CHAPTER I
INTRODUCTION

1.1 Background

Startups play a vital role in driving innovation, creating employment, and contributing to national economic growth. They are typically characterized by flexibility, rapid decision-making, and high growth potential. However, despite their importance, startups often face significant challenges in maintaining sustainable operations (Kindström, 2024). Operational management — which involves planning, organizing, and controlling processes to transform inputs into valuable products or services — is one of the key determinants of organizational performance (Hokmabadi et al., 2024). Effective operational management allows startups to allocate limited resources efficiently, minimize costs, and improve productivity. Conversely, poor operational planning and inefficient workflow management can lead to delays, financial losses, and eventual business failure (Febrina & Tewu, 2025).

Globally, startup failure rates remain alarmingly high, with operational inefficiency being one of the main causes. Many founders tend to focus on product development and marketing while overlooking the importance of process design, quality management, and internal coordination (Kindström, 2024). This imbalance often leads to difficulties in scaling operations and ensuring consistent performance. Operational management practices such as lean management, process standardization, and quality assurance have been shown to improve organizational effectiveness and reduce the likelihood of business failure (Hokmabadi et al., 2024).

Indonesia has experienced rapid growth in its startup ecosystem over the past decade. According to data from the Ministry of Communication and Information Technology (Kominfo) and Startup Ranking (2024), Indonesia hosts **more than 2,400 active startups**, making it one of the largest startup ecosystems in Southeast Asia. Despite this growth, startup sustainability remains a major challenge. Studies indicate that **approximately 60–70% of Indonesian startups fail within the first three years of operation**, with internal operational weaknesses cited as one of the primary causes of failure (SBM ITB, 2022).

Empirical evidence shows that operational inefficiencies—such as poor workflow design, unclear task allocation, and lack of process coordination—contribute significantly to startup failure rates. A national study by SBM ITB (2022) reports that **over 50% of failed startups identified operational management issues** as a key factor affecting performance and scalability. Similarly, Hokmabadi et al. (2024) emphasize that startups with weak operational systems face higher costs, slower growth, and lower resilience in competitive markets.

In Makassar, the startup ecosystem is growing but remains at an early development stage. Most startups operate with small teams, limited capital, and informal management systems. Local reports and university-based entrepreneurship programs indicate that many founders in Makassar prioritize product development and market acquisition while **neglecting internal process design and operational control**. As a result, startups often experience workflow delays, task duplication, and inconsistent performance, which hinder their ability to grow sustainably.

is context, it is crucial to understand the operational
ıent challenges that startups in Makassar face and how
allenges affect their business performance. By analyzing

these issues, this study aims to identify key operational weaknesses and propose strategies that can help startups enhance their operational efficiency and sustainability. The findings are expected to provide insights for entrepreneurs, educators, and policymakers in strengthening startup management capabilities and promoting long-term business success in the region.

1.2 Problem Statement

Although the startup ecosystem in Indonesia—particularly in Makassar—has grown rapidly, the rate of failure among new ventures remains high. National studies indicate that a significant proportion of Indonesian startups fail within their early years due to weaknesses in internal operations, including poor resource management, inadequate workflow design, and the absence of standardized processes (SBM ITB, 2022). Research also shows that operational inefficiency is one of the major contributors to startup instability, as founders often prioritize product development and marketing while overlooking the importance of structured operational systems (Kindström, 2024; Hokmabadi et al., 2024). These issues can lead to delays, cost overruns, reduced productivity, and the inability to scale—factors that ultimately undermine business performance.

In Makassar, the startup ecosystem is supported by local innovation hubs and university initiatives; however, startups in the region continue to face persistent operational challenges. Many founders lack experience in managing processes, coordinating internal or implementing quality management and performance n systems (Febrina & Tewu, 2025). Limited financial hortage of skilled labor, and the absence of operational zation further weaken their ability to compete and sustain

growth. Despite the recognized importance of operational management in enhancing business performance, there is limited empirical evidence focusing specifically on startups in Makassar.

To address this gap, the current study seeks to examine the operational management challenges faced by startups in Makassar and analyze how these challenges impact their business performance. Understanding these relationships is crucial for developing strategies that can strengthen startup operations, improve resource utilization, and support long-term sustainability.

