

## 2. ІННОВАЦІЙНІ ПРОЦЕСИ В ЕКОНОМІЦІ

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### THE ESSENCE OF STARTUP: FACTORS OF SUCCESS AND FAILURE

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*It was analysed bibliographical data for the 'startup' subject domain using publications indexed by Scopus in 2012–2022. It was observed a significant increase in research interest in the topic of startups, which indicates the growing importance and relevance of this field. It was defined the countries-leaders in research on startups which are the United States and China (24.1% and 21.5% of the total number of publications respectively). Also, it was found out the main research subject area on startups is Engineering (22.5% of the total number publications) followed by Computer Science (12%), and Business, Management and Accounting (10.2%). It was designed the «startup» co-occurrence network, that contains 191 keywords, grouped into 4 clusters. It was conducted the comparative analysis of the startup and traditional business by such criteria as: risk and innovation, ability to change, ability to improve, investment, scalability, business strategy, time to market, impact on the market, intellectual property. It was suggested to divide the main factors of the startups failure into 5 types by character of issues facing a startup owner such as: marketing; finance; skills, experience, and attitude; legal and regulatory issues; product and business model issues.*

**Key words:** startup, innovation, entrepreneurship, factors.

**JEL Classification:** M13, L26

**Statement of the problem.** Research on the problem in today's world, saturated with rapid technological changes and instability, lead the concept of "start-up" to become key and important for understanding the essence of entrepreneurship and innovation. A start-up is not just a manifestation of entrepreneurial enthusiasm, it is the embodiment of ambition, creativity, and courage that come together to turn ideas into reality. This category of businesses not only affects the economy but also has a profound effect on the culture of entrepreneurship and the way we perceive and interact with the world around us.

In the ever-evolving business environment, startups are driving innovation and breakthrough technologies. They push the boundaries of conventional business models and change entire industries. Understanding the nuances that differentiate startups from traditional small businesses is

important to analyzing the complexities of their successes and failures. This article examines three key aspects: the comparative characteristics of startups and traditional small businesses, the factors that lead to the failure of startups classified by problems, and the factors that contribute to the success of startups in a competitive business environment. It is important to understand what exactly makes a start-up so unique and gives it a powerful reason to achieve great results.

**Analysis of recent research and publications.** The latest research and publications reveal new depths in the understanding of the essence and phenomenon of startups. In recent years, the approach to this topic has become more systematic and complex, considering various aspects affecting the development of this type of entrepreneurship. Maria Minniti [1] supports interest in the role of risk

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in start-up activities in, which found that entrepreneurs who are willing to take risks have higher chances of successfully implementing innovative ideas. The important influence of investors on the development of start-ups is emphasized in the study of P. Gompers, W. Gornall, and S. Kaplan [2]. They state that, in addition to financial support, investors bring valuable experience and connections that contribute to the success of a start-up. The study of the entrepreneurial ecosystem, in particular the role of incubators and accelerators, helps to understand the importance of creating a supportive environment for start-ups. Colin Mason's, and Dr. Ross Brown's article [3] highlights how these structures can help entrepreneurs find resources and increase their chances of success. A similar conclusion is made by Del Sarto, Cazares, and Di Minin [4]. They point out that the diverse range of external knowledge sources offered by accelerators proves advantageous in various innovation outcomes, thus making a valuable contribution to the existing literature on accelerators. Stam, and Van de Ven found that the prevalence of fast-growing firms in a specific region is strongly correlated with the quality of its entrepreneurial ecosystem [5]. A study conducted by Del Bosco, Mazzucchelli, and Chierici highlights that variations in demographic characteristics of entrepreneurs correspond to different levels of importance of the local contextual factors studied in facilitating the creation of innovative startups [6]. Díaz-Santamaría and Bulchand-Gidumal [7] conclude that there are four key factors that significantly affect the measurement of success in two different ways: the location of the startup, the level of commitment of promotion partners, the age of the company, and the presence of non-promotion partners. Prommer, Tiberius and Kraus [8] argue that most startups seek to develop the leadership skills of their employees, as well as use external support. Overall, recent studies and publications shed new light on key aspects of start-ups, paying attention to the role of risk, the importance of investors, and interactions in the entre-

preneurial ecosystem. They contribute to a deeper understanding of this phenomenon and reveal opportunities for improving the development of innovative enterprises.

