

DYNAMIC CAPABILITIES AND SURVIVAL OF STARTUP FIRMS

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Abstract

Startups provide benefits to countries because of their capacity to promote economic and social development. Nevertheless, startups face great challenges to survive, especially in the Peruvian context wherein they have limited capacity for innovation and a lack of organizational resources. Thus, this paper discusses why the obtention of ordinary organizational resources (e.g., the founder's professional experience and entrepreneurial team networks) and the development of dynamic capabilities (e.g., the ability to learn from imitating business models and the capacity to adapt products and processes to target customers) are urgently needed for the survival of Peruvian startups and explains the distinction between these organizational resources and capabilities. Furthermore, recommendations for entrepreneurs in this regard are outlined in the conclusion.

Keywords: *New ventures, startup survival, emerging economies, Peru*



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Introduction

One of the most important ways to generate economic growth is through the creation of new firms through entrepreneurship, because this activity promotes economic and social development for citizens. Moreover, governments direct their attention towards entrepreneurial ecosystems since they promote competitiveness and innovation (World Economic Forum, 2019). In a volatile, uncertain, complex and ambiguous (VUCA) environment, nations face new challenges and opportunities. It is in this scenario that the entrepreneurial ecosystem has become more relevant to academics, enterprises and governments (Hernández & González, 2017). To deal with technological and market changes, entrepreneurs need a variety of resources such as skills, mentoring, strong networks, and financial, governmental and social support. Thus, digital technology can help to catalyze the initiatives of public and private institutions to create a global entrepreneurial ecosystem that gives entrepreneurs access to the resources they need.

In this scenario, startups emerge as a vehicle for entrepreneurial activity to provide benefits to countries by generating profits and addressing social and environmental concerns, therefore improving society (Alvarez Salazar, 2021; World Economic Forum, 2019). Nevertheless, the survival of startups, unusual in any ecosystem around the world, is needed to generate these benefits. Even though most of the studies about the survival of startups have been developed in mature ecosystems, there are some findings that have been identified in Latin American countries such as the importance of the entrepreneur's network and the experience of the founding team (Alvarez Salazar, 2021).

Every year numerous startups are created in Peru, with most of them being located in Lima (OCDE, 2016). However, they face multiple challenges such as difficulties to create business models, difficulties to transform ideas into business, and a reduced number of specialized human resources (Alvarez Salazar, 2021; Hernández & González, 2016). Therefore, startups need to obtain and prioritize resources in order to survive in a context of multiple shortages such as the Peruvian one.



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Startups can develop multiple organizational resources which allow them to survive and grow. Schoemaker et al. (2018) and Zahra et al. (2006) argue that the distinction between ordinary (or substantive) and dynamic capabilities is crucial to understand the complex phenomenon of startup survival. On one hand, an ordinary capability is the organization's ability to produce a desired output such as products and services. On the other hand, a dynamic capability is a high-order ability to manipulate an ordinary capability and enable firms to identify new products and services and new markets where rivals have not yet appeared.

The main objective of this paper is to discuss why developing and applying ordinary and dynamic capabilities is urgently needed for Peruvian startup survival. In addition, proposed strategies for entrepreneurs are recommended.

Ordinary capabilities

An ordinary capability has been defined as the organization's ability to produce a desired output, either tangible or intangible. In other words, it is what the firm can do. For example, an ordinary capability is the ability to develop new products (Zahra et al., 2006). These abilities allow firms the production and sale of products and services in the company's current environment, and are related to efficient manufacturing processes, effective marketing strategies, strong alliances, and operational leadership (Schoemaker et al., 2018).

Ordinary capabilities can be classified into human, social, organizational and entrepreneurial capital. Human capital is constituted by the experience of the founder and the entrepreneurial team, their knowledge, and the individual characteristics they have. Social capital is constituted by all networks and alliances with established companies from which startups obtain resources. Organizational capital is constituted by the knowledge startups obtain from the application of product design processes, which provides information about the target customer and products. Entrepreneurial capital is



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constituted by monetary variables such as savings and personal loans, and nonmonetary variables such as solvency and reputation of the entrepreneur and the potential of the industry (Alvarez Salazar, 2021).