Therefore, this study aims to address the following key questions:

1.2.1 What are the key operational management challenges faced by startups in Makassar?

1.2.2 How do limitations in performance management systems influence employee productivity and operational efficiency in startups?

1.2.3 To what extent do process inefficiencies—such as workflow bottlenecks and lack of standardization—affect the financial performance and scalability of startups in Makassar?

1.2.4 How does the maturity of operational management practices (e.g., lean management, quality assurance) correlate with business performance indicators such as growth, profitability, and sustainability?

1.2.5 What operational strategies can startups in Makassar implement to mitigate these challenges and enhance their overall business performance?

1.3 Research Objectives

1.3.1 To identify the key operational management challenges faced by startups in Makassar.

To assess how limitations in performance management systems affect employee productivity and overall operational efficiency in startups.

1.3.3 To examine the extent to which process inefficiencies—such as workflow bottlenecks and lack of standardization—impact the financial performance and scalability of startups in Makassar.

1.3.4 To analyze the relationship between the maturity of operational management practices (e.g., lean management, quality assurance, process standardization) and key business performance indicators such as growth, profitability, and sustainability.

1.3.5 To propose operational strategies and best practices that startups in Makassar can implement to overcome operational challenges and enhance their business performance.

1.4 Benefits of the Study

This study is expected to provide both theoretical and practical contributions by deepening the understanding of how operational management affects the performance of startups in Makassar. Theoretically, it adds empirical evidence to existing literature that emphasizes the importance of efficient processes, quality management, and resource utilization in improving organizational outcomes (Slack et al., 2020; Heizer et al., 2022). Practically, the findings will help startup founders identify critical operational weaknesses—such as workflow inefficiencies and poor performance management—that often hinder productivity and competitiveness in early-stage businesses (Blank & Dorf, 2020). The insights generated can also support policymakers, universities, and incubators in designing more targeted programs that strengthen operational capabilities within the regional startup ecosystem (OECD, 2021). Overall, this study aims to guide startups, ers, and future researchers in improving operational effectiveness ring sustainable business growth in Makassar.

CHAPTER II
LITERATURE REVIEW

2.1 Operational Management in Startups

Operational management refers to the systematic planning, implementation, and improvement of processes that transform organizational resources into products or services. According to Slack and Brandon-Jones (2022), operations form the core function of any organization because they determine cost efficiency, productivity, quality, and overall service delivery. For startups—which operate under extreme uncertainty and resource limitations—effective operational management is even more critical. Startups must design flexible yet efficient systems to adapt quickly to market changes, minimize waste, and maintain competitiveness despite their structural vulnerabilities. Thus, operational management becomes a fundamental determinant of whether a startup can achieve sustainable performance. (Slack & Brandon-Jones, 2022).

2.2 Characteristics of Startups and Their Impact on Operations

Startups are distinct from established firms due to their focus on innovation, experimentation, and rapid iteration. Ries (2011) emphasizes that startups operate in conditions of high uncertainty, requiring them to continuously test new ideas, adapt business models, and pivot strategies based on customer feedback. These characteristics affect operational structures significantly, as workflows must remain flexible and capable of accommodating constant changes. The lack of predefined procedures, evolving roles, and informal management practices can lead to operational inconsistencies. Therefore, the unique nature of startups directly influences how they design processes, utilize resources, and coordinate internal activities. Ries, E. (2011). *The lean startup*. Crown Business.

2.3 Common Operational Challenges in Startups

2.3.1. Process Inefficiency

Startups frequently struggle with process inefficiencies because operational procedures are often not fully developed. Heizer et al. (2020) explain that these inefficiencies result in bottlenecks, delays, inconsistent output, and reduced productivity.

2.3.2. Lack of Standardization

The absence of Standard Operating Procedures (SOPs) is common among startups due to their emphasis on speed and innovation. Without standardized workflows, employees perform tasks differently, causing errors, rework, and inconsistent service quality.

