

Initial Pendulum: A Structural Equation Model for Determining the Success of Startups and Small-Size Businesses

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Abstract

Due to the pandemic, more than 40% of start-ups are now in the red zone, which means they have three months or less of cash runway left. More than 74% of them had to terminate full-time employees, and many of them are experiencing a serious decline in their revenue. Many argue that the most important factors leading to the success of a startup or a small business are funding, access to capital, business model, and timing. While this argument is true, it doesn't address the initial condition of the startup or the small business. These businesses, like any other dynamic system, are strongly sensitive to their initial conditions, or the status of the initial pendulum in a double pendulum system. To determine the most important initial factors which affect the success of a small business from a venture capital point of view, we propose a novel structural equation model. The proposed model consists of 52 measurable and latent variables in three levels of individual, team, and organization. The model then will be analyzed using different mathematical methods accordingly.

Keywords: Business Success Determination, SME, Structural Modeling, Valuation, Venture Capital