

Turning the Risks Leading to Failure into Success in Startups (Case study: Startups Located in Tehran and Qom Universities)

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ABSTRACT

The study identified the risks that fail startups and the risks resulting in the failure in two areas (1- competition with current competitors that is the main force based on the outcome of the four forces of Porter (threat of new entrants, bargaining power of buyers, bargaining power of suppliers, the threat of substitute products or services) 2- issues related to strategies, systems, employee talent, managerial style, employee characteristics, organization structure, and common values based on McKenzie 7s model). The information used in the study was the result of an analysis of 15 startups in the growth centers of Qom and Tehran universities and the accelerators in these two cities of Iran.

Based on examinations and interviews carried out to extract information and use theme analysis to analyze it, about 151 codes, 34 basic themes, 15 organizing themes, and eight comprehensive themes were extracted. The risks leading to startup failure that were found in the study in the two areas stated are:

Mere attention to the development of current tools and inattention to deconstructive development, continuous reduction of prices of similar products, inattention to all aspects of the company and strategic planning for one-dimensional improvement, workforce development strategy in excess of real needs, using organizational structures disproportionate to the nature of startups in their life cycle, adaptation of systems and employee evaluation processes from companies not having the necessary similarity, using the same control systems in all parts of the company, lack of management experience and knowledge for managers of various departments, lack of experience in managing and launching startups in startup founders, excessive desire to migrate, reluctance to bear startup risks, modeling the management style of multinational CEOs by young startup founders, lack of familiarity with the life cycle of the startup and the needed management styles suitable to the challenges of each stage, lack of familiarity with the entrepreneurial and startup culture by key members, and conflicting demands and interests between key members.

Keywords: Startups, risks leading to failure, strategy, innovation.

Introduction

In the twentieth century, creative and innovative entrepreneurs (Schumpeter) faced many limitations and did not play many roles in the economy. Instead, large and structured companies used to be the main economic driving force of that time, yet the role of the entrepreneurs wanting to make their creative ideas into dynamic, successful products under the name of dynamic and agile companies called startups has become so strong in the new century (Cantamessa et al., 2018).

Startups are the driving force for countries that want sustainable development (Díaz-Santamaría & Bulchand-Gidumal, 2021). To understand the significance of the existence and development of startup ecosystems in developed countries, we can use the example of the South Korean government, which had developed more than 800 programs to support startups by the end of 2017 (Ko & An, 2019).

Deconstructive innovative and creative ideas of startups cause them to take a risky and ambiguous path so that the global average failure rate of startups is about 90% (Kalyanasundaram, 2018). Considering the high failure rate among startups, information about why they failed and the use of valid management models as a roadmap is crucial for them. However, startups are fundamentally different from traditional companies, and the models and Information obtained through research cannot help startups (Díaz-Santamaría & Bulchand-Gidumal, 2021).

The study background on the risks leading to failure in startups is less pronounced compared to papers on the causes of startup success (Kalyanasundaram, 2018). Considering the high probability of failure of startups and the lack of studies in this regard, the significance of identifying the risks leading to failure for startups is doubled. The study results can be used by the founders of startups and prepare them before facing the challenges ahead. In this study, the scholars look to answer the following questions: 1- What are the risks of competing with current competitors? 2- According to the McKinsey 7s model, what risks threaten the startups' common values in terms of strategy, system, talent, style, employees, organization structure, and organization?

Theoretical framework and hypotheses:

2.1. External risks increasing the probability of failure

2.1.1. Porter's Five Forces

There are various models for analyzing the external environment of a startup or a company; one of the most comprehensive models for examining the external factors affecting companies is Porter's Five Forces; in Porter's Five Forces model, four forces (threat of new entrants, bargaining power of buyers, bargaining power of suppliers, and the threat of substitute products or services) affect the competitive force between current competitors. Indeed, the force of competition between current competitors results from other forces (Bruijl, 2018).

In this study, considering the significance of competition between current competitors to evaluate and identify external risks leading to failure in startups, we ask the question: In the context of competition between current competitors, what are the risks that cause startups to fail?

