



From Inception to Decline: A Phenomenological Analysis of the Reasons Behind the Failure of Iranian Startups

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Abstract

Introduction: Given the critical role of start-ups in economic growth, employment generation, and innovation, a systematic investigation into the causes of their failure is essential for enhancing the resilience of the entrepreneurial ecosystem. The failure of start-ups is not limited to financial loss but also entails a waste of human capital, weakened public trust in entrepreneurship, and reduced dynamism in knowledge-based economies. This study seeks to identify and deeply analyze the factors contributing to the failure of Iranian start-ups.

Methodology: This research employs a qualitative approach and uses phenomenological methodology to gain insights into lived experiences. The study sample includes 22 participants selected through purposive sampling, comprising eight university faculty members, ten start-up founders based in the University of Tehran's Science and Technology Park, and four business start-up consultants. Data were collected via semi-structured interviews and analyzed using thematic analysis and Colaizzi's coding technique.

Findings: A total of 186 codes were extracted, categorized into eight subthemes and two main themes: micro-level (internal) and macro-level (external) factors. At the micro level, personal attributes, weak ideation, and team-related issues were key. At the macro level, ineffective academic training, regulatory shortcomings, underperformance of support institutions, sociocultural constraints, and governance challenges were identified.

Conclusion/Implications: Start-up failure results from the complex interaction of individual, organizational, and systemic factors. The findings provide a foundation for policy reform, educational enhancement, and support systems to reduce failure rates and strengthen Iran's entrepreneurial ecosystem.

Keywords: Entrepreneurship, Startups, Phenomenology, Innovation, Science and Technology Park.

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Introduction

The role of entrepreneurial activity in fostering economic growth, job creation, and innovation has been well-established in the academic literature [1], [2]. Entrepreneurial economic institutions, by enhancing national competitiveness and facilitating the emergence of new businesses, are considered fundamental pillars of sustainable long-term development [3]. Among these entrepreneurial actions, startup creation has become especially prominent. In recent years, substantial investment—both public and private—has been directed toward startups in many countries [4]. Despite the conceptual ambiguity surrounding the definition and scope of startups, their contribution to job creation is widely recognized. Startups generate employment on two levels: directly, by creating new positions (potentially twice the number of jobs lost in traditional sectors), and indirectly, by stimulating supply chains, support services, and dependent industries. For instance, a single energy startup may directly create 600 jobs and indirectly over 100,000 [5]. Despite growing attention to entrepreneurial opportunities and success strategies [6], the phenomenon of entrepreneurial failure—particularly within startups—remains underexplored in scholarly discourse and is seldom viewed as a valuable source of learning and opportunity generation [2]. Failure is a multidimensional process with potential negative consequences for individuals, organizations, and society [7]. A systematic and empirical examination of failure can mitigate the risk associated with new ventures and enhance their future success rate [8]. Studies on startup failure provide deep insights into entrepreneurial processes and can guide the development of practical strategies for entrepreneurs and investors. Ultimately, this knowledge can strengthen science-industry links, support knowledge-based firms, and improve economic resilience [9].

Startup failure also leads to broader losses, including diminished economic and social capital, reduced entrepreneurial self-efficacy, and weakened national production capacity [10]. Research shows that dynamic managerial capabilities—such as adaptability, foresight, and learning—are more crucial than resource availability in determining startup survival [11]. Additional factors include inadequate information search, weak customer focus, limited technical expertise, and poor analytical thinking [12]. Other key causes involve insufficient capital, poorly chosen markets, weak relationships, and ineffective marketing [13]. Challenges also vary across the startup lifecycle: before launch, validation and market forecasting are central; after launch, continuous innovation and responsiveness to feedback are vital [14]. At the macro level, high failure rates may destabilize economies and weaken development infrastructure [15], particularly in emerging markets where institutional support is often lacking [13], [17]. Comparative studies have shown that venture capital mechanisms and strategic foresight models differ significantly across contexts, such as in the Netherlands and Egypt, influencing startup sustainability [18]. Globally, approximately 90% of startups fail, with only 40% reaching profitability [19]. Understanding failure is not only theoretically relevant but also practically vital, enabling entrepreneurial learning [20]—from skill development [21] and problem-solving capabilities [22], to better policy design [23:24]. Moreover, negative feedback often triggers stronger learning than success does [25], and failed entrepreneurs may display even greater self-confidence and reflective capacity than their successful counterparts [26]. Hence, identifying internal and external failure factors—especially in context-specific environments like Iran—can significantly inform both theory and practice.

