on the business, they are ruled out by recruiting managers since they are not serious job seekers. This might decrease the prospect of having competent people on board who can make a substantial contribution to the company's success.

Another impediment to a start-up's market performance is the traditional recruitment structure. Women continue to be under-represented in important business fields due to a lack of diverse workforce. Women are still competing for jobs in historically male-dominated areas, as well as gaining momentum in high-ranking positions.[xlvi] Lack of inclusiveness in the staff recruiting process may have a big influence on start-ups, and can be a factor that prevents them from expanding and thriving as much as they could.

4) BUSINESS ETHICS

Even though many organizations are not aware, they have values, policies, and activities that are considered ethic programs and they consciously or subconsciously affect the conformity of the organization.[xlvii] Business ethics in simple words are the guidelines required to carry a business most scrupulously. During the time of fundamental change, business ethics becomes critical. With modernization and exposure to different business tactics, many ethics are no longer followed or are considered outdated. Leaders and employees are more aware of how they should act if they pay attention to ethics in the workplace. Maybe most significantly, responding to ethics in the workplace guarantees that leaders and managers build a healthy moral compass when dealing with emergencies and confusion. Generally, in large organizations, a general code of ethics is developed to adhere to the culture of the organization.

Despite the code of ethics formulated in a business, the chances of ethical dilemmas are still prevalent. Ethical dilemma also known as ethical/ moral paradox is the decision-making process between options that are entirely unethical and do not adhere to the code of ethics.[xlviii]

The obstacle with an ethical dilemma is that it does not have an easily accessible solution. Due to this, the violation or arise in ethical paradox might result in disciplinary sanctions. Some general ethical dilemmas that might arise in business start-ups are taking credit for others' ideas, providing a client with worse products to gain profit, misusing the market policy for the company's advantage. [xlviii]

Start-ups in developing countries have more ethical issues as companies nowadays still believe that they should focus on how to maximize their profit by strengthening the marketing side, financial, or even the management but not on the ethics.[xlix] The problem with start-ups in emerging nations is that such issues are considered minimal but the consequences are serious.

(i) Fraud and Manipulation

After the establishment of a start-up, it can be difficult to imagine oneself in a successful position due to the hurdles that come with it. Due to the lack of proper legal monitoring, many start-up owners use false means to engage themselves in shady practices. This could not only cause harm to the individual who has committed the felony but also stake the reputation of the start-up. In Karachi, Pakistan, a CEO of a software company was taken under custody for forgery and money laundering. The scammers operated different websites and offered services in the field of web designing and development. Later, the same start-up company started impersonating government officials and scammed the clients. Further investigation revealed that intimate details such as social security number, credit card information was collected and used to manipulate the client. [l]Once the company crosses the line, they can be legally sued and it can be impossible to gain the same prestige in the public's eyes.

(ii) Unsafe work environment

The working environment in developing countries can be so jeopardizing that it not only devastates the condition of the employees but also affects the work ethics of the company as a whole. The peak form of unsafe environment includes sexual harassment, especially against women. Jessica Udani, Founder of End Rape Culture Philippines recalls in a panel discussion how inappropriate rape comments were made by a male colleague which made Jessica and other women in the firm uncomfortable and threatened. As a sexual abuse survivor, she knew the gravity of the situation and the joke which was assumed harmless by the colleague could have damaging effects. Upon her complaint, the Human Resource Department conducted a closed-door meeting but didn't take any further action.[li] Victims are usually alienated and the department does not take the allegations seriously. This is exactly where it goes wrong in emerging nations. The culture of appointing someone as the safety coordinator or hiring someone in the Human Resource (HR) department who best relates to the employee's problems and is committed to maintaining safety is not prevalent. [lii]

(iii) Corruption

Corruption in start-ups has a direct impact on the resource allocation of the start-up and hinders innovation and sustainability in the long run. Many companies are running short of money or have lost the competition of the business to the competitors who pay bribery to the government to get the project which is of high value or high profitability. Corruption causes companies to fail in getting the government's project due to which unfair competition in the market is promoted. This shows that small and medium companies are kept in an unfair spot because big companies take the projects through inequitable means. The employment rate of the country and the bankruptcy of the small companies will delay the economic growth of the country and this also shows the unfairness on the market between the company bribing and the company that took the bribe.[liii] So business corruption is a very critical issue to developing countries not only for economic growth or fairness but also for the benefit of the people involved in the start-up.