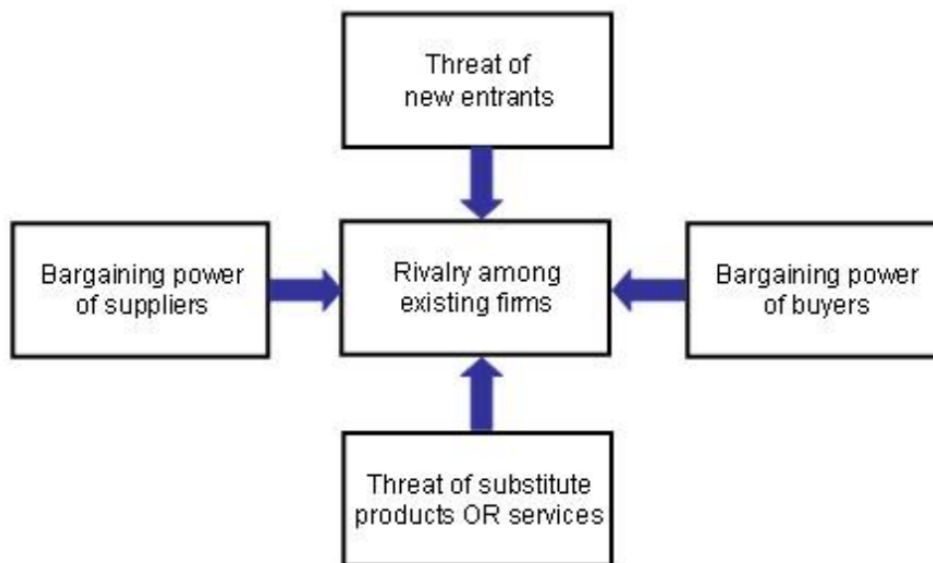


Figure 1. Porter's Five Forces (Ferdinand & Tresyanto, 2020)

2.2. Internal risks increasing the likelihood of failure

2.2.1. McKinsey 7S

In the McKinsey 7S model, the company or startup is analyzed from seven directions:

Strategy: It is a comprehensive plan according to the company's mission statement and vision, providing a long-term plan to bring the company from its current state to its desired state (Putra et al., 2019).

System: It refers to the procedures and programs on which companies conduct their activities, such as human resource management system, production, supply chain, and so on (Chmielewska et al., 2022).

Skills: The talent of any company involves the intellectual and operational ability of human resources in their specialized fields (Channon, 2015).

Style: Every manager has a type of management style. For instance, some managers act in an authoritarian way and vote in their decision-making process, others ask their subordinates for advice, and the final opinion is their own. They make decisions, others make decisions subject to the opinion of others, and they make decisions democratically (Chmielewska et al., 2022).

Staff: Some measures in how to hire, train, motivate, and value companies are the parameters of this element (Putra et al., 2019).

Organizational structure: This is the organizational positions arranged and the relationship between different units in the organization to achieve the goal of the organization (Chmielewska et al., 2022).

Shared values: The most important element of the McKinsey 7S model is the shared values between employees of a company, and the sum of common beliefs and values of employees shapes the culture of a company (Channon, 2015).

