



Key Drivers of Startup Failure in India's Tech Hub: An Analysis of Karnataka's Innovation Ecosystem

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Abstract

Startups located in Karnataka, especially in Bengaluru, which is recognised as India's leading technology centre, have played a crucial role in driving national innovation and generating employment opportunities. However, a significant number of these startups do not survive beyond their initial years. This paper aims to compile existing literature, regional studies, and documented analyses to identify and clarify the main factors contributing to startup failures in Karnataka. We categorise these factors into demand-side, supply-side, organisational, and ecosystem-level elements, examine their interconnections, and provide actionable policy and founder-level suggestions to minimise the risk of failure. The primary causes identified include a lack of product-market alignment, insufficient funding or financial mismanagement, ineffective founding teams and execution, regulatory and infrastructure challenges, and fierce market competition.

Keywords: Entrepreneurship, Funding challenges, Karnataka Innovation ecosystem, Product-market fit, Startup failure

1. Introduction

Karnataka, and especially Bengaluru, has been called the "Silicon Valley of India" because of its concentration of technology firms, venture capital, and skilled talent. Within a few years, many firms fail or change their original goals in spite of this favourable climate. For entrepreneurs, investors, incubators, and legislators looking to improve the local innovation ecosystem, it is critical to comprehend the causes of these failures. This study adopts a conceptual and descriptive approach, describing the main causative elements and offering practical recommendations based on industry analysis, published studies, and regional reporting.

2. Review of Literature

The following factors have been identified in numerous studies on Indian startups and, in particular, analyses of Bangalore and Karnataka: Product-market fit and demand; funding and financial management; demand-side factors; financial and resource-related factors; organisational and managerial factors; ecosystem-level factors; and lifecycle and interaction effects.

2.1 Market Demand and Product Fit

Numerous startups commence operations without confirmed demand or a distinctly defined niche, which results in challenges in customer acquisition and retention. (This has been supported by findings from CB Insights and local analyses as a primary issue both globally and within India.)

2.2 Financial Management and Funding

Either insufficient funding (which restricts growth) or poor allocation of resources results in cash-flow issues. The availability of funds can sometimes lead to pressure to expand too quickly. (NASSCOM Community)

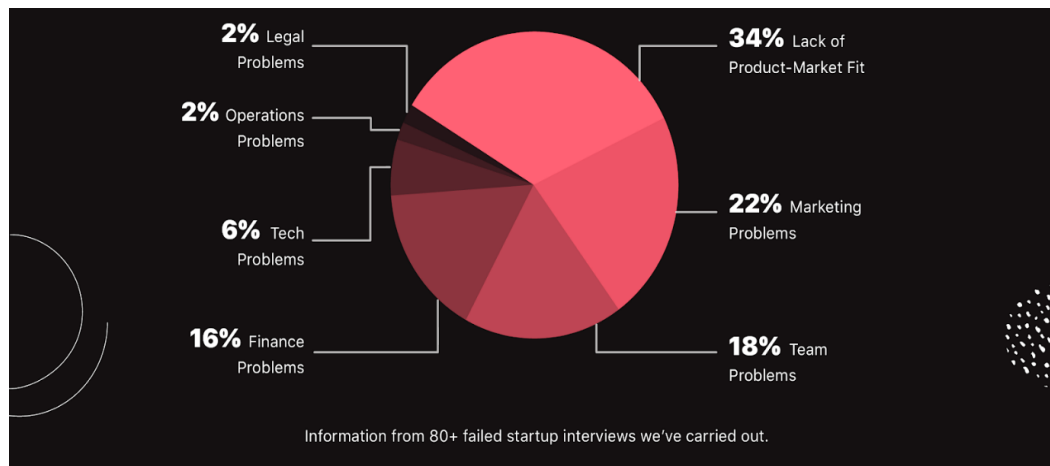
The reasons behind startup failures have been thoroughly investigated in various global and regional contexts, with researchers identifying numerous interconnected factors that include demand-related issues, financial management, organizational challenges, and ecosystem influences. Extensive post-failure reviews conducted by CB Insights (2023) ^[5] and ecosystem-wide assessments by Startup Genome (2024) ^[3] indicate that most startup failures are due to a lack of product-market fit and insufficient cash flow,

and weak team execution. These studies emphasise that while the precise triggers may differ, the underlying patterns of failure remain remarkably consistent across geographies.