Dynamic capabilities

A dynamic capability has been defined as the organization's high-order ability to manipulate its ordinary capabilities. In addition, it is the ability to shape and reshape the firm's resources and routines to respond to technological and market changes in which the firm competes (Teece, 2009; Zahra et al., 2006). An example of a dynamic capability would be the ability to reform the way the firm develops new products (Zahra et al., 2006). In addition, dynamic capabilities are related to the way firms identify opportunities, the use of new knowledge to launch products, and the creation of new business models, products and services (Teece, 2009). Furthermore, according to Mudalige et al. (2016), there are three clusters of dynamic capabilities that enable organizations to transform themselves in order to better navigate a VUCA environment. First, sensing market changes before rivals do. Second, seizing opportunities quickly by implementing new processes and taking advantage of external changes. Third, transforming the firm and occasionally the environment to take advantage of emerging business models (Schoemaker et al., 2018).

Currently, firms face greater changes in the business environment because of advances in the globalization process and technological development. Thus, organizations need to use dynamic capabilities to build a competitive advantage in changing environments (Mudalige et al., 2016). This is more relevant in the growth phase of the industry lifecycle. Moreover, the influence of dynamic capabilities on firm growth goes beyond the life cycle and the experience curve. For instance, in situations where firms face changing market and technological conditions, dynamic capabilities may help some firms to survive and maintain their scale, but without necessarily growing (Helfat et al., 2007).



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Besides, if a firm possesses resources but not dynamic capabilities, it could have a competitive return in the short term, but it would not be sustained for much time (Teece, 2009). In addition, developing dynamic capabilities per se does not result in a superior performance (Zahra et al., 2006).

Survival of startups firms

Startups need both ordinary and dynamic capabilities to achieve survival given a context that determines their decisions of growth (Alvarez Salazar, 2021).

In addition, there is a consensus in the literature that a startup has survived when it operates without interruption in its early years. In this stage, the startup needs to obtain resources to experiment. At the same time, these resources should be transformed by using dynamic capabilities (Alvarez Salazar, 2021). Moreover, startup survival is also affected by external factors in which incubators play a key role providing mentoring, coaching, technological support, financing, workspace, access to networks and advice.

Startup survival in the Peruvian context

A great number of startups have been created in Peru in the past. However, they do not have the capacity to create the innovative products and services that allow them to survive (Alvarez Salazar, 2021). Moreover, Peruvian startups face several challenges that they need to overcome in order to survive. These are, for example: lack of business model capacity-building, lack of specialized human resources, low support to convert ideas into products, and little interest by entrepreneurs to participate in the ecosystem (Hernández & González, 2016).

Nonetheless, recent studies (Alvarez Salazar, 2021) have provided insights about which ordinary and dynamic capabilities are crucial to the survival of Peruvian startups. In the category of ordinary capabilities, examples of the identified variables are the founder's



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academic education and professional experience in the industry, business experience, international exposure, optimism, global vision, strong network of family and friends, own monetary resources, private capital funds, monetary transfers for public funds, and market knowledge. Moreover, in the category of dynamic capabilities some of the identified variables are the ability to learn from imitating business models and the capacity to adapt products, processes and business models to target customers. In addition, the incubation process has a fundamental role in contributing to the survival of startups in Peru.

Besides, there are some requirements that have to be met in order to ensure survival. First, startups need to overcome the break-even point by using their own cash flow, but even then in some cases this could be not enough and other sources of income such as loans would be needed. Second, they require a cash stock that allows them to face cash crises. Third, startups need to demonstrate signs of accelerated growth. Finally, and most importantly, they need to continue operating. (Alvarez Salazar, 2021).

Recommendations for entrepreneurs

- Participate in business meetings organized by members of the ecosystem such as incubators, mentors, accelerators, shared services providers, angel investors, venture capital investors, universities, and government support agencies. These events provide an important network which allows entrepreneurs to identify new business opportunities.
- Visit customers' offices in other countries to maintain commercial relationships and know more about their preferences and requirements. Business travel offers an important opportunity to explore new markets, to know competitors' actions and to explore the characteristics of new customers in order to know how to respond to them.



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- Arrange meetings with suppliers to explore new collaboration opportunities to improve processes and products. Sharing customer information with suppliers is important since they help startups in the creation of products that customers require.

Concluding remarks

Governments have directed their attention towards entrepreneurial ecosystems in recent years because they provide high levels of wealth and economic and social development to countries. Thus, the implementation and evaluation of government programs as well as online platforms and operations among the agents are providing relevant information about this phenomenon. In addition, this kind of information is used by policymakers to make better decisions in order to support and improve the entrepreneurial ecosystem.

Nevertheless, Peruvian startups face challenges they need to overcome to survive, such as limited capacity for innovation and a lack of entrepreneurial capital resources. Hence, in this context startups need to rapidly obtain ordinary capabilities, simultaneously transform them by using dynamic capabilities, and finally adapt to a changing environment.



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