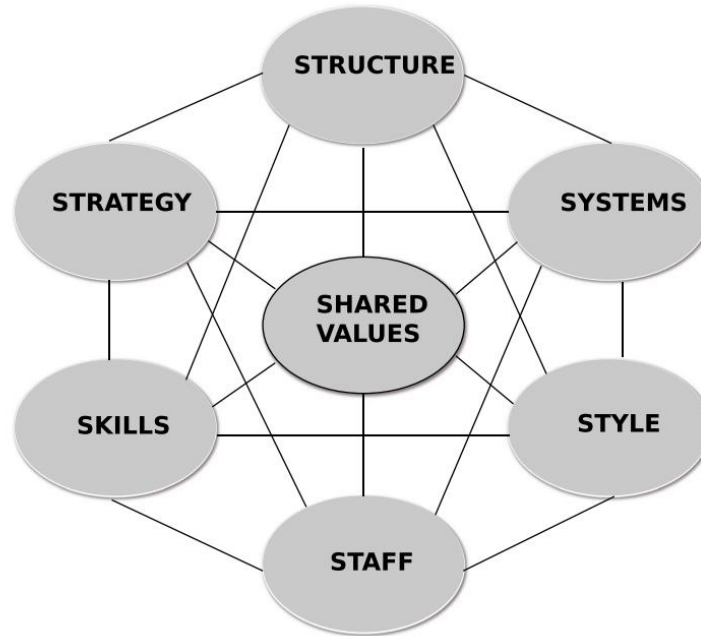


Figure 1. McKinsey 7S model (Chmielewska et al., 2022)

The study examines the internal risks that increase the likelihood of failure in startups using the McKinsey 7S model; we ask the question: in 7 main aspects of this model, what risks are observed within startups that increase the likelihood to fail?

2.3 Startup

Startups are companies that try to survive and are based on innovative ideas (Salamzadeh & Kawamorita Kesim, 2015).

2.3.1. Startups life cycle

We can mention the life cycle of startups to understand startups better:

1- The first step (Bootstrapping): In the initial stage, startups in an atmosphere full of uncertainty about the future try to mature their initial idea and using the capital of family and friends and the efforts of the founders Primary determine its nature (Salamzadeh & Kawamorita Kesim, 2015).

2- The second step (seed): In this stage, startups try to prepare an initial prototype of their product with the help of teamwork to measure the market feedback towards them (Berg, 2018).

3. The third step (Creation): In this step, startups start hiring people and selling their final product or service to the market. Some management scholars argue that the entrepreneurial spirit ends when this stage ends (Salamzadeh & Kawamorita Kesim, 2015) and startups enter another stage called the stage of transformation into innovative companies and lose their original nature (Picken, 2017).

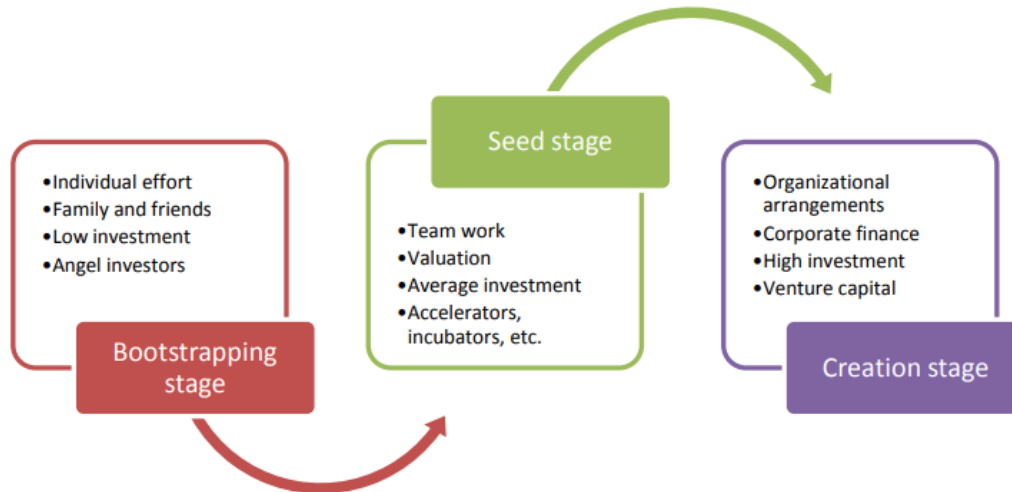


Figure 2. startup's life cycle (Salamzadeh & Kawamorita Kesim, 2015)

Literature Review:

Cantamessa et al. (2018) states the cause of failure and discusses the most important risks of startups using the shell analytical model. According to this study, three important causes of startup failure are 1- lack of correct business model, 2- lack of experience and ability to implement business strategies, and 3- exhaustion of capital

In the paper on measuring the validity of failure factors and the success of startups, published in various papers, after analyzing various papers and researches on the factors that lead to failure or the success of startups, Ko & An (2019) state the most important factors in previous studies compared with case studies with Korean startups. In some factors, there is a contradiction between previous studies and case studies and implicitly emphasizes that the factors found are limited to the field of study and the country where the study was carried out.

