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Insights on Factors Influencing Startup Failure in the Hospitality Industry

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INSIGHTS ON FACTORS INFLUENCING STARTUP FAILURE

IN THE HOSPITALITY INDUSTRY

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Abstract

Hospitality businesses and innovative startups have faced extremely high failure rates. The author provides insights on the factors that impact startup failure in the hospitality industry after performing a deep analysis on innovation frameworks such as the diffusion of innovation theory, the theory of disruptive innovation, and the ten types of innovation framework. Not only that, the author also provides insights based on their own personal experience and knowledge gained through education at the University of Las Vegas, Nevada. The research explored in this paper revealed that startup failure is not based on one factor alone and how leaders in companies can spot various signs early on to save their companies from failing.

Keywords: Innovation, startups, innovators, technology, S&P 500

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Chapter 1

The hospitality industry is built on the foundation of serving guests with the best quality product and service all day, all year around. For decades, the hospitality industry has suffered from extremely high business failure rates (Gao, 1999). Business owners are known for being true craftsmen of the products they offer but they often lack expertise in either internal or external areas of their businesses which leads them to failure (Gao, 1999).

The purpose of this study is to gain insights about factors that can cause business failure in the hospitality industry. The paper will explore if business failure occurs due to the lack of a well crafted business model, lack of innovation, or due to lack of organisational culture. Chapter two of this paper will explore well reputed theories that are used by entrepreneurs in the business field such as the ten types of innovation framework, the theory of disruptive innovation, and the diffusion of innovation theory. Chapter three of this paper shares insights on the factors that cause startup failure through insights gained through the theories explored and through author's personal experiences and knowledge.

Problem Statement

The hospitality industry, specifically, has suffered from an extremely high business failure rate for decades (Gao, 1999). 90% of startup companies never end up succeeding (Patel, 2015). A business usually fails due to internal and external conditions and the failure warning signs start showing way before the actual thing happens (Gao, 1999). Business failure not only results in huge financial loss for the company but results in huge loss for the team, leaders, investors, stakeholders, and the society at large (Gao, 1999).

Purpose of the study

The purpose of this study is to research factors that influence startup failure in the hospitality industry. Insights about early failure signs may help leaders recognize patterns early on that can then help them find solutions to help prevent business failure. Based on the literature review, this paper will discuss insights that can be used by innovators and entrepreneurs who are pursuing their passion in the hospitality industry. The research may also help future research on startups companies in the hospitality industry. Following are the research questions that will be explored in this study:

R1: Does lack of a well-crafted business model lead to startup business failure in the hospitality industry?

R2: Does lack of innovation lead to startup business failure in the hospitality industry?

R3: Can the organisational culture lead to startup business failure in the hospitality industry?

Conceptual Framework

Based on a thorough literature review, this paper will evaluate factors that are key in starting and sustaining a start-up that aim to be highly innovative. Variables that are impacted inside an organisation when a business pursues the path of innovation will also be reviewed. Furthermore, this paper will also analyse some of the key early failure signs that a leader in organisations can recognize that may help them save their business from failing. Lastly, this paper will also evaluate some other theories such as the theory of disruptive innovation and the diffusion of innovation theory that are highly regarded by entrepreneurs in the business field.

Limitations

Some of the main limitations to this research is that most of the industry frameworks were not born out of the hospitality industry. Furthermore, there is little to no research on innovative startup failure in hospitality literature in some of the top hospitality journals such as Tourism Management and the International Journal of Hospitality Management. A lot of research is either location specific or area specific such as innovation in big data, innovation in culture and personality, innovations that are only relevant for customers in Cuba and so on.

Delimitations

Given the timeframe and the data needed to do a complete analysis on startups in the hospitality industry, this paper will only focus on businesses that aim to have innovative models. The findings of this paper can be implemented to businesses in the hospitality industry that aim to have highly complex innovation models and that aim to grow and succeed fast. Adjustments may be required for businesses that have much simpler businesses.

Definitions

The research has used the following terms that are defined below:

Innovation: When a new idea is born and executed, an innovation takes place. (Cambridge Dictionary, 2022a)

Startups: According to Baldridge (2022), startups are companies that are a combination of both speed and growth. They go from being an idea to becoming a product quickly and then use the power of feedback data to make their product better overtime (Baldridge, 2022). Baldridge (2022) suggests that some startups only have basic drawings and prototypes for the products until they iterate it and create a product that they then enter the market and grow rapidly.

Innovator: An innovator is a person that is an executor and an architect of a new idea, concept or change in any industry (Cambridge Dictionary, 2022a).

S&P 500: The S&P 500 is also known as the standard and poor's index that features the top 500 companies stock performance in the United States *(S&P 500 Index: What It's for and Why It's Important in Investing, 2022).*

Technology: When discoveries in science are used for practical purposes in different industries they are called technologies *(Cambridge Dictionary, 2022).*

Chapter Two: Literature Review

The Oslo manual is known to be one of the most prestigious outputs that was created in 1992 by The Organization for Economic Co-operation and Development (Gault, 2018). "This prestigious organisation has been at the forefront of research to foster policy development on various economic measures" (Rippee, 2020). According to Oslo manual (2018), the following is the definition of innovation:

> "Technological innovations comprise new products and processes and significant changes in products and processes. Innovation has been implemented if introduced to the market (product innovation) or used within a production process (process innovation). Innovations there involve a series of scientific, technological, organisational, financial, and commercial activities."

The hospitality industry lacks academic research on the topic of hospitality startup failure in the hospitality industry. However, there are frameworks that are well-reputed and have risen from the field of science and business such as the theory of disruptive innovation, the diffusion of innovation theory, and the ten types of innovation framework etc. Keeley et al. (2013) suggests that scientists and their inventions have made significant contributions towards the creation of innovation frameworks in the business field. They also suggest that some of the inventions, even though in the field of science, help explain the workings of the real world really well (Keeley et al., 2013).

In 1998, the authors of the Ten types of Innovation created early drafts for the periodic table version of innovation after performing analysis that identified the patterns between different innovations types and tactics (Keeley et al., 2013). They believed that the periodic table used a method to showcase complex information and correlations in a simple, easy to understand way. The creators of the framework have introduced over 100 tactics that can be mixed and matched to create successful innovation combinations while navigating the complexities that modern business has (Keeley et al., 2013). This study will review the Ten Types of Innovation Framework along with The Diffusion of Innovation Theory and The Theory of Disruptive Innovation and gain insights about the factors that influence startup business failure in the hospitality industry.

