MODELLING AND ANALYSIS OF NEW VENTURE PERFORMANCE – USING BUSINESS MODELS AND SUCCESS FACTORS

By
ABHISHEK KUMBHAT

ABSTRACT

Rise of creativity and entrepreneurial attitude in today's conceptual era introduced the Startup ecosystem as a new major contributor to the global economy. The continuous exponential surge of Startups and associated ecosystems have not only driven the socio-economic prosperity across the globe but also offered an alternative career path for the young generation. Such an economic influx is powered by factors like low setup cost of a startup, faster adoption of new technologies by a large pool of consumers, and highly accessible investors and their risk appetite. In contrast to these positive vibes, the fact about a very high failure rate of the startups and highly competitive global market place cannot be overlooked. While the concerns on survival and sustained success of startups are continuously increasing; such failure has directly influenced investor appetite for risk, which directly reflects in changing startup investment patterns of the last few years. Such a shift in investment approach, from Fear-Of-Missing-Out (FOMO) to Capitalisation-of-Funds reflects in continuously increased deal sizes and reduced number of deals. This phenomenon is expected to severely impact the survival of early-stage startups and associated ecosystem negatively. Therefore, the current study aims to study factors that contribute to startup success and to analyse and predict venture performance to strengthen the global startup ecosystem ultimately.

The study has been carried out in five phases. The first phase that laid down the foundation of current research started with an extensive literature review, firstly sensing the current status of the startup ecosystem and changing economic patterns. With deep-dive literature review in the associated areas of business models, startup development lifecycle, and startup

success factors, apparent research gaps in the current knowledge base were highlighted. Identified issues in the literature and opportunities at hand motivated a well-crafted research methodology to conceptualize the framework for modelling and analysing startup success.

In the second phase of current research, the critical role of business models in startup success has been reinstated, and a better understanding of business models and associated components has been offered. A comprehensive yet straightforward three-step process for business model discovery has been defined, which at first starts with clearly defined components, dimensions and associated alternatives. The process includes preparing a static morphological box in the current context, followed by contextual selection and specific additions of dimensions and alternatives in the context of the selected industry. The proposed methodology helps startups discover new business model opportunities, even in the most complex and competitive business environments.

In the third phase of the research, considering the unique challenges and opportunities that a startup experience at each stage of its lifecycle, eight dimensions of startup growth and well-articulated attributes of each dimension in each stage have been proposed. After that, a four-point scale of each dimension has been proposed as the Multi-Dimensional Development Stage model. Such a model can identify the development stage of a startup, and find whether the startup is heading towards unbalanced scaling across any dimension or not. This process helps ensure that the expectations from a startup and respective contributing success factors in each stage are uniquely expressed. The use case analysis over 176 startups and observations thereon also reflect behavioural patterns of Most-Successful and Least-Successful startups over different development stages.

After the ground-work related to business model and startup development stage, the fourth phase of the current research focused on the compilation of well-articulated 58 success factors and six result areas of a Startup. Such success factors were grouped as factors related to the value proposition, founders, team and resources, and market and operations; for a better-structured understanding of such factors. The initial level of interpretive modelling using TISM among success factors within each set illustrated the inter-relationships and interactions among such factors. It was accepted that these factors do not function in isolation and mutually correlated influence of these factors is more critical than that of

individual factors. However, on a practical basis, it becomes difficult to quickly evaluate a startup and craft inter-relationships among themselves, over such a large number of diversified factors. Therefore, a need to summarize such factors into a smaller number was identified.

As a first step, a deep-dive empirical analysis of 58 success factors for almost 200 startups, spread over industry, region and development stages, was conducted. After that, using the collected data and factor analysis techniques like Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA), the originally-proposed success factors are summarized into a smaller set of Key Success Factors. While performing EFA, a set of ten factors are statistically proposed and thereafter qualitatively combined as Key Success Factors. The proposed summarization as Key Success Factors was statistically validated by CFA over the collected data and minimization of information loss is assured by various Fit Measures. Re-aligning with the core objective of the research, a conceptual framework of inter-relationships among proposed Key Success Factors using TISM has been proposed. The proposed interpretive model clearly defined driving power and dependence of such Key Success Factors. More so, the proposed inter-relationship among Key Success Factors has been validated through structural analysis using Structural Equation Modelling (SEM). While, the Measurement model of SEM describes the relationship between the observed variables (Success Factors) and the latent constructs (the Key Success Factors), the Structural model of SEM describes the inter-relationships between the latent constructs (the KSFs), as conceptualized as a framework using TISM or structural modelling. While the overall model is validated using various Fit Measures, Significance and Strength of each path of the TISM is also verified.

With the ultimate objective of this complete research, to predict venture performance, result areas are also included in the proposed structural model, thereby proposing the framework relating Success Factors to Result Areas, using Structural and Path Analysis performed using SEM. Finally, this conceptual framework to analyse venture success, with contributing success factors as input variables is further cross-validated over 177 Startups and illustrated through the implementation of the proposed model on specifically selected six startups.

Finally, it has emerged from the critical findings that Entrepreneurial Personality traits and relevant prior experience of founding members, along with the proper composition of the founding team through complementary skill set are of paramount importance for venture success. Therefore not only the selection of entrepreneurial journey as career path must assure the presence of relevant founders personality, experience and skills, but also the investors should essentially focus on such factors to select a startup for prospective investment. In addition, quality value proposition and embracement of innovation culture, along with optimally-managed and balance-scaled operations to serve the target market are of critical essence to the startup success. While these factors can be strengthened by appropriate deployment of sufficient resources, the above said personality factors, experience and skills of the founding team lay the foundation of these factors. The founders and investors must ensure sufficient focus on such execution-oriented factors, without which startup success cannot be achieved.

Therefore, the proposed framework for venture performance analysis can calculate predicted values of Key Result Areas as independent variable based on Success Factors as Dependent Variables. This must offer an immense tool to help not only the founders to find key improvement areas for the startup but also the investors to identify a better prospect for their investment. Despite such a proposed framework, it must not be forgotten that Entrepreneurship is nothing but taking advantage of opportunities that others have not seen, and it derives its power from the underlying uncertainty. Nevertheless, in a real sense, uncertainty always remains ahead of planning; the odds of such uncertainty can be reduced with focused effort. Thus, any tool, methodology, or list of do’s & don’ts can neither make a startup extra-ordinarily successful as a unicorn nor guarantee venture success. However, the probability of success can be improved by deploying the right resources, techniques and practices.