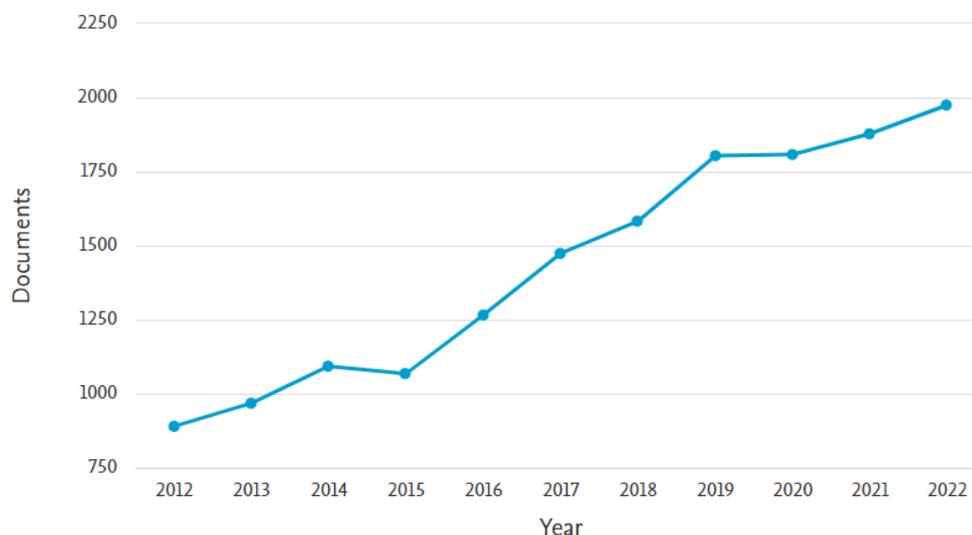
Analyzing scientific works indexed by the Scopus database, it was found that in the period from 2012 to 2022 the database includes 14,917 documents containing the "startup" keyword.

According to Figure 1, in 2012, the database included 890 works with the keyword startup, and already in 2022, the number of such works reached 1,975 works, which indicates a growth rate of 221.9% over these two periods. This dynamic shows the growing interest of researchers and scientists in the topic of startups.

According to Figure 2, for the analyzed period from 2012 to 2022, the largest number of works was written in the USA – 3,817, which is 24.1% of the total number of works for the analyzed period. The next country in terms of the number of documents is China with 3,413 indexed documents, which is 21.5%. The third country is Germany with 825 written works, which is 5.2% of the total number. In total, the three leading countries account for 50.8%.

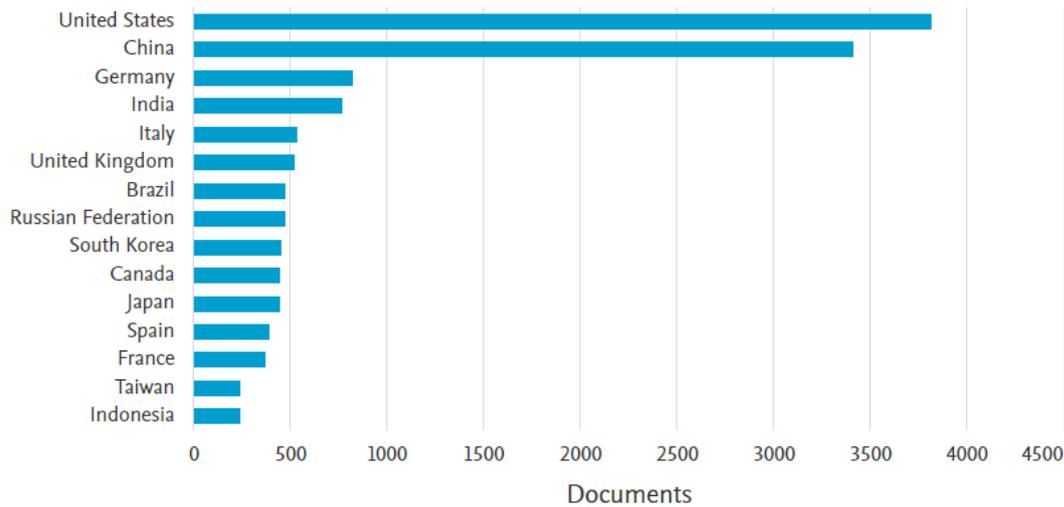
According to Figure 3, the largest number of works was written in the subject of Engineering – 6,791 works or 22.5% of the total number, which indicates the high interest of scientists and researchers in this field to pioneers. The second subject in the context of which startups are mentioned in works is Computer Science – 3,614 works or 12.0%, and this is not surprising, because most of the products developed by startups are software. And the third subject area is Business, Management and Accounting with 3,078 jobs indexed, or 10.2% of the total number of jobs.