The Ten Types of Innovation Framework

The ten types of innovation theory was suggested by Keeley et al. (2013) in 1998 and it has been proven to be one of the best tools used by innovators as transformation is created in various industries. The authors conducted research on over 2000 successful innovations that have transformed the world such as Whole Foods, Starbucks, Google, Cirque du Soleil, the Ford Model-T, and many more. The framework shines light on the similar patterns that were recognized in some of the most successful companies that were founded decades before the framework was suggested. Some companies that were studied by the authors were in the hospitality industry that were notably considered innovative during their times, and are listed in Table 1. Innovation tactics can be used to utilise the ten types of framework to create winning businesses inside out. There are over 100 tactics that share the correlation between the ten innovations to achieve success. The Ten Types of Innovation is the first book that shares how to implement the innovation tactics (Keeley et al., 2013).

Table 1

Hospitality Companies and their Founding years (Keeley et al., 2013).

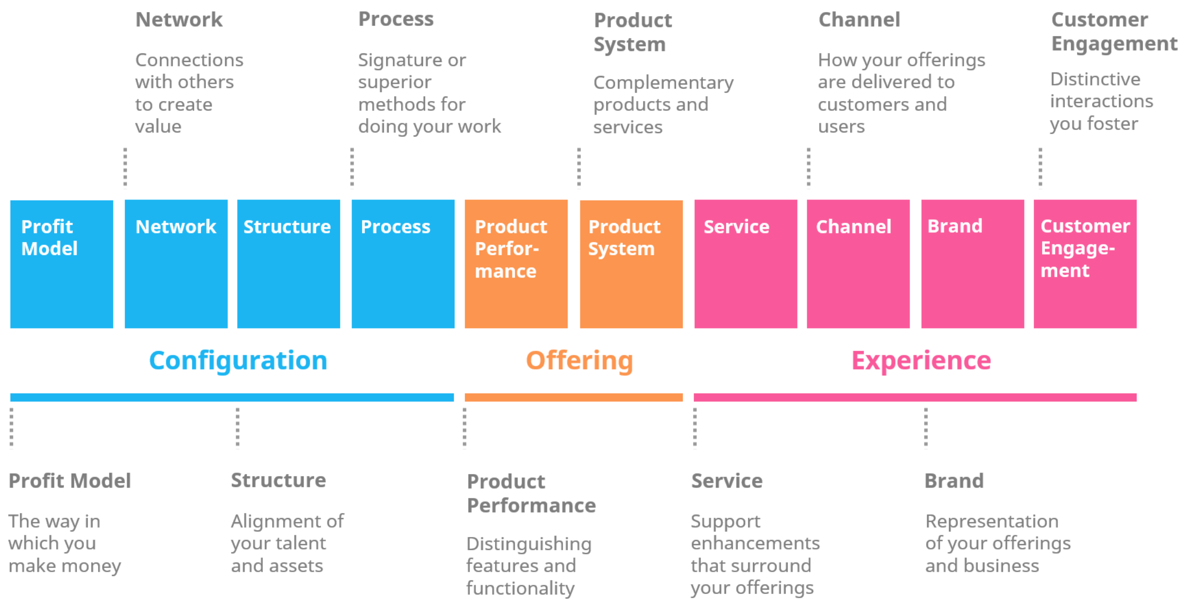
Company Name	**Year founded**
Howard Johnson	*1925*
Mcdonalds	*1955*
Blizzard Entertainment	*1991*
Nespresso	*1986*
Virgin	*1970*
M&Ms	*1941*
Southwest Airlines	*1967*

Note: This table showcases some of the hospitality companies the ten types of innovation framework is based on and their founding years. This table was created by using the data from websites of the companies listed above.

In research from Keeley et al. (2013), the authors suggested that there are ten main types of innovations (listed in Figure 1) which are categorised under three major categories; configuration, offerings, and experience.

Figure 1

The ten types of innovations framework



Note: This figure showcases the ten types of innovations and the three main categories it is divided in which are configuration, offering and experience (Keeley et al., 2013).

The Foundation: The Ten Types of Innovation

I. Configuration: These innovations are focused on the inner workings of the machine also known as the business operations and its overall workings (Keeley et al., 2013). It includes innovation types regarding how one's business makes money, the way it connects with others to create and add value, the processes of how work is done, and the overall assessment of the assets and the talents that the company has (Keeley et al., 2013). Each of the four innovation types based on configuration are explained below:

A. Profit model: Keeley et al. (2013) suggests that the profit model innovation is usually gained by companies that have a deep understanding of what users prefer and like the most and where some of the revenue opportunities might be. The theory also suggests that this innovation type usually challenges the way traditional revenue models operate. The authors point out that a constant factor that leads to profit model innovation is when it aligns with the company's overarching strategies. One of the examples that the authors share in their book is the Next Restaurant by Grant Achatz in Chicago. Grant's model of having his customers pay for their meals in advance helps him create a model where the Next Restaurant earns interest on working capital and helps him limit the risk of empty tables and no-shows (Keeley et al., 2013).

B. Network: Keeley et al. (2013) suggests network innovations are known as innovations that take advantage of the ability of other companies assets, offerings, innovations, channel, brands etc. The authors explain the example of the restaurant brand Howard Johnson and how they opened 150 locations in 1941 with the help of franchising their brand which helped them grow at extremely fast pace (Keeley et al., 2013).

C. Process: Keeley et al. (2013) suggests that process innovations are defined as the ways a business creates its primary offerings. Process innovations are usually the special sauce of the company that others cannot copy. Lean methods of production are also stated as another great example of process innovations that companies can adopt. Ikea is one of the companies that developed great process innovation by standardising their production processes and kept their packaging and instructions the same for all packaged goods regardless of the location it was being sold at. Their practices helped them innovate their processes in a way that they created a highly successful company (Keeley et al., 2013).

D. Structure: Keeley et al. (2013) suggests that structure innovations are innovations that are focused on the company's assets such as the human assets, the intangible assets and the hard assets. Some of the most popular structural innovations examples include companies such as Southwest Airlines. Southwest Airlines only used Boeing 737 which helped the company to reduce cost, streamline the operations and allowed their teams to become very efficient in executing fast turnarounds at the gates of airports. These strategies were proven to be critical in Southwest Airlines success (Keeley et al., 2013).