2.3 Demand-Side Factors

Poor product-market fit is the main justification given in the majority of empirical and analytical studies, suggesting that startups frequently develop solutions without first confirming that there is enough demand from customers. In its examination of more than 100 startup post-mortems, CB

Insights (2023) ^[5] found that "no market need" was the primary reason for failure. In a similar vein, Kalyanasundaram et al. (2022) ^[9] found that the two main demand-side issues in their research on Indian IT firms were misinterpreting customer preferences and expanding too quickly. Sustainability for Karnataka-based businesses depends on staying in line with changing customer expectations, especially in Bengaluru's quickly developing tech industries (Startup Genome, 2024) ^[3].



Source: <https://www.techinasia.com/visual-story/avoid-startup-failure-find-product-market-fit>

Fig 1: Common Reasons for startup failure

2.4 Financial and Resource-Related Considerations

The second important subject in the literature is financial restrictions and mismanagement. Startups often fail owing to a lack of funding, unsustainable burn rates, or poor financial governance (JetIR, 2023) ^[7]. Kalyanasundaram et al. (2022) ^[9] discovered that startups in India are vulnerable to lengthy funding cycles due to their reliance on venture capital and investor sentiment. Despite its thriving venture activity, the Bengaluru ecosystem faces comparable issues, as many early-stage firms rely largely on ongoing external funding without establishing operational profitability (Startup Genome, 2024) ^[3].

2.5 Organisational and Managerial Factors

Team dynamics and governance have also been identified as important predictors of startup survival. According to research, founder incompatibility, a lack of complementary talents, and poor execution capabilities all play a substantial role in early-stage failure. According to CB Insights (2023) ^[5], 23% of businesses fail owing to "not having the right team," emphasising the importance of human capital. Governance difficulties, such as unclear role distribution and ineffective decision-making frameworks, were found to worsen internal inefficiencies in Indian case studies (JetIR, 2023) ^[7].

2.6 Ecosystem-Level Factors

The ecosystem's impact on startup performance has gained increasing scholarly attention. While Karnataka's favourable policies and large talent pool are widely established, regulatory uncertainties, infrastructure obstacles, and fierce rivalry in Bengaluru's startup ecosystem raise the chance of failure (Startup Genome, 2024) ^[3]. Goyal and Kapoor (2023)

^[4] also point out that overconcentration in specific sectors like fintech and edtech has increased competitive pressures, resulting in market saturation and valuation instability. Furthermore, global economic cycles and shifts in policy support frequently influence business success rates (Mission Start-up Karnataka Report, 2024) ^[11].

2.7 Lifecycle and Interaction Effects

Recent research emphasises the value of stage-dependent examination of failure causes. Kalyanasundaram et al. (2022) ^[9] found that pre-seed initiatives fail primarily due to a product-market mismatch and founder misalignment, whereas growth-stage ventures are more susceptible to governance flaws and scaling issues. This suggests that measures to prevent failure should be tailored to the startup's lifecycle stage rather than using one-size-fits-all tactics (Goswami et al., 2023) ^[6, 8].

2.8 Research Gap

Even though Karnataka has a unique concentration of technology companies in Bengaluru, there is little research, especially focused on the state's startup environment, despite the fact that both national and international studies have examined startup failures. A thorough, region-specific analysis that links internal (managerial) and external (ecosystem) elements is lacking in the research currently in publication, despite the fact that it identifies common reasons such as inadequate product-market fit and funding concerns.

Additionally, the majority of publications are descriptive rather than analytical, and the effects of state efforts like Mission Start-up Karnataka have not been properly assessed. Additionally, there is a dearth of current, updated

syntheses based on data collected after 2022. By offering an analytical framework that categorises and elucidates the primary causes of startup failures in Karnataka, this study fills these gaps.

2.9 Objectives

1. To identify and analyse the key reasons for startup failures in Karnataka
2. To classify the causes of failure into demand-side, financial, organisational, and ecosystem-level categories using a conceptual framework.
3. To evaluate the role of internal and external factors in influencing startup sustainability and performance.

