



Study on the reasons affecting Startup Failures, Diversification Strategy in Kerala

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Abstract

As in the current scenario, the startups play a pivotal role and has a huge influence on the promotion of economic growth. With the perceived anticipation by the authorities on the significant effect, a startup firm has on the economy as a whole using various affirmative factors as such as the job creation, economic development, meriting to the technological upgradation and many more. There has been a significant attempt to promote entrepreneurship through establishment and support of various incubation centres. But despite the reception appreciated towards its development, the failure rates of the startups are at an alarming rate. This research paper aims to outline the various factors concerning the startup failures; and the diversification strategy adopted by the startup founders in the attainment of their objectives and the extent to which it has merited in its objective attainments.

Keywords: Startups, diversification, incubation, startup ecosystem, boot camp.

1. Introduction

In a developing country, the promotion of the concept of entrepreneurship is vibrant for the attainment of the objectives of growth. In an entrepreneurial ecosystem, it seems so important to eradicate the two problems faced by an economy, which is indeed both unemployment and underemployment. India has provided a long nurturing room for the empowerment of self-reliance and to promote numerous innovative start-ups which could, in turn, make an impact. It is even reported that 90% of the Indian start-ups fail within the first five years of their introduction, and every start-up that failed in the germination process with no further movements, becoming an orphan. The failure in the start-ups is a situation implying to the failures of potential entrepreneurs in an economy. The antonym concept of success – failure is something which is so related to the portal of crisis management and has much further research scope and contributions to be made in the aspirated hopes as the entrepreneurial ecosystem is concerned. Despite the benefits and incentives, a start-up is provided within pursuing the entrepreneurial dream a reality, the factors leading to the start-up failures are crucial instinctual thoughts to be considered. Successful and failed start-up have many insights to be offered to the entrepreneurial ecosystem in contributing to a potential success start-up. As implied, the failure factors of a start-up could be the success factor for another start-up. Along with the failure notes, it is even reported about the comeback of these start-up firms after the setback through the diversification strategy has merited an affirmative way in the attainment of the objectives behind the firm inception or incorporation. These factors of start-up failures, diversification strategies are all correlated and cannot be put on spot single alone. Since the challenges to be addressed in the entrepreneurial venture and journey are characterized by hardships and shortcomings, and various factors in intense magnitude in different approach affect the roads to failure, the diversification strategy adopted by the start-up founders after the start-up vulnerability to attain the objective behind its inception are all matters of high promising factors and inspiration, this study merits scholarly research. Thus, this study is an attempt to review various reasons or factors for the failure of start-ups in Kerala.

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2. Literature Review

2.1. Startups, rooms of development

The concept of entrepreneurship is considered to be as the key sensitive and major contributor to the economic growth and development of a nation which states the important factor in the introduction and promotion of entrepreneurship culture. Various studies have been conducted in the portal of crisis management in making contributions in dodging the cases of uncertainties and to achieve prospective and affirmative results in the topic of concern. The previous studies relating to the matter outlines the various facts and figures of the alarming failure rates. The existing studies contribute to the room for further areas of exploration in this research portal. This chapter deals with an overview of various aspects of the research discussion through the review of various existing works of literature. Some of the main studies selected for review have been discussed below:

According to Marco Cantamessa, Valentina Gatteschi, Guido Perboli, and Mariangela Rosano (2018), in the paper titled ‘start-ups roads to failure’ discusses the roads, factors concerning the start-up failures through an approach developed for elaboration named as SHELL approach model. SHELL outlines the expansion as Software, Hardware, Environment, Liveware, Central Liveware (people). The authors point SHELL as the pivotal ingredients which require the focal point of appraisal meriting to the start-up development. After the introspection and case analysis of the business model, it specifies that the entrepreneurs seem to focus directly on the sales or on the product/service improvement, disregarding the design of a reliable, measurable and engineered Business Development phase. This phases of inconsistent focus by leaving out the major important case requiring attention comes in different forms, including running out of cash, difficulty in finding customers or high cost in acquiring the customers. Authors point out two of the main actions which are more subtle in reducing the impact of an incorrect Business Development process.

