

Risks and Barriers Affecting Start Up Business Survival in the United States

Posted on January 25, 2020

Abstract

This study explicitly focuses on the risks and assessments involved within a particular business process. The entire process is a clear indicator of tasks and evaluations involved within that process through which productivity is ensured. In this research, a quantitative approach was followed to take the follow and comparison of techniques already present within literature. It is a conceptual framework and entirely based upon the measurable outcomes observed and expected through different case studies.

Problem Statement

Early-stage failure of start-up businesses has been documented as a common problem, with researchers recording various reasons why nascent entrepreneurs fail in business rather than in the early years of starting the business. There are many start-ups that fail in their first year of operations. Statistics assert that up to 75% of startups do not survive beyond the first two years of operations with more than 90% failing within the first five years of service. In the best-case scenario, only 10% of startup enterprises on 11th August (Hung, 2016). Through statistics, the general problem is that startups do not consider the risks that they may face in their operations. The issue is that the startups fail to correctly identify the systematic and unsystematic risks facing the business and, hence, they are not able to manage the risks, leading to early-stage failure of the startup (York & Danes, 2015).

Purpose Statement

This study highlights both the systematic and unsystematic risks of starting up the official business process. It also proposes a system of identification of uncertainties. By addressing these topical issues, the study would be able to explain the risks that nascent entrepreneurs need to be predisposed to and on the same note, the research would help in lowering the rates of early-stage failure of start-ups, and this is the goal of the study.

Nature Of The Study

The study herein proposed seeks to identify the risks to which startup businesses need to be predisposed. They have followed a data-driven model. The context analysis model may also be used. This research will highlight some risk areas considered in need to identify the risks within both systematic and unsystematic frameworks. The nature of the study, qualitative methods of research will be employed. The proposed method is the use of the interviewing technique in data collection. In the process of data collection, the proposed research will identify the business in the early-stage development, determine the entrepreneurs, and contact them with the intent of understanding the risks and uncertainties that they have faced in the process of their operations. Additionally, the study will use the snowballing technique to identify entrepreneurs whose businesses failed in the early years of operations. Notably, this would enable the researchers to get firsthand information on what caused such companies to fail and what the entrepreneurs think could be done to prevent similar occurrences. Lastly, the study will identify industry-specific uncertainties from the accounts of players in the industry and this will help future entrepreneurs to anticipate the risks and have the necessary measures in place.

Research Questions

The general research question is stated as follows:

Are the nascent entrepreneurs able to identify the systematic and unsystematic business risks that may lead to the early-stage failure of the startup, and what risk management strategies are available to such entrepreneurs?

The specific research questions are stated as follows:

- Risk analysis by newbies to recognize the systematic business risks.
- What are the causes of startup failure while not considering business risks?
- Will newbies identify risks within the unsystematic environment?
- What are risk management strategies available to such entrepreneurs?

Conceptual Framework

This theory indicates the classification of uncertainty and asserts the profit margin, where the profit margin is the return on risk by the entrepreneur (Knight, 2012).

Significance Of The Study

The importance of the survey is anchored in Knight's risk-bearing theory. The relevance of this theory in the discourse is rooted in the finding that entrepreneurs are presumed to be risk-tolerant. The risk tolerance of the entrepreneurs does not explicitly separate uncertainties from risk, but with the theory at hand, the research will be able to separate the changes from risks, and with the knowledge, the study can then provide recommendations on how to deal with the risks. Still, the theory provides a loophole for the separation of systematic risk from unsystematic risk in defining how much risk is absorbed by the entrepreneur (Knight, 2012). Chiefly, this is important because handling unsystematic risk is different from how systematic risks are treated. Therefore, the theory is relevant in informing the direction taken in this research concerning the definition of the risks that entrepreneurs need to be predisposed to during their operations and, most importantly, within the first five years of doing business. In other words, the theory helps in understanding the risks that may lead to the failure of the firm if not properly handled and those uncertainties for which the entrepreneurs earn a return.