2.3.3. Quality Control Issues

New firms frequently lack quality management systems, which increases the likelihood of defects, customer complaints, and higher operational costs. Weak quality control can significantly damage early brand reputation (Heizer, Render, & Munson, 2020).

2.4 Resource Constraints in Startup Operations

2.4.1 Financial Limitations

Startups typically operate with limited capital, and this restricts their ability to invest in operational infrastructure, technology, equipment, and skilled labor. Blank and Dorf (2012) highlight that financial scarcity leads founders to prioritize short-term survival over long-term operational development.

2.4.2 Human Resource Limitations

Most startups begin with small teams, leading employees to perform multiple roles. This multi-tasking can lead to burnout, misunderstandings, and reduced operational quality.

2.4.3 Technological Constraints

Many startups lack access to advanced systems such as Enterprise Resource Planning (ERP), inventory software, or automated tools. These constraints limit efficiency and increase the risk of human error. (Blank & Dorf, 2012)

2.5 Process Planning and Workflow Design

2.5.1 Absence of Clear Workflow Structures

and Stanton (1999) state that unclear workflows contribute to al instability, confusion, and inconsistent performance within ions.

ttlenecks and Redundancies

Startups often face repeated errors, bottlenecks, and task duplication due to poor coordination and unstructured workflows.

2.5.3 Scaling Challenges

Processes that work for small teams may fail when the startup grows. Without scalable systems, startups struggle to maintain performance during expansion. (Hammer & Stanton, 1999).

2.6 Human Resource Capabilities and Operational Efficiency

2.6.1 Skill Gaps

Cardon and Stevens (2004) explain that startups often employ inexperienced workers due to budget constraints, which leads to operational errors and reduced productivity.

2.6.2 Role Ambiguity

Employees in startups often face unclear job descriptions, causing confusion, overlapping responsibilities, and inefficiencies.

2.6.3 Lack of Training Systems

Many startups do not invest in structured training or performance development, resulting in inconsistent output and low operational maturity. (Cardon & Stevens, 2004).

2.7 Technology Adoption and Operational Performance

2.7.1 Digitalization for Efficiency

Technology improves accuracy, reduces manual work, and enhances decision-making. According to the OECD (2019), digital adoption increases productivity in SMEs across various sectors.

2.7.2 Barriers to Technology Use

ite its benefits, technology adoption is hindered by high costs, lack of l skills, and limited infrastructure—issues common in developing ns such as Indonesia.

enefits for Startups

For startups, digital tools improve inventory management, customer response time, real-time analytics, and overall operational speed. (Organisation for Economic Co-operation and Development [OECD], 2019)

2. Operational Challenges Among Indonesian Startups

2.8.1 Weak Process Standardization

Tambunan (2019) notes that many Indonesian SMEs rely on informal management systems, leading to inconsistent workflow and low productivity.

2.8.2 Limited Technology Integration

Digital transformation remains uneven across Indonesian regions. Startups in Makassar often depend on manual processes due to high costs or limited digital literacy.

2.8.3 Managerial and Operational Skills Gaps

Many Indonesian founders lack formal managerial and operational training, which reduces their ability to design efficient systems. (Tambunan, 2019).

3. Organizational Performance Indicators

2.9.1 Financial Indicators

Indicators such as profitability, revenue growth, and cost efficiency measure financial performance and sustainability.

2.9.2 Non-Financial Indicators

Customer satisfaction, service quality, innovation capability, and employee productivity are essential non-financial measures. Kaplan and Norton (1996) e the significance of internal processes and learning in building long-rmance.

erational Indicators

Elements such as process speed, error rates, cycle time, and capacity utilization reflect the internal efficiency of the organization. (Kaplan & Norton, 1996)

4. Relationship Between Operational Management and Business Performance

2.10.1 Efficiency and Cost Reduction

Strong operational systems reduce waste and production costs, improving the overall financial health of startups.

2.10.2 Quality and Customer Satisfaction

Consistent and well-designed processes enhance product or service quality, leading to stronger customer satisfaction and retention.

2.10.3 Competitive Advantage

Melnyk et al. (2014) argue that operational excellence creates significant competitive advantage by improving reliability, speed, and cost efficiency—factors crucial for early-stage firms.