Hornuf et al. (2018) studied the factors of failure and success in startups that have raised initial capital due to participating in crowdfunding systems. Furthermore, it compares English startups with German startups for the positive impact of crowdfunding on them. In the conclusion of the paper, factors like the financial value of startups, number of previous venture capitalists, number of senior managers, and the average age of senior managers are mentioned as factors for the success and failure of funded startups in crowdfunding systems.

Using an interview and case study method, the authors of the paper (Kalyanasundaram, 2018) have examined startups located in Bangalore, one of the technology-oriented cities of India, to find the reasons for the failure of startups. This paper compares the characteristics of successful startups with those of failed startups. As a result of these studies, factors such as the time needed to launch the product to the market, the personality of the founders, the age of the founders, the experiences of the founders, the reasons for starting a startup are among the factors in which successful startups vary from the unsuccessful ones.

Seong & Kim (2021) consider the success and failure factors of startups from another angle. This study ranked the key factors persuading venture capitalists to invest in startups. Confidence in the personality of the entrepreneur and stable economic conditions are the primary factors that investors are satisfied with investing, and the factors of product type, market, and financial status of startups are the secondary priority

of their evaluation. The information in this study was obtained through interviews with 15 venture capitalists.

Sahaf & Tahoo (2021) have studied the key factors for the success of startups in Bahrain. In their study, using the information obtained from the founders of startups, they consider the knowledge and experience of the early founders as the most important factors of success and do not consider the way of partnership and investment as the factors of success and did not find a clear relationship between the two and success. The researchers suggest that startups spend more time training and gaining experience in different forms, according to the results. The Bahraini government creates more entrepreneurship training centers and entrepreneurial communities to transfer experience and knowledge to young startups.

Material and methods:

Research approach and strategy:

The study approach was qualitative analysis and using theme analysis. Firstly, using existing knowledge and systematic Review in the study, the interview protocol was prepared and distributed to six experts from the management team of Tehran University Science and Technology Park, Farabi Branch, faculty of Tehran University with specialization in strategic management and business management with experience and history of cooperating and consulting with different companies and startups for validation.

Table 1. The Research Methodology based on research onion (Saunders, Lewis & Thornhill, 2009)

Aspects	Qualitative research methodology
Data collection method	Interview, Review of documents
Research horizon	Cross-sectional
Research objectives	Exploratory
Research strategy	Qualitative (theme analysis)
Research approach	Inductive
Research philosophy	Interpretive
Orientation	Fundamental

Data collection:

Data collection related to CEOs and senior managers of 15 independent startups and startups in the Science and Technology Park of Tehran University, Farabi Branch, Qom University Growth Center, and accelerator centers in Qom and Tehran was done via interviews.

Data analysis:

The theme analysis method is a qualitative method responsible for identifying, analyzing ,and reporting patterns in a raw dataset. In the theme analysis method, unlike the quantitative method, obtained only after the amount of data in the data set, efforts are made to determine the meaning of the data and the pattern between them, regardless of their number. Indeed, the theme analysis method focuses on extracting meaningful patterns from the data set (Scharp & Sanders, 2019). In this study, based on the theme model, the codes were merged in three stages (conversion of basic codes to basic themes, conversion of basic themes to organizing themes, conversion of organizing themes to inclusive themes) based on similarities so that the themes get closer to the abstract part.

Figure 3. Steps to theme analysis (Vaismoradi, 2016)

Phases	Stages
Initialization	Reading transcriptions and highlighting meaning units;
	Coding and looking for abstractions in participants' accounts; Writing reflective notes.
Construction	Classifying;
	Comparing;
	Labelling;
	Translating & transliterating; Defining & describing.
Rectification	Immersion and distancing;
	Relating themes to established knowledge; Stabilizing.
Finalization	Developing the story line

Results and Discussion:

The risks leading to failure in startups were examined in the study. This study extracted 151 codes, 34 basic themes, 15 organizing themes, and eight comprehensive themes.