3. Research Methodology

This is not an empirical primary-data paper; rather, it is a descriptive synthesis of secondary sources relevant to Karnataka's startup ecosystem (academic papers, industry guides, and journalistic reporting). The paper organises observed failure causes into categories, illustrates them with examples and findings from the literature, and derives implications and recommendations. This approach is appropriate where comprehensive, up-to-date primary datasets are scarce and where policy/practical guidance is the aim.

4. Thematic analysis - Reasons for failure

4.1 Demand-side problems: weak product-market fit

Founders occasionally create solutions before verifying that a substantial clientele finds value in them. Startups misinterpret market categories and willingness to pay when they don't conduct thorough consumer discovery. Low adoption, high acquisition costs, and trouble keeping consumers are the results. This is the primary cause of startup death, according to numerous regional studies and international post-mortems.

4.2 Financial constraints and poor capital management

Two related problems recur: (a) lack of access to adequate follow-on capital at crucial growth stages, and (b) mismanagement of available capital (over-hiring, expensive marketing before product validation). In Karnataka's active funding market, capital can still be scarce for less attractive or early-stage ventures; conversely, easy seed capital can encourage premature scaling. Evidence from industry writeups and startup post-mortems supports both failure modes. (NASSCOM Community)

4.3 Team composition, governance and execution failures

Clear governance, rigorous execution, and complementary co-founders (technical and business) are necessary for successful growth. Lack of responsibility, founder conflict, a lack of expertise, or poor hiring processes that result in a team that is unable to operationalise the plan are the main causes of failures. Case studies of startups in Bangalore show that human capital fit and execution are common offenders.

4.4 Competitive landscape and strategy errors

Due to its allure, Karnataka attracts a lot of new competitors in the same industries. Startups that enter congested

verticals without differentiating themselves or that copy global models without localisation lose market share and profit margins. Indian assessments have frequently highlighted the practice of copying foreign business models without taking into account Indian price sensitivity, distribution channels, or regulatory restraints.

4.5 Frictions between infrastructure, policy, and ecosystem

The expense and difficulty of conducting business are increased by operational problems, such as erratic transportation, clogged roads, sporadic utilities, or regional regulatory barriers. Bengaluru's strained infrastructure and urban planning issues have been brought to light in recent reports. These issues have a direct impact on logistics, staff commute times, and startup facility expenses. Navigating licensing, tax laws, and local permissions can also delay product introductions and raise prices.

4.6 External shocks and macro risks

Events such as pandemics, sudden changes in legislation, macroeconomic downturns, or environmental disasters might cause demand to abruptly collapse or investor appetite to dry up. Particularly at risk are startups with small profit margins or just one major client. Karnataka's operations are affected by weather and climate-related disturbances, according to regional sources.

5. Interactions and compounding effects

These factors don't work alone. For instance, poor product-market fit makes it more necessary to spend money on marketing, which makes financial restrictions worse. Issues with infrastructure increase operating costs, which makes it more difficult for businesses with limited funding to turn a profit. Mistakes in strategy and finances can be exacerbated by poor governance. The ecosystem perspective emphasises that addressing several layers at once is necessary to build resilience.

6. Recommendations

6.1 For founders/startup teams

1. Thorough consumer discovery before scaling: use pilots and KPIs to confirm demand, price sensitivity, and channels.
2. Staged scaling and lean financial planning: acquire committed runway before significant expansion; plan burn rates prudently.
3. Create complementing teams and governance frameworks by including technical cofounders, clearly defining roles, and establishing decision-making procedures early on.
4. Localise strategy: rather than mindlessly replicating foreign models, modify products and go-to-market strategies to suit Indian and Karnataka client behaviours.