CONCLUSION

From the above mentioned observations, it is clear that running a start-up is a difficult task, especially in a developing nation. Although it is an emerging economy which benefits the most from the advancement of start-ups, there are many critical challenges that start-ups must overcome in order to succeed. Because there isn't a strong network of support mechanisms like accelerators, incubators, venture capitalists, or investors in a developing nation, a start-up's chances of success are slim. Poor government laws and policies including licensing and permit issues, as well as an ineffective tax and revenue collection system in developing countries, heavily influence entrepreneurial decisions. There is no legislative structure in place for employment protection that affects human resources, which are a company's valuable assets. Human resources in emerging countries are still in their early stages of development, despite greater global rivalry and rapid technological advancement. Hiring a "dream team," training staff, and improving their performance through feedback are not given much care. Traditional recruitment structures that leave out women have hampered start-ups' ability to expand as much as they could. Furthermore, due to a lack of effective legal oversight in emerging economies, start-up founders may take advantage of loopholes to make money, which ultimately hurts the company. An unsafe work environment stems from a lack of a culture of designating a safety coordinator or hiring someone in the Human Resource (HR) department who best understands the employee's difficulties. Finally, corruption, which is endemic in every developing country, puts start-ups at an unfair spot through unfair resource allocation and bribery. If these difficulties are effectively overcome, a start-up is thought to thrive the best in a developing country because countries with the largest needs offer the most opportunities.

ENDNOTES

[i] Jose Rodriguez and Maria Paula Polchlopek. "How to build Start-ups in Developing Countries" , Polymath Ventures, 2020
[ii] Antonio Ghezzi et al, "Lean Start-up: a comprehensive historical review", 2018
[iii] Przem, "What is a start-up? The Historical Background", growly, 2016
[iv] "History of Silicon Valley", Silicon Valley Historical Association
[v] Gopaldas Pawan Kumar, "Indian Start-ups-Issues, Challenges and Opportunities", 2018
[vi] Andy Ayim, "11 Afrian tech start-ups making major strides in 2017", POCIT, 2017
[vii] JF Gauthier et al, "The Global Start-up Ecosystem Report", 2020
[viii] "Business Incubators Pros and Cons", Accion Opportunity Fund
[ix] Miladin Stefanović et al, " Incubators in Developing Countries: Developing Perspectives", 2008
[x] Susan Cohen, "What do Accelators Do? Insights from Incubators and Angels"
[xi] Paul Vandenberg et al, "Financing of Tech Start-ups in selected Asian countries", ADBI, 2020
[xii] Hemlata Radhakrishna and Patel Nagaraj Goud, "An Evaluation of the Role of Business Incubators and Accelators in Indian Start-up Ecosystem", IJRESS, 2017
[xiii] Sabrina Korreck, " The Indian start-up ecosystem: Drivers, challenges and pillars of support",ORF,2019
[xiv] J May, MM Liu, "Angels without borders: Trends and Policies shaping angel investment wordwide",2015
[xv] "Financing High growth Firms: The role of Angel Investors"
[xvi] V Baena, 'Market conditions driving international franchising in emerging markets',2012 International Journal of Emerging Markets, vol. 7