Table 1. Inclusive, organizer, and base themes

Inclusive theme	Organizer themes	Basic theme
Risks of competing with current competitors	Only attention to enhancing the method of use and development of current tools (marketing, production, and so on) and inattention to the development of deconstructive	More use of marketing and sales tools by competitors Upgrading and purchasing software systems (programming frameworks and hardware devices) to improve the interface of software products and the quality of hardware products
	Continuous decline in prices of similar products	Increase the number of seasonal discounts Increasing the presence of competitors in the unique marketing areas of each competitor
Strategy induced risks	Inattention to all aspects of the company and strategic planning for one-dimensional improvement (strategic development in the field of product regardless of development in the field of marketing)	Increasing the investment in the R&D team to produce new products despite constant demand for the product line Increasing the sales force in the marketing team without increasing and diversifying the product portfolio
	Workforce development strategy over real needs	Increasing trainees and professional workforce in the R&D team without having a product development plan and strategy Increasing sales force regardless of the ability of each member of the sales team to increase sales of the entire company
	Using organizational structures disproportionate to the nature of startups in their life cycle	startups manager's desire to focus power and decision-making on their own hands and maintain a simple structure regardless of startup growth No determination in important decisions in start-ups and the tendency to use a complex democratic structure when the startup is in its infancy
Risks from internal systems	Adaptation of the staff evaluation systems and processes from companies that do not have the necessary similarities	Using staff evaluation systems of large research and development teams in small startups Evaluating the sales force of startups that do not have a well-known brand based on the marketing and sales standards of large companies
		Perceived control over the sales force that works as a commission

	Using the same control systems in all parts of the company (research and development, marketing, and so on)	There is no objective control and clear timing of the R&D force, while since the nature of the R&D force is not tangible, it requires more precise monitoring and scheduling.
Risks of human resource skills	Lack of managerial experience for managers of different departments (research and development, marketing, and so on)	No emphasis on the planning process by managers and excessive emphasis on the learning process when doing work without the need for planning
		No familiarity with the concepts of human resource management and ...
	Lack of experience in managing and starting a startup in startup founders	The existence of compound ignorance in managers and emphasis on lack of management knowledge
		Inability to build the right business model for a startup
Risks caused by staff	Excessive desire to migrate	No familiarity with the basic concepts of startup management and startup
		No connection with the startup ecosystem and the network of startup founders and entrepreneurs
	Unwillingness to bear the risks of startups	Tempting offers for skilled workers in startups from foreign startups
		Providing better living conditions abroad
Risks of managerial style	Modeling the management style of CEOs of multinational companies by young founders of startups	Becoming valued is the strong workforce of someone who migrates
		No adventure in the first team, especially among key people
	No familiarity with the startup life cycle and management styles required to meet the challenges of each stage	Pay close attention to the number of salaries and benefits received from the initial capital raised in the startup by employees
		Examining the books of managerial experiences of world-class managers and imitating their managerial style without thinking
Risks arising from shared values	No familiarity with the culture of entrepreneurship and startups by key members	Consulting successful national managers and entrepreneurs who have a history of building and managing large companies and imitating them regardless of their suitability with their startup
		Unwillingness to change management style when a startup is upgraded from one stage to another
	Conflicting demands and interests between the main members	The tendency to emulate the management style of nearby startups based on a common accelerator
		Starting or entering a startup just out of curiosity and gaining experience
		Entering the startup environment based on seeing successful startups and not seeing the failure rate of startups
		No experience of taking risks in the personal life of team members and lack of sufficient understanding of the mental state when failing
		Willingness to work with startups to strengthen resumes to enter larger companies (see a startup as a place to gain experience and strengthen resumes)
		A short-term acquaintance of startup members with each other and not having enough knowledge about each other's personal goals

Table 2. Theme network

Risks due to competing with current competitors

- Attention only to the development of current tools and not paying attention to the development of deconstruction
- Continuous decline in prices of similar products