Q1- How do entrepreneurs experience and make sense of failure in startups?

Q2- What internal factors, from the perspective of entrepreneurs, have contributed to the failure of startups?

Q3- What external factors, from the perspective of entrepreneurs, have contributed to the failure of startups?

Methodology

This study adopts a qualitative approach aimed at gaining a deep understanding of the lived experiences of entrepreneurs who have encountered failure. Qualitative research, with its emphasis on uncovering meanings, understanding social processes, and describing phenomena in their real-world context through non-statistical data, provides a robust framework for analyzing complex human experiences [27]. The primary research strategy employed is descriptive phenomenology, which focuses on capturing and describing individuals' lived experiences in order to reach the essence of a given phenomenon. In this approach, the researcher sets aside prior assumptions and preconceptions, striving to understand the phenomenon exactly as experienced by the participants [28]. The research field includes three distinct groups of entrepreneurs who have experienced business failure: Founders and managers of startups located in the University of Tehran Science and Technology Park; Business consultants supporting startups within the same park; Faculty members from the Faculty of Entrepreneurship at the University of Tehran.

Participants were selected through purposive sampling, targeting individuals with direct and relevant lived experience of the phenomenon under study. Sampling continued until theoretical saturation was achieved—that is, when new data no longer contributed additional insights into the phenomenon. Data were collected via semi-structured interviews, which offer the flexibility to explore nuanced perspectives and uncover implicit meanings. Open-ended questions were designed to encourage participants to freely and thoroughly articulate their experiences and viewpoints [29]. In qualitative research, immediate and precise documentation of data is essential to ensure the accuracy and authenticity of verbal responses. Accordingly, all interviews were carefully transcribed after being repeatedly reviewed to capture the full content. Data analysis was conducted using Colaizzi's method of thematic analysis—a systematic phenomenological approach involving seven steps: Thorough reading of all participant descriptions; Extraction of significant statements; Formulation of meanings from key phrases; Clustering of meanings into common themes; Developing exhaustive descriptions of the phenomenon; Creating a fundamental structure of the experience; and Returning to participants for validation and clarification of the findings [30].

To ensure the credibility of the results, two complementary validation strategies were employed. First, member checking involved presenting preliminary findings to participants for feedback on the accuracy and alignment of the analysis with their actual experiences. Second, peer review was conducted by two independent researchers who assessed the consistency, clarity, and analytical rigor of the findings initially developed by the lead researcher.

Findings

In the first stage of coding, after multiple iterations and in-depth analysis of the interviews, a total of 186 initial codes were extracted from 22 interviews. During the second stage, these concepts were constantly compared, and overlapping or semantically similar codes were merged into eight sub-categories. These sub-categories were then grouped based on thematic similarities into two overarching main categories: Internal Factors and External Factors contributing to startup failure.

1. Internal Factors of Startup Failure

a) Entrepreneurial Personality and Individual Challenges

Many entrepreneurs reported difficulties due to the lack of an entrepreneurial personality, such as low risk tolerance, poor teamwork skills, and high psychological stress. These individual challenges often surfaced in the early stages of business development. In addition, loss of motivation and



emotional fatigue were identified as key issues that reduced their resilience when facing inevitable obstacles.

b) Weakness in Idea Generation and Feasibility

Another major challenge was the failure to adequately assess the feasibility of innovative ideas. Entrepreneurs frequently designed products or services without conducting thorough market analysis or considering cultural and economic context, leading to poor market acceptance and increased risk of failure.

c) Team and Organizational Issues

Startup teams commonly faced challenges such as lack of internal cohesion, blurred boundaries between personal and professional relationships, homogeneous skillsets, and insufficient interdisciplinary collaboration. Furthermore, deficiencies in marketing strategies, funding, and capital resources were identified as barriers that halted business growth.

d) Inefficiencies in the Educational System and Academic Support

Although higher education institutions are expected to foster entrepreneurship, the data revealed a disconnect between university curricula and labor market needs. Ineffective teaching methods, the absence of practical training, and the lack of internship opportunities were cited as barriers that prevent graduates from acquiring the necessary skills to manage startups effectively.