II. Offering: Keeley et al. (2013) suggests that these types of innovations are focused on the main offerings of the company such as a product or a service. It includes all the key essential features of the product and the products and services that are complementary to the main offering (Keeley et al., 2013). The innovation types based on offerings are explained below:

A. Product performance: Keeley et al. (2013) suggests that product performance is known to be one of the easiest innovations for a company to copy. It addresses the value, features, and the quality of a company's offerings. Some of the most commonly seen product performance innovations are customization of product, adding sustainability features, and simplification of use. One of the most popular examples of a company that used this kind of innovation in the hospitality industry is Mars and how My M&M's allowed people to customise their M&Ms by adding logos, images and messaging (Keeley et al., 2013).

B. Product system: Keeley et al. (2013) suggests that a product system is described as an innovation where multiple products are connected together or bundled in packages in a way that it helps a company create scalable systems. Lunchables is a great example of how they packaged together a meal that has meats, cheeses and dessert which was being sold individually before by Oscar Mayor (Keeley et al., 2013).

III. Experience: Keeley et al. (2013) suggests that these types of innovations include all the key areas that are customer facing in a company such as the way an offering is represented, the way the product is delivered, the way the business interacts with the business, and the way the business supports the offerings. The innovation types based on experience are explained below:

   A. Brand: Keeley et al. (2013) suggests that brand innovation is an innovation that helps the customers pick one competitor over the other. According to the authors, brand innovations are not limited to the customer-facing producer but branding brand components and making one's customers aware of its value can help a company build bargaining power and brand preference. In 1970, Virgin was founded by Richard Brandson when he first started a record shop in London which was followed by a residential recording studio the following year and so on in the history of music. The company leveraged its brand to expand in industries such as telephone, media, fitness, transportation and space (Keeley et al., 2013). Virgin is a great example of a company that leveraged brand innovation.

   B. Channel: Keeley et al. (2013) suggests that channel innovations are described as ways a company connects all its offerings with its users. The key to achieving this innovation is to get to your customer where they are at, letting them buy what they want, when they want it and how they want it. Nespresso, the coffee company with an iconic capsule technology that had fans from day one has created a great channel innovation. They have their own stores but they also partner with retail stores and coffee shops, hotel brands, airlines and much more to get to their customer segment where they are at (Keeley et al., 2013). These partnerships help them reduce cost, test markets and increase visibility at an increased pace.

C. Customer engagement: Keeley et al. (2013) suggests that customer engagement innovation is a type of innovation where a company connects with its customers after understanding the deep rooted aspirations of customers and users. Blizzard Entertainment is a fine example of such innovation. World of Warcraft is designed to challenge millions of players as it engages with the players on a deep level. They believe that their company's success is based on the success of gaming experience that they provide to their customers. World of Warcrafts enjoys billions of dollars of success and has more than 11 million subscribers (Keeley et al., 2013).

D. Service: Keeley et al. (2013) suggests that service innovation usually involves enhancements to customer facing support such as information and education that is provided to them, warranties, customer support etc. SYSCO is one of the biggest food distribution companies in North America that makes over $43 billion annually. They added value to their customers by offering them business reviews for free which helps businesses design menus and plan the logistics in their back of house. Another great example of service innovation is Zappos and their integration of adding “WOW” through service in their company core values which empowered their employees to do almost anything to ensure good customer service and experience. Amazon thought that their implementation of this innovation made them worth $1.1 billion during the time of Zappos acquisition in 2009 (Keeley et al., 2013).

Mixing and matching innovation types to create a winning business

Keeley et al. (2013) suggests companies to mix and match as many innovations as possible for higher possibility of success. McDonalds is a fine example of how multiple innovations can lead to an extremely successful business. McDonald's first restaurant was opened in April 1955 by Ray Kroc (McDonald's History, n.d.). In 1959, McDonalds opened its 100th location in Wisconsin and by 2010, there were over 33,500 restaurants of which 80% were franchises (Keeley et al., 2013). McDonalds has used profit model innovation, network innovation, structure innovation, process innovation and brand innovation to create a multi billion dollar empire.

I. Profit model innovation: Keeley et al. (2013) suggests that McDonalds has a unique profit model where they own the land and buildings of all their restaurants and charge their franchisees a monthly fee such as rent and sales percentage. McDonalds model created a sense of partnership between them, the owners and all their suppliers that helped the franchisee owners in feeling that they were a part of a bigger team and helped provide a lot of support (Keeley et al., 2013).
II. Network innovation: Keeley et al. (2013) suggests that McDonalds has taken advantage of its independent distribution network that supplies all essential items from tables to a single ketchup packet to all its franchisees. They also have a channel partnership with Coca Cola. McDonalds heavily relies on its partnerships and the assets other companies have to offer to increase the odds of their own success (Keeley et al., 2013).
III. Structure innovation: Keeley et al. (2013) suggests that McDonalds focus on their

human capital helped them with their company success tremendously. McDonalds launched Hamburger University for its operators in 1961 which has now graduated over 80,000 team members (Keeley et al., 2013). This has helped McDonalds to create a business culture that enhances human capital that directly correlates with the company's success.

IV. Process innovation: McDonalds has taken advantage of experimenting and implementing processes that prove to be successful in certain franchisees such as the egg McMuffin that was created in 1971 which represents over 15% of total company sales (Keeley et al., 2013).

V. Brand innovation: McDonalds has had a consistent family oriented branding strategy that they have built for decades by making use of characters like hamburger and Ronald along with their world famous golden arches and other unique designs that remain location specific around the world (Keeley et al., 2013).

Six principles on how to apply the innovation types

Keeley et al. (2013) further suggests that it is not only important to mix and match multiple innovations types to build a successful company but also it is crucial that companies follow the following six principles as they apply the framework effectively:

I. Keeley et al. (2013) recommends that it is crucial that the delicacy of each innovation type is understood by company leaders in order to foster growth and success.

II. The authors argue that product and technology innovation are the weakest and easiest innovations of the ten types that can be copied by competitors (Keeley et al., 2013).

III. The different types of innovation categories and types should continuously be imagined and re-imagined so companies can foster new experiences and build more assets (Keeley et al., 2013).

IV. Companies should perform a deep analysis about the types of innovations that are usually overlooked in their industry and understand which types of innovations matter most to achieve the most success (Keeley et al., 2013).