It was analysed English-language publications for 2012–2022. The data set contains 1,829 articles in periodical scientific journals indexed by the Scopus database on startups by the 'Business, management, and accounting' subject area. The co-occurrence network was also constructed using the VOSviewer software. The co-occurrence



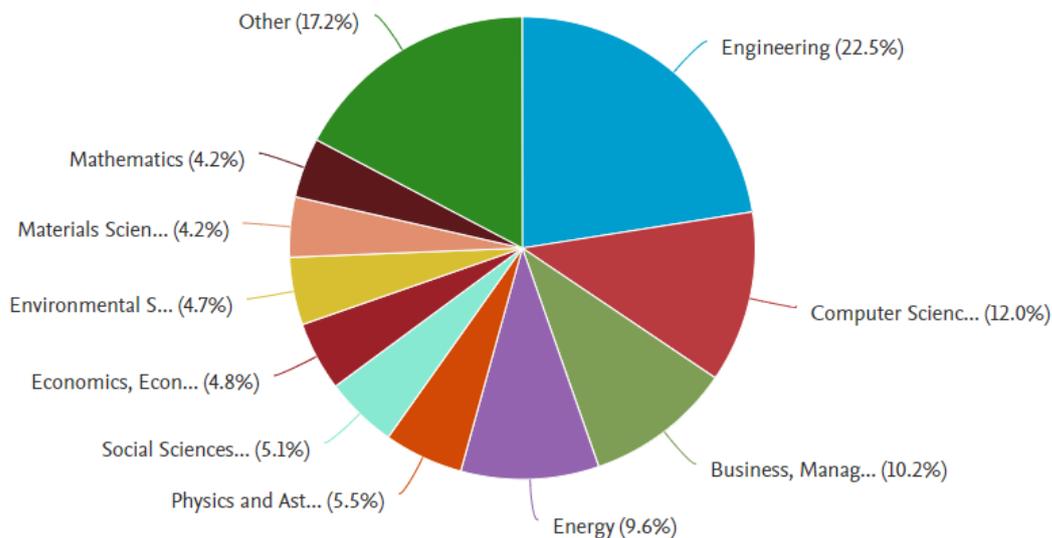
**Figure 1 – Number of documents by year indexed by Scopus**

*Source: developed by the authors based on Scopus data*



**Figure 2 – Documents by country indexed by Scopus**

Source: developed by the authors based on Scopus data



**Figure 3 – Documents by subject area indexed by Scopus**

Source: developed by the authors based on Scopus data

of the ‘startup’ network includes 191 keywords, which are grouped into five clusters (Figure 4).

Figure 4 illustrates the results of the keyword analysis conducted in academic papers related to startups. The chart provides a visual representation of the distribution and prevalence of specific keywords found in the analysed literature. This analysis provides valuable insights into the main themes and areas of focus in the field of startup research.

**Formation of the objectives of the article (task statement).** The aim of the article is to systematize the available information on: the differences between a startup and a traditional business, factors of failure and success of startups.

**Summary of the main research material.** In the modern business world, the concept of “start-up” is recognized not only as a term but also as a phenomenon that deter-

mines the direction of innovative entrepreneurship. Constant changes in technology, consumer preferences, and market competition make start-ups an extremely relevant object of research. The research conducted by Maria Minniti [1] sheds light on the crucial role of risk in the creation and successful development of start-ups. The author analyzes how entrepreneurs who are willing to take significant risks tend to achieve remarkable results. The findings of this study emphasize that risk is an essential component for achieving success in this type of entrepreneurship.

Modern examples of successful start-ups demonstrate the reflection of theoretical concepts in practice.

For Ukraine, this business concept is relatively new, but the startup movement is rapidly gaining popularity. According to the joint study conducted by Dealroom with Google for startups, Atomico and Credo named Central and



best protected by law. As a result, most companies develop abroad, and Ukraine remains the largest player in the IT outsourcing market in Eastern Europe. The development of the national ecosystem of startups largely depends on the implementation of legislative changes, starting with the optimization of taxation, providing companies with tax benefits, and ending with guarantees of protection against illegal interference by law enforcement officers. While there are no such guarantees, the contribution of successful startups to the country's economy is expressed only in improving its international image [11].