2. External Factors of Startup Failure

a) Unfavorable Economic Conditions

As reflected in Table 3 and the interview data, macroeconomic issues such as economic downturns, high-interest rates, heavy taxation, and market stagnation significantly impacted startups. These conditions reduced consumer demand, increased operational costs, and undermined the competitive capacity of startups.

b) Ineffective Government Policies and Regulatory Barriers

Participants highlighted problems such as complicated regulations, bureaucratic inefficiencies, lack of financial support, and non-transparent procedures. Moreover, political interference and inconsistent policy-making were seen as contributing to a volatile and unpredictable business environment.

c) Weak International Market Access and Export Barriers

Many startups expressed a need to expand globally, but faced challenges such as sanctions, lack of export infrastructure, ambiguous trade policies, and administrative hurdles. These constraints limited their access to international markets, significantly reducing their growth potential and increasing the likelihood of failure.

d) Cultural and Social Barriers

One of the most profound obstacles identified was the lack of a supportive entrepreneurial culture. In societies with a history of state-dominated or oil-dependent economies, entrepreneurship is often not culturally valorized. Instead, risk-taking and innovation are overshadowed by conservatism, over-reliance on government jobs, and a fear of failure.

The absence of a strong entrepreneurial culture also affects consumer behavior; as domestic innovations are often viewed with skepticism compared to foreign products. This lack of consumer trust undermines local producers' motivation and restricts market development. Furthermore, social stigmatization of entrepreneurial failure and negative perceptions of financial success create an environment in which successful role models are scarce, discouraging youth from pursuing creative or high-risk ventures. As a result, many young entrepreneurs are caught in a vicious cycle: cultural

resistance reduces demand, diminished demand erodes motivation, and low motivation leads to withdrawal from the entrepreneurial landscape.

Conclusion

From a systems thinking perspective, startups are not only components of larger economic and social ecosystems but also complex systems in themselves, composed of multiple stakeholders and dynamic interactions. Accordingly, understanding the causes of startup failure holds critical significance for a wide array of actors, from founders and investors to policymakers and academic institutions. This study has demonstrated that failure is not a singular event, but rather the manifestation of interrelated internal and external factors. While internal elements such as founder characteristics, idea-market fit, and team performance form one side of the equation, external structural forces must not be underestimated. Without addressing both dimensions simultaneously, any intervention will likely be partial and ineffective. On the internal level, the entrepreneurial mindset—encompassing traits like persistence, creativity, and calculated risk-taking—emerges as a foundational asset. However, these are not static qualities; they can be developed through targeted training, mentorship, and institutional support. Similarly, innovative ideas alone are insufficient unless they respond to real market needs, are backed by rigorous validation, and are delivered through strategic timing. Equally crucial is the functionality of the startup team. Cohesive and interdisciplinary collaboration, supported by clear business planning, financial literacy, and adaptability, significantly contributes to a startup's capacity to navigate uncertainty and sustain growth.

Externally, startups operate within macro-level systems that profoundly influence their trajectories. A misalignment between academic institutions and industry continues to impede entrepreneurial readiness among graduates, emphasizing the need for curriculum reform and stronger university–industry linkages. Regulatory inefficiencies, outdated legal frameworks, and bureaucratic inertia further constrain startup development, calling for comprehensive policy overhaul tailored to the unique dynamics of early-stage ventures. In addition, the performance of science and technology parks—intended as enablers—must be critically reassessed to ensure they function as catalysts rather than bottlenecks. Cultural constraints and governance issues also play a pivotal role. Societal attitudes toward failure, innovation, and domestic products significantly affect entrepreneurial behavior. Without cultural transformation—grounded in education, public discourse, and policy alignment—the entrepreneurial ecosystem will remain fragile. Furthermore, adaptive and inclusive governance structures are essential to fostering trust, reducing uncertainty, and enabling strategic agility. In sum, startup failure in Iran is a systemic phenomenon, shaped by the interplay of internal capabilities and external constraints. Sustainable entrepreneurial success requires a holistic approach that addresses both micro-level readiness and macro-level reform—integrating individual development, institutional support, cultural change, and responsive governance.

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