

The background features a dark teal color with a network diagram of interconnected nodes and lines in a lighter teal shade. At the bottom, there is a bar chart with vertical bars of varying heights, also in a light teal color.

# **SURVIVAL, LONGEVITY, AND SUCCESS OF STARTUPS**



## SURVIVAL, LONGEVITY, AND SUCCESS OF STARTUPS

Many materials talk about the failure rate of new businesses, data that inform that this rate would be 90%<sup>1</sup> in the United States, where these businesses account for 50% of the jobs created every year<sup>2</sup>. This huge failure rate in new businesses has led to the development of new capitalization strategies, highlighting venture capital investment strategies, famously known as venture capital. This article seeks to briefly unfold some aspects that cover the reasons and explanations for the success of companies invested by venture capital startups.

Many investors in startups value analytical evidence resulting from the verification of calculations, comparisons, correlations, and analyses made by an analyst, among others, on the quantitative traits of a company that determines the probability of success. Still, other investors look almost exclusively at the traits of startup characteristics, such as innovation and probability of success in the market in which they participate and/or intend to participate, and the character traits of successful founders that predict survival<sup>3</sup>. Still, some investors prefer to stick to specific industries, with decision-making based on experience and familiarity in a certain economic field. A great example, brought by Kaplan N, is as if investments were horse racing, where the bettor can invest in the jockey (the entrepreneur), in the horse (the business), or the race (the industry/market). As a rule, successful investors are informed by all three philosophies: quantitative, qualitative, and investment.

Even despite the pandemic, venture capital investments in the US, for example, surpassed US\$ 300 billion in 2020 and US\$621 billion in 2021, an increase of 111% over the previous year. That means more founders in more places are raising capital, even as traditional hotspots like Silicon Valley, the biggest US market, retain much of their historical weight. Research shows that startups, like young companies, lack the long-term trends to evaluate older companies. The question of how to identify and measure the success of a startup is a battle in the economic literature, taking two directions:

**A** For the presence of successful funding under the assumption that investment by a competitive source is a strong sign of success, after all, investors do not risk heavy investments in venture capital in companies that do not own or have weak signs of long-term success and;

**B** using standard metrics in the evaluation of older ventures, exemplified by studies using company survival, sales growth, turnover or return on equity. Investor funding can be determined since objective success and funding outcomes are inextricably linked.

Typically, Cox proportional hazards functions<sup>4</sup> are used to measure the survival of a new venture, albeit with varying levels of success.

<sup>1</sup> Carrigan, 2020.

<sup>2</sup> Fairlie et al., 2016.

<sup>3</sup> Kleinert et al., 2020.

<sup>4</sup> The Cox proportional hazards model (Cox, 1972) is essentially a statistical regression model commonly used in medical research to investigate the association between patient survival time and one or more predictor variables, and for economics, as in the concrete case.





Other survival time analyzes are also common, depending on data availability<sup>5</sup>, and for non-binary indicators such as income or employment, the more conventional maximum similarity estimates of probits, logits, and tobits<sup>6</sup> are traditional. However, there is an inherent bias in these non-binary analyses, as data panels are invariably unbalanced with missing values, such as from failed companies, for example.

Popular thinking is the proposition that a company's financing technique can explain success. However, suppose this understanding reflects the everyday situations in which individuals are always surrounded. In that case, the story and the model must become more complex. Studies model the first endogenous stage, investment criteria, through the effects of the entrepreneur, the industry, and the company's strategy on the enterprise's success. Previous studies have shown strong links between the entrepreneur and the company's funding, so this raises questions about when both are accounted for and whether the new venture's success is influenced.

In a two-stage model, financial intermediaries not only select which companies obtain financing, but influence survival and other successful outcomes. For example, Baum and Silverman describe how venture capital identifies potential and offers validation and the coaching and resources a startup needs to survive: not just funding but portfolio company alliances or advisors. However, the effects were tangled, as more funding correlated with founding characteristics, more alliances, more intellectual capital, and more human or network capital, making it impossible to determine the true "causes" of success and the differences between financial, human, capital, and social, and how each affects the success of a new venture<sup>7</sup>. In a sense, founder characteristics come first and determine the type and amount of funding a startup can receive. In their research, Sanyal and Mann analyze how an entrepreneur's assets, communication of relevant information, and personal characteristics predict what type of financing he seeks or can obtain, and that more educated entrepreneurs are more likely to seek debt financing, while Serial entrepreneurs are just as likely to self-finance, seek external debt or external capital due to the lack of transparency of mitigating information.

Therefore, in a brief and synthetic analysis of the success of new companies, the success of companies is understood to not only be the contribution that founders manage to raise to leverage their companies but also the quantitative and qualitative characteristics of their founders and CEO in a macroeconomic perspective on the new company's activities. The most assertive conclusion about the success of companies is that their founders and CEOs must be familiar with and have knowledge of the area in which the company intends to perform, ensuring what is perhaps the most important thing for outsider investors, the ability to of their controllers about the market in which they intend to participate.

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<sup>5</sup> Bosma et al., 2004.

<sup>6</sup> Probit, logit, and tobit refer to the estimation of relationships involving dependent variables that are non-metric (ie, measured on nominal or ordinal scales) or have a lower or upper bound. Probit and logit deal with the first problem, tobit with the last.

<sup>7</sup> Baum & Silverman, 2004.





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