The study [2] reveals the importance of investors in the growth of start-ups. The authors examine contracts between entrepreneurs and investors, demonstrating that financial support is combined with valuable experience and connections that contribute to success. These insights provide a basis for understanding the significance of investors in shaping and supporting start-ups.

Even though a startup is a fundamentally different type of business from a traditional small business, they are very often confused with each other even by potential entrepreneurs themselves. A traditional business project can also be very successful, promising, and profitable, but it develops mainly by copying already existing ideas and business models, while a startup develops due to its innovation. To clarify the key differences between startups and other types of small business projects Table 2 provides a general comparative overview between start-ups and traditional small business projects, highlighting their differences and common features.

The analysis of the practice of small innovative entrepreneurship in Ukraine and abroad shows that almost 80% of the bankruptcies and liquidations of small innovative projects and enterprises are caused by mistakes in their management. Startups can fail for various reasons, and the literature provides insights into these factors. Here are some common reasons for startup failure along with references to the literature used [12–16]:

- lack of or no market need – startups may fail if they don't address a real market need or fail to pivot according to changing market demands [12; 13];

- insufficient capital or failed / inability to raise capital – inadequate funding can hinder growth and product development, leading to failure [12; 13; 14; 15; 16];

- poor management and leadership – weak leadership, mismanagement, and lack of experience can contribute to a startup's downfall [12; 14];

- competition and market dynamics – fierce competition and failure to differentiate from existing solutions can lead to failure [12; 13];

- product-market fit issues – failure to align the product with the market's needs and preferences can lead to a lack of user engagement and adoption [12; 13; 15];

- scaling challenges – premature scaling or inability to handle rapid growth can strain resources and infrastructure [12];

- ignoring customer feedback – not listening to customer feedback and failing to iterate based on it can result in product irrelevance [12; 14; 16];

- legal and regulatory issues – non-compliance with regulations or legal challenges can disrupt operations and lead to failure [12; 13; 15];

- lack of business model – a sustainable and profitable business model is crucial; startups without clear monetization strategies can struggle [12; 13];

- team dysfunction, not the right team, weak team or disharmony among team / investors – internal conflicts, poor collaboration, and lack of talent can hinder a startup's progress [12–16];

- Burned out / lacked or no passion for the market [13; 14].

It is suggested to divide aforementioned factors into 5 types by character of issues facing a startup owner as follows (Table 3).

Challenges arise for startups due to their immersion in uncharted market territories, leading to significant risks in how their products are perceived by the market. Moreover, in the initial stages of these projects, the inherent commercial potential of the idea and the undeveloped business model create limitations in employing conventional financial and economic evaluation methods. Essentially, assessments of startups in their preliminary and early phases

**Table 2 – Comparative characteristics of startup and traditional small business**

Characteristic	Startup	Traditional small business
Risk and innovation	Focused on risky, innovative ideas	Typically employ traditional approaches
Ability to change	The accelerated pace of change in response to the market	Respond to changes more slowly
Ability to improve	Use the 'Lean Startup' methodology	Usually, improve gradually
Investment	Attract investors for growth	Often funded by the owner's own capital
Scalability	Have potential for rapid scaling	Often limited to a regional scale
Business strategy	Often have an exit strategy in mind, such as acquisition or initial public offering (IPO)	Focus on long-term sustainability and profitability
Time to market	Typically aim to launch their products or services quickly and iterate based on customer feedback	Have a longer time to market due to established processes and operations
Impact on the market	Have the potential to disrupt existing markets or industries with innovative solutions	Often operate within established market frameworks
Intellectual property	Often prioritize the protection and utilization of intellectual property, such as patents	Have fewer intellectual property considerations

Source: compiled by authors based on [1–11]

Table 3 – Main factors of the startup’s failure by types of issues

Type of issues	Factor of failure
Marketing	lack of or no market need
	competition and market dynamics
	got outcompeted
	product-market fit issues
	lack of product-market fit
	ignoring customer feedback
	failure to find unsolved customer pain
	reluctance to get feedback on prototypes
Finance	insufficient capital or failed / inability to raise capital
	ran out of cash and ignoring cash burn
Skills, experience, and attitude	poor management and leadership
	burned out or lacked passion
	no passion for the market
	lack of skills needed to win
	team dysfunction, not the right team, weak team or disharmony among team / investors
Legal and regulatory	regulatory / legal challenges or problems
Product and business model	lack of business model
	Flawed business model
	Pricing / cost issues
	Product mistimed
	Poor product
	scaling challenges

Source: composed by authors based on [12–16]

rely heavily on qualitative factors rather than quantitative metrics. Consequently, these qualitative evaluations necessitate the involvement of experts and consultants. However, these external evaluators do not always approach the assessment of a startup’s development prospects with complete objectivity, impartiality, and a deep understanding. Investors, too, often make similar errors in judgment when deciding on investments. Numerous instances exist where seasoned experts rejected innovative business ideas, only for these concepts to later transform into globally successful companies.