6.2 For investors and accelerators

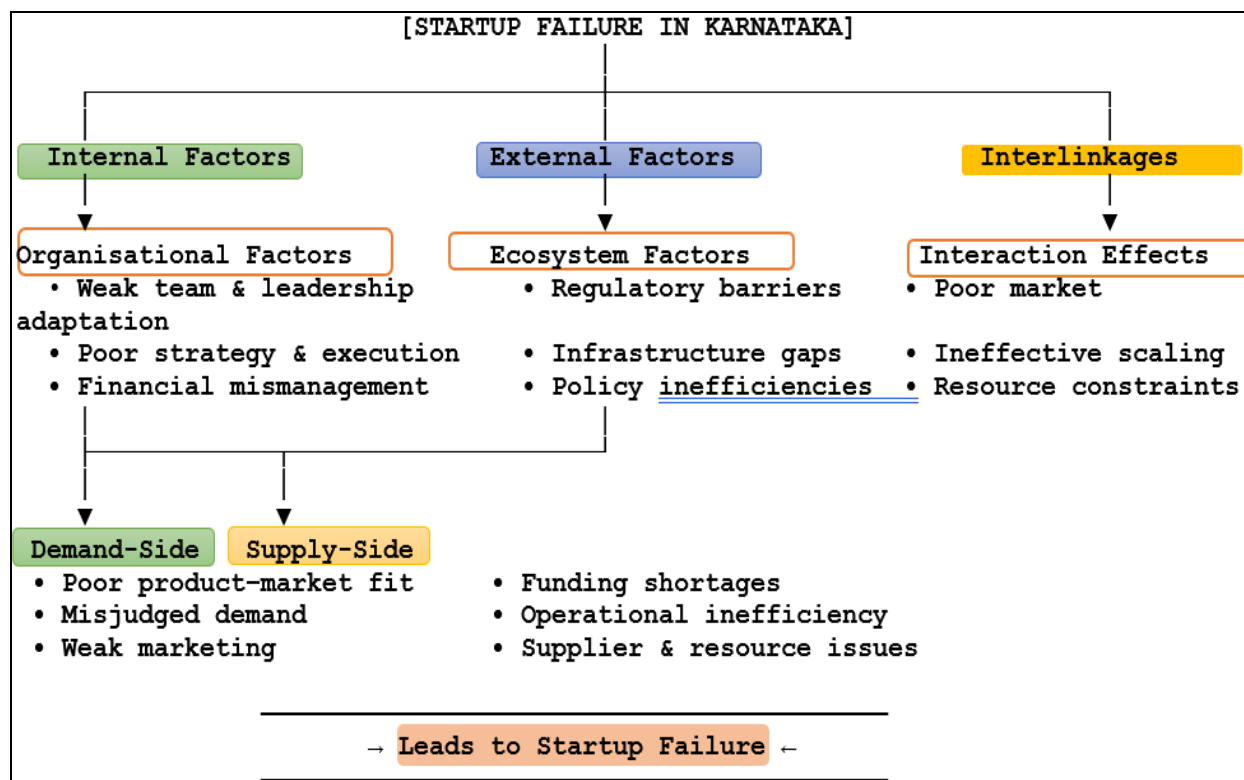
1. Stronger due diligence on product-market validation and unit economics rather than growth narratives alone.
2. Support operational capability building - offer fractional C-level expertise, governance help, and operational mentorship.

6.3 For policymakers and ecosystem builders

1. To lessen operational instability, upgrade business and urban infrastructure (drainage, utilities, and transportation). Bengaluru has infrastructure deficiencies that hurt startups, according to recent reports.
2. Reduce time-to-market and compliance expenses by

streamlining regulatory procedures and offering transparent, startup-friendly compliance routes.

3. Encourage public-private partnerships to support entrepreneurs in validating demand before scaling through local market research and customer discovery initiatives.



Source: Primary Data

Fig 2: Conceptual Framework

7. Limitations and suggestions for empirical follow-up

This paper is descriptive and synthesises secondary sources; it does not provide new primary quantitative data on failure rates or causal effect sizes for Karnataka specifically. Future empirical work should collect primary founder surveys, investor datasets, and administrative records from Karnataka to quantify the relative contribution of each failure cause, track changes over time, and measure the impact of policy or accelerator interventions.

8. Conclusion

Startups in Karnataka fail for multiple, interacting reasons: demand failure, funding and finance issues, team and execution problems, competitive missteps, and ecosystem/infrastructure constraints. Reducing failure rates requires coordinated action by founders (better validation and governance), investors (stronger operational support), and policymakers (improved infrastructure and regulatory clarity). A focused empirical program to collect regional data would sharpen policy choices and measure progress over time.

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