- a) From the scientific point of view – the need of studies on engineered Business Development processes which could be applied with a limited effort and a limited knowledge of the management and marketing theory by the start uppers.
- b) Incubators/accelerators – should think to a post-incubation phase.

Peter S Cohan ‘hungry start-up strategy’ specifies in detail about six claims that differentiate an administrative company from a start-up company. The author, in the book, specifies in detail about why an administrative company is predominantly able to dominate over a start-up company in spite of how great or good the idea of the start-up company. The six claims are formulated by Harvard Business School Sarofim-Rock Professor and entrepreneur Prof. Howard Stevenson. The six claims of difference between start-ups and administrative companies include:

- a) Strategic Orientation
- b) Style of Resource Commitment
- c) Decision-Making Approach
- d) Attitude towards Asset Accumulation
- e) Management Structure and Style
- f) Approach to Rewards

The proponent specifies that a start-up company finds opportunities that are subtle enough to outperform a well-established corporate or entity. But, in spite of the idea which could have caused a major impact in the long run, a start-up firm lacks many of the resources which are required by the firm for its survival and growth, or in simple terms, they have an idea which could make a huge impact but they lack all the resources which are required to witness the win which makes a substantive case of success and dominance for an administrative company

Joint research by the Bradley University and University of Tennessee Research centres depicts in details about the power dominance of Administrative Companies (AC’s) in the competition factors with that of a start-up firm. The research states after the analysis that the Alternative companies (ACs) can make their predominant superior dominance because of their prospective powers in cases of financial strength, ability to operate in large scale operations, ability to invest in research and development, high channelled resources of marketing campaigns. Due to the above-specified depth of advantaged means, it specifies a subtle case of

situations about their operational ability and benefits from economies of scale, lower cost, credibility, brand image. Hence, based on the above arguments, the following hypotheses are proposed.

H1₁: There is a significant relationship between start-up failure and cash flow management.

H1₂: There is a significant relationship between start-up failure and innovation.

2.2. Pragmatic research approach message

To explain the effect of the construal level on message effectiveness, we propose one compelling prediction that the major contributors of optimism plays a crucial road to the affirmative stages of a newly born startup. These factors generally embedded under various factors predominantly influences the way in which a startup organization operates in and cause a direct impact on delivering the attained objectives behind the inception. We the researchers outline this issue from the pragmatic research approach. The pragmatic research approach or simply the mixed methods encompasses the use of using a best suitable method for the research under the spotlight which ironically stands to be as the best method in research solving as it delivers the freedom for the use of any of every method irrespective of the type of data.

As the research study requires data importance in an equal state of the data types viz: qualitative and quantitative data, the authenticity of the research could only be used by pragmatic research approach. From the crisis management point of view, it becomes much important to consider the important characteristics of methods which assures the means of affirmation of a startup company apart from the factors and cashflow management studies, which opens new rooms of attention to details on various other matters of importance as such as the demographic variables and diversification which directly contributes to the prospective failure or the success of the firm. Based on these arguments, the following hypotheses are formulated:

H1₃: There is a significant relationship between start-up failure and social factors.

H1₄: There is a significant relationship between start-up failure and cultural factors.

H1₅: There is a significant relationship between start-up failure and start-up founder's industry experience.

H1₆: There is a significant relationship between start-up failure and diversification.

H1₇: There is a significant relationship between diversification and start-up success.

3. Research Methodology

3.1 Method

The population of this study is comprised of various start-ups who have registered their start-up companies with various incubation programs in the state of Kerala. All the startup entrepreneurs engaged in the business irrespective of the type of business they were engaged in were planned to be as the sample for the research study. Convenient sampling technique was used in selecting respondents. Forty startups were sampled for the studies based on the convenience sampling method.