[xvii] William Scheela, Thwatchai Jittrapanun, "Impact of the lack of institutional development on the venture capital industry in Thailand", 2008
[xviii] Rima Bizri et al, "Barriers to Entrepreneurial Endeavors in a Developing Economy", 2012
[xix] Bob Zider, "How venture capital works", Harvard Business Review, 1998
[xx] Mark Van Osnabrugge, and Robert J Robinson, "The influence of a venture capitalist's source of funds", 2010
[xxi] Ahlstrom, D., and G. Bruton. 2006. Venture capital in emerging economies: Networks and institutional change.Entrepreneurship Theory and Practice,
[xxii] Meyer, K.E. 2001. Institutions, transaction costs and entry mode choice in Eastern Europe. Journal of International Business Studies
[xxiii] Ribeiro, L.L. & Carvalho, A. G. (2008). Private Equity And Venture Capital In An Emerging Economy: Evidence From Brazil. Venture capital
[xxiv] Scheela, W. j. & Dinh, N.V. (2004). Venture capital in a transition economy: the case of Vietnam. Venture Capital
[xxv] Ravi Ramamurti, "A multilevel model of privatization in Emerging Economies", 2000
[xxvi] Peggy Sue Heath, Mike W Peng, "The growth of the firm in planned Economies in Transition: Institutuions, Organizations and Strategic Choice", 1996
[xxvii] Acs, Z., and E. Autio, "The global entrepreneurship and development index: A brief explanation. Paper presented at the How to make the UK more entrepreneurial event" 2010
[xxviii] Zahara et al "Privatization and entrepreneurial transformation Emerging issues and a future research agenda. Academy of Management Review" 2000
[xxix] Paul Asel et al, "What's Distinctive about Growth oriented Entrepreneurship in Developing Countries?", 2005
[xxx] "How are governments influencing the success of their start-up ecosystem?", Start-upBlink, 2018
[xxxi] Marc Penzel and JF Gauthier, "4 ways governments can support start-ups and save their economies",World Economic Forum, 2020
[xxxii] Ashish Mittal, "Indian Start-ups: Challenges and Opportunities", The Economic Times, 2014
[xxxiii] "ILO Declaration on Social Justice for a Fair Globalization", ILO,2008
[xxxiv] Lucas Ronconi, "Enforcement of labor regulations in Developing Countries", IZA World of Labor
[xxxv] Chandan Kumar Mandal, "Why Nepal's social security scheme has failed to take off", The Kathmandu Post, 2019
[xxxvi] William M Gentry, and R. Glenn Hubbard, "Tax Policy and Entrepreneurial Entry", American Economic Association, 2000
[xxxvii] Jean-Francois Wen and Daniel V Gordon, "An Empirical Model of Tax Convexity and Self Employment", MIT Press Direct, 2014
[xxxviii] Vito Tanzi and Howell Zee, "Tax Policy for Developing Countries", IMF, 2001
[xxxix] Srinivas E S, "Pawan S Budhwar and Yaw A Debrah. Human Resource management in Developing Countries", Academia, 2004
[xl] Victoria Levin et al, "Understanding Poverty", The World Bank, 2021
[xli] Tina Amo, "The Negative Effects of a Lack of Training in the Workplace", Chron, 2019
[xlii] , Lindsay Kolowich Cox, "11 Eye-Opening statistics on the Importance of Employee Feedback" , Hubspot, 2017
[xliii] "How to get Feedback on your business", VirginStart-up
[xliv] Arvind Rongala, "6 Reasons Why companies Fail to Hire Right Candidates",Invensis, 2020
[xlv]Mike Kappel, "For Hard-To-Fill Positions, try Finding Passive Candidates",Forbes, 2018
[xlvi] "Why workplace Diversity Matters", Accion Opportunity Fund
[xlvii] Stephen Brenner, "Ethic Program and their Dimension", 1992
[xlviii] "Business Ethics: Moral Principles that govern the conduct of businesses", CFI
[xlix] Carter McNamara, "Business Ethics, Culture and Performance", Managementhelp.org, 2010
[l] Faraz Khan, "Massive fraud, money laundering scam detected", The News, 2021
[li] "Forum highlights the role of Philippine workplaces in tackling sexual harassment",2020
[lii] "Workplace safety",Inc.
[liii] James P Neelankavil, "Correlates of economic growth in developing countries", 2009

ISSN 2582 8088
Volume 2 Issue 3 [June - July 2021]