It is obvious that it is difficult to formalize all the success factors of startups clearly and unambiguously. However, it is possible to single out the most important universal potential components that must be considered when launching a startup. Effective implementation of startups requires the presence of several important prerequisites [2–5; 7; 8]:

- idea and innovation – a successful startup must be based on an original idea or an innovative approach to an existing problem or market need;
- market research – before implementing a startup, it is necessary to conduct in-depth market research, and determine the target audience, its needs, and the competitive environment;
- team – a successful startup requires a cohesive and skilled team that has diverse experience and expertise to tackle different challenges;
- business plan – a carefully developed business plan helps define the development strategy, financial plans, and risks of the project;

- funding – the availability of sufficient funds for the initial stage of development is a key factor. This can be equity capital, investments from angels, or venture capital funds;

- minimum viable product (MVP) – the first version of the product should be minimal but functional to test the hypothesis and get user feedback;

- marketing and sales – marketing and sales strategy helps to attract customers, popularize the product, and ensure its growth in the market;

- flexibility and improvement – a startup should be ready to change and improve based on user feedback and data analysis.

**Conclusions.** The essence of a startup lies in its innovative idea, which addresses a problem, fulfills a need, or disrupts an existing market. Startups are characterized by their agility, adaptability, and willingness to take risks. Founders demonstrate a strong entrepreneurial spirit, embracing resource constraints and driving their vision forward. Many startups aim to disrupt established markets, fostering competition and innovation. With the potential for rapid growth, startups often follow a lean approach, iterating on their ideas through feedback and testing. Engaging with ecosystems and building effective teams is essential for a startup’s journey. Despite the challenges, startups embody the journey of turning an idea into a tangible reality, contributing to technological progress and economic development. If we talk about Ukrainian startups, they offer diverse opportunities across sectors like IT, agriculture, and healthcare. The country’s skilled tech talent, lower operating costs, and growing investment eco-

system contribute to its appeal. However, challenges like political instability and bureaucracy exist. With the right support, Ukrainian startups have the potential to thrive on the global stage. However, startup failures often stem from inadequate market research, poor team dynamics, and a lack of clear value propositions. Additionally, successful implementation involves thorough planning, adaptable strategies, and a deep understanding of customer needs. By addressing these factors, startups can increase their chances of sustainable growth and success.

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## СУТНІСТЬ СТАРТАПУ: ФАКТОРИ УСПІХУ ТА НЕВДАЧ

Богдан Леонідович Ковальов<sup>1</sup>, Анастасія Сергіївна Карепіна<sup>2</sup>,  
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*У статті було проаналізовано бібліографічні дані предметної області «стартап» з використанням публікацій, індексованих Scopus за 2012–2022 роки. Спостерігається значне зростання дослідницького інтересу до теми стартапів, що свідчить про зростаючу важливість та актуальність цієї сфери. Країнами-лідерами досліджень стартапів визначено США та Китай (24,1% та 21,5% від загальної кількості публікацій відповідно). Також з'ясувалося, що основною тематикою дослідження стартапів є інженерія (22,5% від загальної кількості публікацій), за нею йдуть комп'ютерні науки (12%) та бізнес, управління та облік (10,2%). Було розроблено co-occurrence-мережу «стартап», яка містить 191 ключове слово, згруповане в 4 кластери. Було проведено порівняльний аналіз стартапу та традиційного бізнесу за такими критеріями як: ризик та інноваційність, здатність до змін, здатність до вдосконалення, інвестиції, масштабованість, бізнес-стратегія, час виходу на ринок, вплив на ринок, інтелектуальна власність. Було запропоновано розділити основні чинники невдачі стартапів на 5 типів за характером проблем, які постають перед власником стартапу, таких як: маркетинг; фінанси; навички, досвід і ставлення; правові та нормативні питання; питання продукту та бізнес-моделі.*

**Ключові слова:** стартап, інновація, підприємництво, фактори.

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