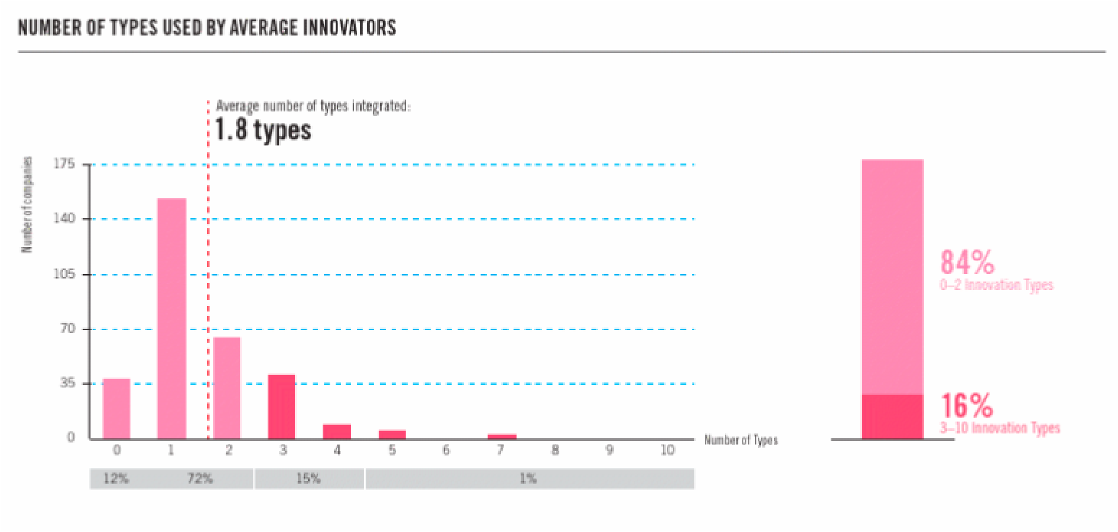
V. The authors of the ten types of innovation suggest that knowing one's customers is key as they will guide the company to look into certain types of innovations and help them discover new experiences (Keeley et al., 2013).

VI. Keeley et al. (2013) recommends that a company should use as many innovations as possible and suggests that companies which use more than five innovations most often become highly successful.

The authors performed research on companies in 2011 and classified that there are two different types of companies, average and top innovators (Keeley et al., 2013). The data from the study shows that an average innovator uses 1.8 types of innovation with a majority ending up producing simple innovations (as seen in Figure 2). On the other hand, Figure 3 shows that rapidly growing successful companies use an average of 3.6 innovation types which is twice as many as the ones used by average innovators. Furthermore, the author's study suggests that top innovators outperform the S&P 500 significantly (as seen in Figure 4) (Keeley et al., 2013). It has been proven that companies that integrate more types of innovations during its business life cycle tend to outperform and significantly grow in its industries (Keeley et al., 2013).

Figure 2

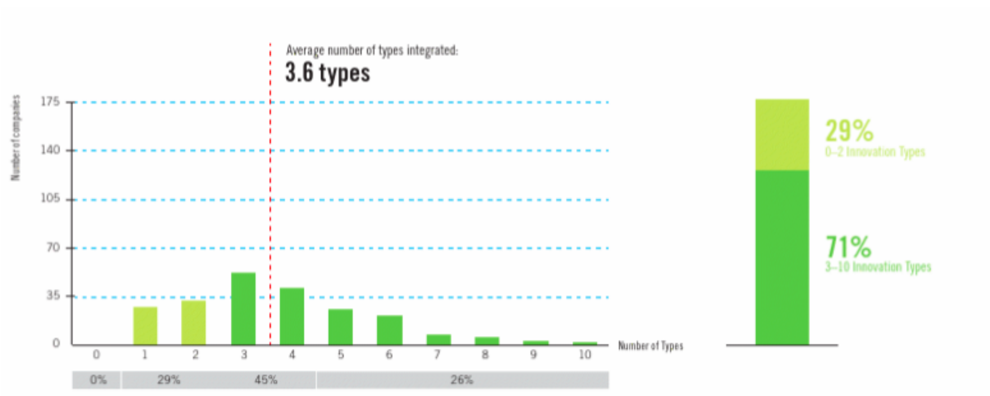
Number of innovation types used by the average innovators



Note: This figure showcases data on the number of innovation types used by an average innovator (Keeley et al., 2013).

Figure 3

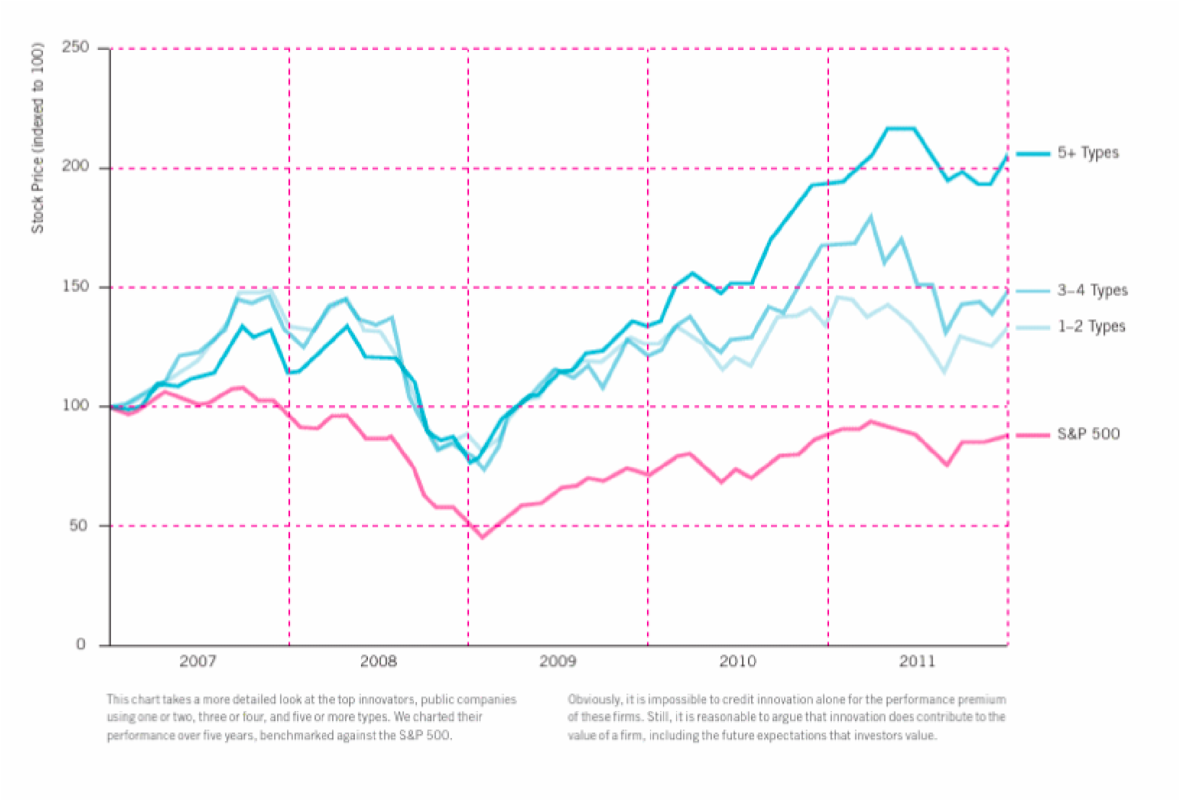
Number of innovation types used by the top innovators