Strategy risks

- Inattention to all aspects of the company and strategic planning for one-dimensional improvement
- Workforce development strategy in excess of real needs

Risks from organizational structure

- Using organizational structures disproportionate to the nature of startups in their life cycle

Risks from internal systems

- Adaptation of employee evaluation systems and processes from companies that do not have the necessary affiliation
- Use the same control systems in all parts of the company

Risks from human resource skills

- No managerial experience for managers of different departments
- No experience in managing and starting a startup in startup founders

Risks from staff

- Excessive tendency to migrate
- Unwillingness to bear the risks of startups

Risks of managerial style

- Modeling the management style of CEOs of multinational companies by young founders of startups
- No familiarity with the startup life cycle and management styles required to meet the challenges of each stage

Risks due to shared values

- No familiarity with the culture of entrepreneurship and startups by key members
- Conflicting demands and interests between the main members

Recommendations:

Typology and classification of startups in terms of the life cycle, industry, and so on and then extracting data from startups of the same type to obtain the risks leading to failure could prove useful for the study.

Examining the startups in developing and developed countries and comparing the risks resulting in failure among them could provide a perspective to startups in developing countries to be prepared for the risks ahead.

Conclusion:

When establishing a startup, the founders of startups focus on successful and highly profitable startups and consider their future as bright as successful startups, with no attention to the risks involved. This lack of awareness of the risks and pitfalls of entrepreneurship makes them approach failure more quickly. Considering the high significance of recognizing the barriers and risks leading to failure for startups, the study tried to find the most important risks leading to failure in startups using the analysis tools of the theme and interview method.

The risks found as a result of interviews with 15 startups in science and technology parks and accelerators in Qom and Tehran in Iran:

Mere attention to the development of current tools and inattention to deconstructive development, continuous reduction of prices of similar products, inattention to all aspects of the company and strategic planning for one-dimensional improvement, workforce development strategy in excess of real needs, using organizational structures disproportionate to the nature of startups in their life cycle, adaptation of systems and employee evaluation processes from companies not having the necessary similarity, using the same control systems in all parts of the company, lack of management experience and knowledge for managers of various departments, lack of experience in managing and launching startups in startup founders, excessive desire to migrate, reluctance to bear startup risks, modeling the management style of multinational CEOs by young startup founders, lack of familiarity with the life cycle of the startup and the needed management styles suitable to the challenges of each stage, lack of familiarity with the entrepreneurial and startup culture by key members, and conflicting demands and interests between key members

Findings by Hanaysha & Hilman (2015) show that the more unstructured the product innovation, the more positive effects it will have on the brand and customer mentality and leads to more sales; thus, lack of product innovation results in a better mindset. It does not apply to the brand and produces a risk to increase sales and win over competitors, so the research findings are consistent with this study.

Findings by Díaz-Santamaría & Bulchand-Gidumal (2021) regarding the effects of startup size, past management experience for startup founders, and previous experience in starting a startup are in line with this study.

The findings by Ko & An (2019) regarding the negative effects of lack of knowledge and experience in startup members are in line with our findings.

According to Seong & Kim (2021), investors consider the most important precondition for their investment as the ability to trust and have stability in startup entrepreneurs; therefore, the lack of these two characteristics results in their lack of investment. Based on these findings, the unwillingness to bear entrepreneurial risks in founders could be seen as an instance of instability, so these two studies are consistent in the above context.

According to Cantamessa et al. (2018), no experience in implementing business strategies is of the most significant factors in the failure of startups. In this study research, two risks, lack of management experience and knowledge for managers of different departments and lack of experience in managing and launching a

startup in startup founders, have been stated as the risk leading to failure in the research. Thus, these two studies are similar in identifying these risks.

According to Sahaf & Tahoo (2021) findings in Bahrain, the startups examined consider knowledge and experience in management and startups as the key factors in the development of startups and their absence as risks resulting in startup failure. The study has considered the risk of lack of management experience and knowledge as the risk of failing in identified startups.

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