Start uppers were entrepreneurs drawn on based on the startup category and startup industry. The list of elements in the research study was arranged into a different category-based number of year's ranges as zero to one year, one to three years, and above three years, and the business model operating on as such as the B2B business, B2C business model and then, the required number was provided for each category for the analysis and follow up.

3.2 Stimuli development

To select the independent variables and to assess the viability subjected by the authenticity of the study report, a pilot test was conducted with the experts engaged in this portal with a great deal of accuracy, flowed by the construction of a structured questionnaire. The study, being of a descriptive nature, chooses to raise several opportunities for further research, both from the angle perspectives of theory development and concept validation. Furthermore, subsequent research is necessary to refine, validate and further elaborate the research findings.

3.3 Study participants and procedure

The participant will consist of start-ups with par importance to the demographic characteristics of the start uppers who have registered their start-up companies from various incubation programs. Various data relating to the respondent's working model, education qualifications, industry experience are all collected for the objectives of drawing a paramount cessation of the study. After the analysis being done, the data values collected were assigned and ordered in numerical values, for the analysis and follow up processes.

After reading the research communication message and objectives, the respondents were asked to fill in the questionnaire with the aid of questionnaire helping tool document, with items of manipulation checks followed by provoking their responses with the study objectives for the prompt analysis followed by the cessation.

3.4 Independent Variables

The research instrument employed in this study was a relatedness study on the reasons affecting startup failures, diversification strategy in Kerala. Six independent variables are used in this study. These are educational qualification, industry experience, startup outcome, diversification, factors and innovation.

3.4 Dependent Measures

Startup failures are the dependent variables in this study. The study consists of an analysis of instrument which consists of various factors and objectives under the study leading to startup failures, startup success with the various allied factors as such as the internal and external factors. The response was measured on a 5-point Likert scale (5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree). This relatedness study assesses the causal relationship the input inputs and changes in terms of magnitude or scale or both. Here in this case, which is implied by the reasons affecting startup failures, diversification strategy.

Respondents were asked to respond to the structured questionnaire using a 5-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree) to measure the relatedness objectives of the study and the formed hypothesis to draw a meaning full conclusion.

4. Major Findings

- Presence of women entrepreneurs in the current entrepreneurial ecosystem is negligible. Thus, introduction of receptive polies and inclusiveness of women to be a part of the hub will be highly promising in promoting an equitable environment.
- In spite of the various policies introduced to promote entrepreneurship, the current entrepreneurial ecosystem in encouraging and developing start-ups are ill equipped.
- Vast majority of the start-uppers are not sufficiently provided with an entrepreneurial ecosystem which supports their start-up development.

5. Suggestions

- A better reception, support system is to be made by the authorities ensuring an entrepreneurial ecosystem which supports start-up development.
- Better implementation of mentorship programs to the start uppers would be highly appreciated.
- Proper implementation entrepreneurship development programmes EDP in curriculum is highly promising in the motivating student entrepreneurs.
- Presence of women entrepreneurs in the current entrepreneurial ecosystem is negligible. Thus, introduction of receptive polies and inclusiveness of women to be a part of the hub will be highly promising in promoting an equitable environment.

6. Conclusion\

The study 'Reasons affecting start-up failures, diversification strategy in Kerala' reveals the various aspects regarding the reasons affecting the start-up failures, diversification strategies adopted by the founders to hedge the vulnerabilities. It was found after the study that; both the internal and external factors play a crucial role in the case but the impact of internal factors on the vulnerability is slightly more than that of the rest. Along with the same, presence of deficiencies in the current system introduced for promoting entrepreneurship, ill mentorship and persistence are cases leading to the main causes behind the thought. If suitable measures are taken by the means of retreatment and refined policy upgradations, the objectives of start-up development, self-reliance and economic growth can be promoted.

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