Note: This figure showcases data on the number of innovation types used by a top innovator (Keeley et al., 2013).

Figure 4

Innovators performance compared to the S&P 500



Note: This figure showcases the performance (by stock price) on companies using 1-2, 2-4 or 5+ innovation types benchmarked against the S&P 500 (Keeley et al., 2013).

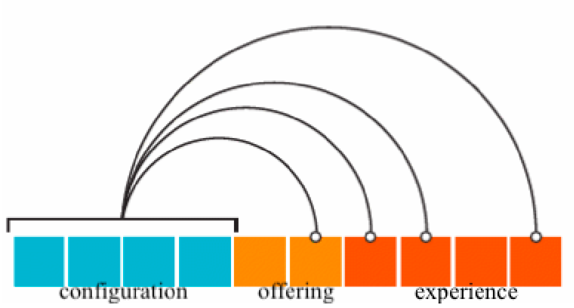
The three types of innovation shifts used by companies and the innovation tactics

Keeley et al. (2013) suggests that one can observe that each company's actions and motives are focused on one or more innovation shifts.

I. Business Model Shift: This happens when a company focuses on the innovation types in the beginning of the framework (as seen in Figure 5) such as the profit model, process, network, and structure to discover new ways they can make profit and serve their customer (Keeley et al., 2013). These companies first focus on the assets and the capabilities of the business and then move towards innovations in the offerings and the experience side of the model.

Figure 5

Business Model Shift focus on the ten types of innovation framework

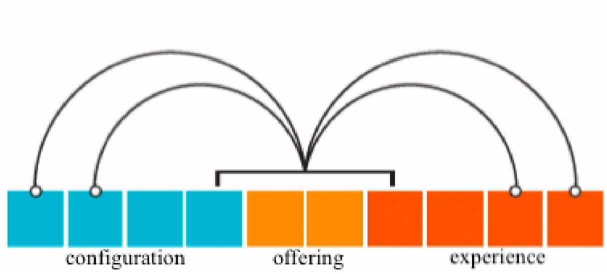


Note: this figure shows how business model shifts take place (Keeley et al., 2013).

II. Platform Shift: This happens when the company first focuses on the innovation types in the centre of the framework (as seen in Figure 6) such as product performance, system, process, and service (Keeley et al., 2013). This innovation shift type focuses in the middle of the table first and then moves towards the two ends of the framework.

Figure 6

Platform Shift focus on the ten types of innovation framework

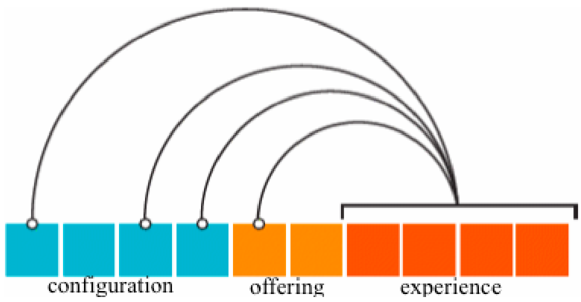


Note: this figure shows how platform shifts take place (Keeley et al., 2013).

III. Customer Experience Shift: This happens when the company first focuses on the right end of the framework (as seen in Figure 7) such as brand, customer engagement, service and channel (Keeley et al., 2013). This innovation shift type focuses on the left end of the framework first and then moves in the front of the framework (Keeley et al., 2013).

Figure 7

Customer Experience Shift focus on the ten types of innovation framework



Note: this figure shows how customer experience shifts take place (Keeley et al., 2013)

Keeley et al. (2013) have defined over 100 types of innovation tactics to date that were further written to deepen the framework. These 100 tactics are distributed and categorised separately under each type of innovation in the framework. Furthermore, the authors various innovation combinations that can be reused, revised and evolve (Keeley et al., 2013).

Innovation within organisations

According to Keeley's et al. (2013) study, teams are most often in favour of innovation until it's time to execute, which is when innovation is killed by the same teams due to the suspicions of the unknown. Keeley et al. (2013) also suggests that it is the duty of the leaders in the organisation to make innovation non-optional and make them feel like a discipline for their teams.

Keeley et al. (2013) suggests that it is crucial to inspire change in an organisation from multiple angles. They believe that innovation is not focused solely on talent but is a combination of and is heavily dependent on how employees' efforts are guided, where they are placed in the organisation, and the matrices that are created to guide them. The most highly seen mistake that was observed by the authors was that leaders in an organisation assume that simple and complex innovations had the ability to grow from the same type of operational systems within a company. The four components of innovation capabilities that help foster innovation from within organisations are approach, organisation, resources and capabilities, and matrices and incentives (Keeley et al., 2013).

I. Approach: According to Keeley's et al. (2013) study, organisations that pursue complex innovations have a non-linear approach such rewarding experiments, giving teams a freedom to explore the unknowns, etc. The authors suggest that even though these organisations have followed a non-linear path, they still follow protocols to stay effective. For example; The Mayo Clinic has a specific process that they use to test if an innovation project will come to reality. The process includes five phases that starts with identifying an idea, then follows with converting those processes to actual concepts for the clinic, then developing the product with an iterative process, and then launching them to a larger audience (Keeley et al., 2013).
II. Organisation: Keeley et al. (2013) suggests that companies need distinct structures to drive transformation. There are a variety of organisational structures and each structure has a common denominator which is that they must foster collaboration between multiple departments and its ability to interact with the units that currently exist in the business (Keeley et al., 2013).
III. Resources: Keeley et al. (2013) suggests that it is crucial for companies that drive complex innovations to have human capital that has multiple skills, competencies, training from past experiences, ability to analyse various situations and empathy

towards customers. Teams must be given enough time to understand the future vision and the needs of their customers well. They should also be guarded by the less urgent needs of present business as they can sometimes prove to be distractions away from innovative initiatives (Keeley et al., 2013).