Review Of The Professional And Academic Literature

Many nascent entrepreneurs do not consider competency as a risk, yet it is one of the reasons why many enterprises don't even get on their feet. In a study titled *Entrepreneurial Characteristics for Business Success: A Review of Literature*, the researchers focused keenly on competency as one of the components that result in a business failure. Notably, the risk can also be referred to as ability uncertainty and has been referred to elsewhere in this research. The importance of focusing on this risk is that getting to understand the risk would enable entrepreneurs to avoid bad investments and avoid failure in the first year of operations. Further, predisposition to this risk is critical in ensuring that startups prepare to gain the required competencies to run a successful business venture (Kaur & Bains, 2015).

In summarizing the views on risk-bearing among entrepreneurs and why startups fail in the first year of operations, one of the critical observations herein made is the fact that nascent entrepreneurs are more risk-tolerant than experienced entrepreneurs. At the same time, the nascent entrepreneurs are more exposed to failure than the experienced entrepreneurs (Hopp & Sonderegger, 2014). The lack of predisposition to risks that nascent entrepreneurs may face is a critical reason why start-ups fail in the first year of operations, and it is for this reason that risk training is necessary (Renko, 2012). In fact, (Renko, 2012) found that follow-up for a period of not less than four years may be required for the success of nascent entrepreneurs. It is for this reason that the study at hand will focus a lot on this risk.

References

- [1]. Crowne, M. (2002). Why software product startups fail and what to do about it. Evolution of software product development in startup companies. In Engineering Management Conference, 2002. IEMC'02. 2002 IEEE International (Vol. 1, pp. 338-343). IEEE.
- [2]. Hung, W. K. (2016). Opportunity identification and business performance of design startups in the first year of entrepreneurship. 2016 International Conference on Applied System Innovation (ICASI). Okinawa.
- [3]. Hopp., C.; Sonderegger, S. (2014): Understanding the dynamics of nascent entrepreneurship Pre-Start-Up experience, intentions, and entrepreneurial success. Forthcoming in: Journal of Small Business Management.
- [4]. Hung, W. K., Yeh, Y. C., & Chen, L. L. (2016, May). Opportunity identification and business performance of design startups in the first year of entrepreneurship. In Applied System Innovation (ICASI), 2016 International Conference on (pp. 1-4). IEEE.
- [5]. Jones, C. D., Makri, M., & Gomez-Mejia, L. R. (2008). Affiliate directors and perceived risk bearing in publicly traded, family-controlled firms: The case of diversification. *Entrepreneurship Theory and Practice*, 32(6), 1007-1026.
- [6]. Knight, F. H. (2012). Risk, Uncertainty and Profit.
- [7]. Knight, F. H. (2012). Risk, uncertainty and profit. Courier Corporation.
- [8]. Kaur, H., & Bains, A. (2015). Entrepreneurial Characteristics for Business Success: A Review of Literature. *Apeejay Business Review*, 14(1), 10-17.
- [9]. Laureate Education (Producer). (2016a). The doctoral business problem statement [Video file]. Baltimore, MD: Author
- [10]. Renko, M. (2013). Early challenges of nascent social entrepreneurs. *Entrepreneurship Theory and Practice*, 37(5), 1045-1069.
- [11]. Saunders, M. N. K., Lewis, P., & Thornhill, A. (2015). Research methods for business students (7th ed.). Essex, England: Pearson Education Limited
- [12]. Smith, D. (2013). Navigating Risk When Entering and Participating in a Business Ecosystem. *Technology Innovation Management Review*, 3(5).
- [13]. York, J. L., & Danes, J. E. (2015). Customer Development, Innovation, and Decision-Making Biases

in the Lean Startup. *Journal of Small Business Strategy*, 21-40.

[14]. York, J. L., & Danes, J. E. (2014). Customer development, innovation, and decision-making biases in the lean startup. *Journal of Small Business Strategy*, 24(2), 21.