IV. Metrics and Incentives: Keeley et al. (2013) suggests that it can be challenging to create metrics and incentives in companies that are highly innovative due to the uncertainty that something new brings. However, metrics are much needed even though they can sometimes not be as structured. It is also recommended that metrics stay interconnected for the team both monetarily and non-monetarily. Metrics that keep in account the unstructured growth and non-linear paths of an innovative business while incentivizing team members throughout the journey is crucial for success (Keeley et al., 2013).

Tools to help execute innovation effectively

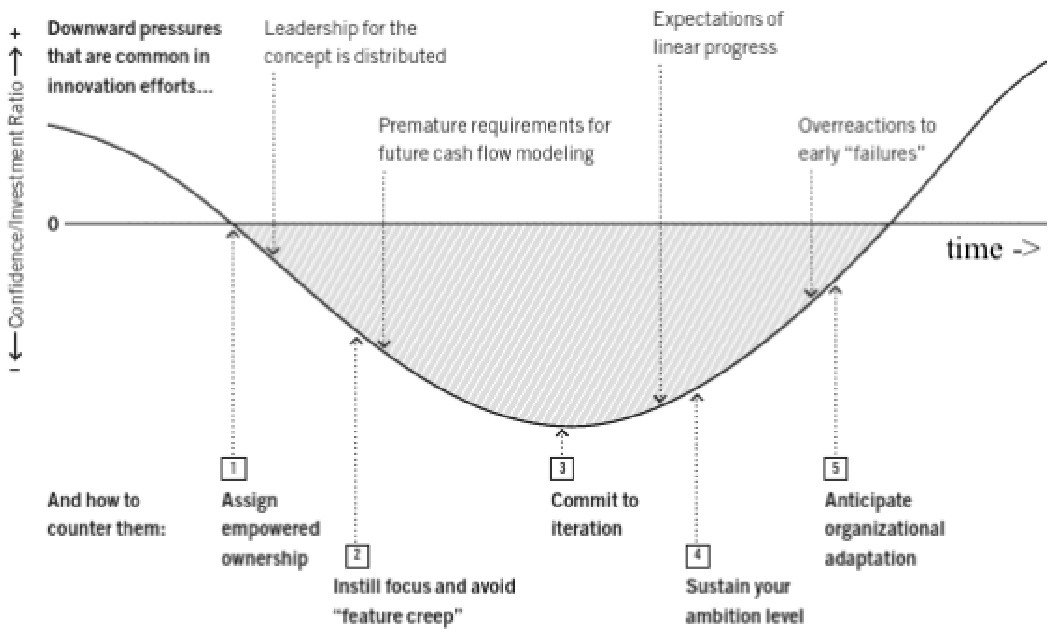
I. Pilots and prototypes: Keeley et al. (2013) suggests that leaders of an organisation should create more than just the mockups when creating prototypes. The entire business should be prototyped and tested which includes the product and the processes that surround it internally and externally. This will help the leaders test the business as a whole and help them understand how the implications to the innovation connect with different parts of the organisation. Businesses should focus on their efforts of innovation that would help them succeed because if a business first focuses on the simplest problem, it might shift the very important work to the very end of the cycle which might severely hurt the business. The leaders must decide which factors are the most important, is it the customer's behaviour, is the business model doable, or is it the product and service itself that matters the most in terms of innovation. The authors also suggest that prototyping is also very important because it helps improve the innovation being implemented in an iterative manner which is also why prototypes should be made with the lowest cost possible. Pilots that are innovation focused should not be seen and treated as market launches but should be focused in terms of geographic location and customer segment to further help derisk the development of the business. It is crucial to note that by doing small launches for the pilots may help the leaders learn that the business should not be launched all together (Keeley et al., 2013).

II. Financial models: Keeley et al. (2013) suggests that many businesses tend to add too many details too soon in an innovative business concept which ends up navigating the business in a non- viable direction that ends up hurting the business. Business models must be worked on just as iteratively as prototypes and the leaders should seek the answer to the question about what needs to come to reality for the business to make profit. The authors suggest that it is a waste of time and resources for business to focus on projections if the business is unable to ever exceed the cost of producing the product/ service (Keeley et al., 2013).

III. Exception to have while expecting innovation: Innovation brings a lot of uncertainty as leaders give birth to an idea and make it a reality (Keeley et al., 2013). Leaders can find themselves doubting different things and people around them due to time and pressure all the way (as seen in Figure 8) (Keeley et al., 2013). The authors suggest things that leaders can do to navigate through those challenges and doubts in Figure 9.

Figure 8

The valley of doubt and how to overcome it (Keeley et al., 2013).



Note: this figure shows different doubts and pressures that are faced by leaders when they pursue innovation over a period of time and how they can be countered effectively (Keeley et al., 2013).

The Theory of Disruptive Innovation Theory

Clayton Christensen coined the term Disruptive innovation in 1995 and has been proven to be one of the most powerful theories in innovation driven environments (Christensen et al., 2015). The theory of disruptive innovation explains that companies that have been serving higher end clients usually keep introducing new products for the same market and overlook the underserved market in the marketplace. This leaves opportunity for businesses that serve the underserved markets. Slowly, as time goes by these new businesses in the marketplace keep iterating and introducing products that also serve the markets that are already being served and dominate the market that is already being serviced (Christensen et al., 2015).

The initial theory of disruptive innovation suggested that disruption is usually slow, takes time and evolves into its actual state after a period of time which is a reason why it is often ignored by incumbents (Christensen et al., 2015). Netflix is a great example of a disruptive company which did not target Blockbusters core target market when they first launched which led Blockbuster to ignore Netflix as an up and coming competitor. As time went on, they evolved their product to fit the needs of the customers Blockbuster had and had a value proposition that beat Blockbusters products from all angels. This led Blockbuster to collapse and for Netflix to take over the market successfully (Christensen et al., 2015).

Later studies from Christensen et al. (2015) suggested that not all disruptive companies are successful and how some most disruption fails. Furthermore, not all successful companies are disruptive and nor should they be seen like one. If companies use the wrong set of “successful disruptive” companies as standard for their own disruptive innovation growth, it can very easily lead to the team being misled to take the wrong actions and yield the wrong results (Christensen et al., 2015).

According to further research from Christensen et al. (2015) after the initial research was done, the authors suggested that not all disruptive innovations start from the low end of the market. Along with disrupters that arise from the low-end, there are also disruptors that arise in new-markets and in markets that lack innovation altogether. New-market disruptors enter markets where customers have gone without using the product. Disruptions also take place in industries that have not seen innovation at all (Christensen et al., 2015).

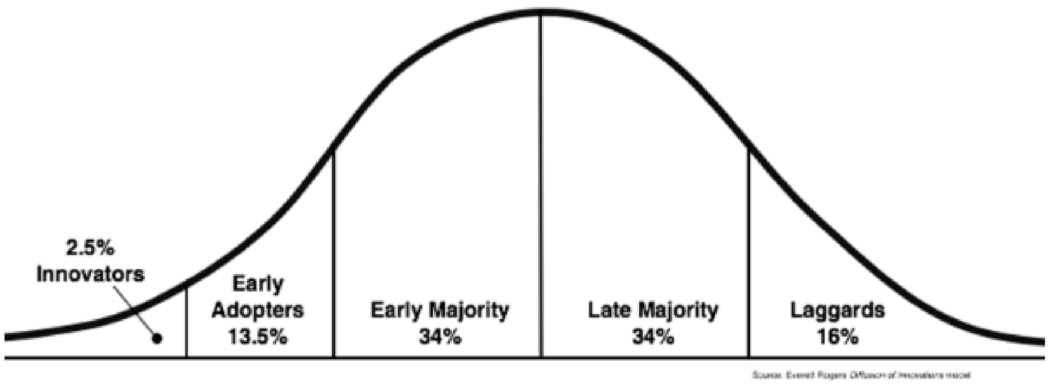
Lastly, Christensen et al. (2015) suggests that the disruption theory still has a long way to go. The current theory does not dive into innovation and business success and how the initial beliefs need to be revisited and expanded upon as well. Christensen et al. (2015) initially suggested that businesses should have a separate division that searches and experiments with disruptions models. However, that strategy sometimes does not work at all. Furthermore, there needs to be more research that needs to explore the challenges that come from being an incumbent business and a new entrant.

The Diffusion of Innovation Theory

In 1962, E.M. Rogers developed one of the oldest theories of social science called the diffusion of innovation theory (LaMorte, 2022). This theory talks about how innovation is diffused among a specific population over the period of time. Adaptation of a new innovative product/ service first takes place by people who are more comfortable using new products than others. The theory suggests that adopters for an innovative business fall into five categories over its lifetime such as innovators, early adopters, early majority, late majority, and laggards as shown in Figure 9 (LaMorte, 2022).

Figure 9

The five types of adopters (LaMorte, 2022) .



Note: this figure shows the five types of adopters when a new innovation is released in the market along with the average percentage they hold in the total market (LaMorte, 2022).

According to LaMorte (2022), innovators are the types of adopters who are the easiest to acquire when an innovative product/ service enters a market. These adopters are curious and heavily support new products in the market and have the ability to take more risks than the other kind of customers. The early adopters are the ones that believe that change is necessary and are comfortable in adapting to new products as well. Some of the ways early adopters can be appealed to are by offering them guides and manuals on how the product/ service works. This population does not need a lot of convincing as well. The early majority usually need evidence that the innovative product works before they are comfortable in becoming a customer themselves. The late majority are adopters who question change and do not adapt until most of the adopters have already used the product/ service successfully. Lastly, laggards are the most conservative and the last set of adopters that an innovative business acquires. They are the ones most sceptical of change and are the most challenging to bring onboard (LaMorte, 2022).

The Diffusion of Innovation Theory also suggests that there are factors that impact the adoption of products/service to different extents for each of the five adopters (LaMorte, 2022). Relative advantage is the extent to which a product is seen better in comparison to the one that already exists in the market. Compatibility is measured by how an innovation remains consistent with its needs, values and experiences of the adopters it serves. Complexity is measured by how complex it is to make use of and to understand an innovation. Triability is measured by how much the innovative product is tested by the adopters before. Lastly, oversvability is how much tangible results are provided by an innovation. Each of these factors are at play with each type of adapter mentioned above to a different extent (LaMorte, 2022).

Chapter 3

The first chapter of the research paper started with stating the problem which is the high failure rate in hospitality startups. Then, in chapter two, the paper brought out insights from three well known innovation theories that have been developed over the period of time which are the ten types of innovation framework, the theory of disruptive innovation, and the diffusion of innovation theory. The ten types of innovation framework is a framework that was developed after studying over 2000 successful companies that lead with innovation and became very successful (Keeley et al., 2013). The framework highlights how internal and external elements of business are interconnected and how there are obvious differences between companies that innovate successfully and become market leaders, and the ones that do not (Keeley et al., 2013). The framework also talks about how a business can innovate inside out to increase their odds of becoming highly successful (Keeley et al., 2013). The theory of disruptive innovation by Christensen Clayton describes how disruptive companies enter the market at the very bottom and how they slowly dominate the incumbents that have been existing in the market (*Disruptive Innovation*, 2012). Lastly, the diffusion of innovation theory by E.M. Rogers showcases how an innovative product gets adopted in a market over a period of time (LaMorte, 2022). The theory also talks about the different types of customers/ adopters a business should know about along with the factors that impact the decision making of each of the adopters (LaMorte, 2022).

Chapter three begins with sharing the insights that can lead to business failure in the hospitality industry. These insights have been gathered through my personal experiences, the knowledge gained at the University of Nevada, Las Vegas, and insights from the literature review laid out in this paper in chapter 2.

Findings

Below are insights from the literature review, personal experiences and knowledge gained at the university about why innovative start-ups high rates of failure in the hospitality industry:

I. Insights from the literature review

A. Lack of knowledge about optimal innovation types for the business: Keeley et al. (2013) suggests that it is key for business leaders to have a deep understanding of their business and the right innovation type that works for their business. A lack of understanding about optimal innovation types could lead to business failure very easily. Each business and its offerings are different and they should be treated as such (Keeley et al., 2013).

B. Lack of implementation of less innovation types in a business: According to the study performed by Keeley et al. (2013), the data revealed that companies that have less than 2 innovation types grow less rapidly and have extremely low success rates. The companies that implement less innovation types are likely to fail and have very little chances for long term success (Keeley et al., 2013).

C. Narrow focus on product and technology based innovation types: Keeley et al. (2013) suggests that product and technology based innovations types are the ones that can be copied very easily by competition. Solely relying on product performance and technology innovations can put a company's success in jeopardy (Keeley et al., 2013).

D. Lack of focus on customers: Keeley et al. (2013) suggests that customers guide and play a huge role in helping a company determine where innovation needs to be implemented. Lack of focus on customers would not only lead to a company creating offerings that are not needed at all in the market and lead them to fail faster (Keeley et al., 2013).
E. Lack of understanding about competition: Keeley et al. (2013) suggests it is crucial for organisation leaders to have an in-depth understanding about the industry they are in and the competition that they are competing against. Companies that do not perform competitive analysis and just implement any kind of innovation have a higher possibility of failing as they go to market (Keeley et al., 2013).
F. Lack of right approach and collaboration in organisations: Keeley et al. (2013) suggests that a lack of having the right approach in an organisation that is innovating can lead to business failure. Furthermore, the authors suggest that organisations that are not able to collaborate among different business units fail faster as well (Keeley et al., 2013).
G. Lack of high quality human resources in organisation: Keeley et al. (2013) suggests that it is crucial for a startup business to have human capital that is not only equipped with the right skills but is also well experienced. Highly innovative companies require a different kind of human resources as compared to less innovative companies (Keeley et al., 2013).
H. Lack of prototyping: Keeley et al. (2013) suggests that businesses that do not use a prototyping approach not only end up expending a lot of

financial resources but also are't able to iterate as often as the ones that do. A lack of a lean and iterative development process can lead to business failure faster than the companies that use that method (Keeley et al., 2013).

I. Lack of prototyping in all aspects of business: Keeley et al. (2013) suggests that a business that focuses on only product prototyping as compared to prototyping the entire business is likely to innovate ineffectively and increase their odds of failure.

J. Lack of right mindset and support from within the organisation: Keeley et al. (2013) suggests that leaders that are building innovative organisations go through periods of doubts. Hence, lack of processes that help counter those roadblocks and a toxic organisational culture can lead to business failure (Keeley et al., 2013).

K. Benchmarking the wrong company as standard to succeed and create disruptive innovation: Christensen et al. (2015) suggests that companies have various ways to reach success and disruptive innovation is one of them. Often leaders assume that all successful companies are disruptively innovative and choose the wrong benchmarks that lead them to the wrong path (Christensen et al., 2015).

L. Lack of target market targeting strategies: The diffusion of innovation theory suggests that it is crucial to target the right set of adopters for the right stage the company is in (LaMorte, 2022). Hence, lack of understanding about the target audience and the factors that impact the target audience's decision making can hinder a company's success (LaMorte, 2022).

M. Difficult to understand and adapt product/ service: The creator of the diffusion of innovation theory suggests that one of the key factors that impact the decision making of the consumer of the product is its complexity (LaMorte, 2022). A complex product drives customers away and can lead to the downfall of a business (LaMorte, 2022).

II. Insights from personal experiences and knowledge:

A. Lack of appropriate marketing strategies: Companies must use marketing strategies that align with their products and customers and communicate the appropriate messaging to attract the right target market (Bai, 2021). It is crucial to have an in-depth understanding of one's customer to succeed in business and a lack of marketing plan and correct execution can lead to business failure (Bai, 2021).

B. Lack of competitive and SWOT analysis: Knowing and studying a company's competitors along with doing a SWOT analysis is key to building the right business strategies (Moody, 2020). A lack of competitors and SWOT analysis can leave a business blind sighted and cause damage to their long term success (Moody, 2020)

C. Lack of a business plan and vision: Every successful innovative business needs to have strong and expansive business vision and needs to think outside the box to solve problems (Rippee, 2021). Businesses should focus on solving problems by knowing the problem inside out (Rippee, 2021). A lack of understanding about the problem a company is wanting to solve and an inability to stay focused on a specific problem can hinder the success and sustainability of a business (Rippee, 2021).

D. Lack of support system: As an entrepreneur myself, I believe that having the right support system such as advisors, mentors and strategic partners can too lead to business failure. It is crucial for a leader and innovator to surround her/himself with the like-minded people who can support them in the highs and the lows.
E. Poor investor alignment: Lack of alignment in terms of goals between investors and founders is another big factor that can lead to startup failure. Investors in a company can be like partners that are gained through a marriage in business and bringing in the wrong investors can bring a business to failure very quickly.
F. Lack of work life balance: From first hand experience, partaking in self care is as important as running a business. It is crucial that founders and leaders in a startup take care of their mental and physical health in order to be able to produce results and be effective.

Implications and Conclusions

This paper provides insights to leaders and entrepreneurs about the factors that can cause startup failure in the hospitality industry. The research questions posed questions on if startup failure was solely due to lack of a well crafted business business model or lack of innovation or lack of strong internal organisational culture. The key findings concluded the following:

I. Business models and financial projections often evolve in early stage innovative companies (Keeley et al., 2013). Hence, perfection is not key.
II. Not all successful companies use the path of disruptive innovation (Christensen et al., 2015).

III. Innovative companies that use 4-5 types of innovation far exceed the s&p 500 as compared to the ones that use less than 2 types of innovations (Keeley et al., 2013

IV. Internal organisational culture directly correlates to startup success (Keeley et al., 2013

Innovative businesses across industries have commonalities and differences. Hence, there is still not a one size fits all model that can be used to achieve winning success stories every single time. There are clues and learnings from industry leaders that can be used to test strategies to gain insight on what works and what does not for one specific business model. These insights about factors that influence business failure can be used by entrepreneurs in the hospitality industry as a guiding pathway in their journey. They can also be implemented in classrooms where students get introduced to the topic of innovation and entrepreneurship in hospitality. Not only that, these insights can be very useful for new entrepreneurs that are housed in incubators and accelerators as they can help them navigate their path as they work on building their companies in real life.

In conclusion, innovative startups in the hospitality industry are complex inside out and they should be treated as such. There is not one framework or theory that can be followed to gain success or understand all factors that may impact failure. Business failure can be caused due to numerous reasons but early signs of failure can be identified by leaders so failure can be avoided and learnings can be learnt as successful companies are built.

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