

START-UPS – AN ELEMENT FOR ECONOMIC GROWTH AND INNOVATIVENESS

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Abstract. *The theme of this paper is „Start-ups – an Element for Economic Growth and Innovativeness”. Start-ups are innovation of entrepreneurship and a lot of press, scientific literature have articles on this term. In the paper, the author reviews available definitions for the concept of „start-up” in the literature. The aim of the research is the identification of main aspects of term „start-up” and determination, analysis of the term in accordance with the requirements of the modern entrepreneurship and its development trends. Tasks of the paper: to find out the term meaning and main aspects of the term „start-up”; to analyze the „start-up” impact on entrepreneurship; to develop conclusions and suggestions. The key results: the author concludes that the start-up is a company designed to scale very quickly, the main aspect of start-up is its ability to grow, focused on solving a problem, where the solution is not obvious and success is not guaranteed. In articles and papers on start-ups each author suggests an interpretation of the concept according to his/her view. The author suggests the start-up companies to create presentations, organize seminars at the regional level, to introduce the public, stakeholders with the main issues in daily work, in order to help new founders to develop the companies.*

Keywords: *business, company, entrepreneurship, innovation, start-up.*

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Introduction

During the past few years, the concept of “start-ups” is mentioned around very often in public; the press and scientific journals describe fast growing companies. The author of the paper is trying to examine the real meaning and main aspects of this concept. The research period is 2011-2018. Research methods: monographic (descriptive) method and empirical method – interview.

The main problem is that the press and the scientific journals does not describe clearly the “start-up” concept. Hypothesis of the research: in literature, each author suggests an interpretation of the concept according to his/her own view.

The aim of the paper is the identification of the main aspects of the term “start-up” and the determination, analysis of the term in accordance with the requirements of modern entrepreneurship and its development trends.

Tasks of the article:

1. To find out the meaning and main aspects of the term “start-up”;
2. To analyze the “start-up” impact on entrepreneurship;
3. To develop conclusions and suggestion.

“Start-ups” and entrepreneurship

Entrepreneurship in the form of starting up new ventures today is regarded as an imperative element for the economic growth and innovativeness of the regions and nations. The policy considers the entrepreneurial ventures as tools to create new jobs and maintain competitiveness. Start-ups are also attributed with the key roles in commercializing new ideas emerging from the academic research and in exploiting knowledge spillovers from the industry. Entrepreneurship has spurred an increasing number of the studies focusing on different aspects of how the new ventures, or start-ups, emerge and develop over time. Broadly speaking, the literature has focused either on the attributes of the entrepreneur or on the context within which entrepreneurship unfolds. Starting up a new business venture and navigating in this context, among the many opportunities and obstacles emerging along the way, is challenging. Stressing the importance of contextualizing entrepreneurship, this special issue deals with the role of networks in the initiation and further development of start-ups. Such networks provide ideas, knowledge and material resources as well as customers, suppliers, collaboration partners and competitors, and they constitute both opportunities and obstacles for any start-up. In fact, no firm exists in a void, but needs a number of relationships to initiate, develop and sustain its business; therefore, a start-up is not born in a vacuum, but it arises from a specific context of social, economic and technical connections. Similarly, a start-up cannot develop in a vacuum, but it has to establish and use some network connections in order to develop and grow (Baraldi et al., 2018). Starting up and developing start-up companies, it is important to build networks with customers, suppliers and partners.

The term “start-up” has been bandied around with increasing frequency over the past few years to describe scrappy young ventures, hip San Francisco apps and huge tech companies. However, what is a start-up, really? “A start-up is a company working to solve a problem where the solution is not obvious and success is not guaranteed,” says Neil Blumenthal, a co-founder and a co-CEO of Warby Parker.

“Start-up is a state of mind,” says Adora Cheung, co-founder and the CEO of Homejoy, one of the Hottest U.S. Startups of 2013. “It’s when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact.” (Robehmed, 2013).

According to the Merriam-Webster, start-up means “the act or an instance of setting in operation or motion” or “a fledgling business enterprise.” The American Heritage Dictionary suggests it is “a business or

undertaking that has recently begun operation.” Therein lies the truth – to be a start-up, you must have set up a shop recently (Robehmed, 2013).

One thing we can all agree on: the key attribute of a start-up is its ability to grow. As Graham explains, a start-up is a company designed to scale very quickly. It is this focus on growth unconstrained by geography that differentiates start-ups from small businesses. A restaurant in one town is not a start-up, nor is a franchise a start-up.

To be a start-up is to claim a freshness that suggests a finger on the pulse of the future. The label may even help companies to cash in on a “cool” factor when hiring, allowing them to snap up qualified staff on the cheap who are attracted by the promise of innovation and a ping-pong table (Robehmed, 2013). A start-up is a company focused on solving a problem. The main aspect of a start-up is the ability to grow.

Start-ups have no clear hierarchies or paths to advancement. Moreover, one can accrue numerous personal and professional rewards working for these young organizations. In nearly every interview I have conducted with start-up joiners, they have emphasized how much they value the autonomy, creativity, and growth they experience in their jobs – all elements critical to fulfillment.

Start-ups represent giant experiments. Every initiative is new. One hypothesis after another is being tested. Titles, functional boundaries, roles, and responsibilities are often fluid. The team works as one, inventing, creating and moving toward shifting goals – all while working without a playbook. Given this organizational dynamism, which continues even through the later stages, anyone working for a start-up has to be comfortable with large doses of ambiguity and uncertainty.

What skills should a founder of the start-up prioritize? The researchers have surveyed 141 Harvard Business School alumni who founded companies, mostly venture capital-backed tech start-ups. They also have questioned 20 non-MBA founders. Both groups have said that the aspiring founders should aim to become jack-of-all-trades managers, with emphasis on putting together and leading a team and identifying and responding to the customer needs. They have listed specialized skills, including finance and engineering, as lower priorities (Harvard Business review, 2017). Creating start-up companies requires good managers who are creative, with growth opportunities. Start-up managers need to be able to manage, and unite team members.

Specialized skills that the founders of start-ups should have are the following: leadership, management, selling, marketing, finance, engineering, etc.

In the long run, the success of start-ups will depend more on the “networking activities of the whole organization than that of an individual

entrepreneur”. First, the start-ups engage with the wider body of small investors – the so-called “crowd” – interacting with the firms in a varied manner to assess the firm's investment potential. Second, this process also opens up business network connections to the professional investors. Business angels often become alerted to the investment opportunities in these firms without any prior knowledge or relationships.

While the crowdfunding networks help the start-ups to access funding, equally they stimulate and provide a conduit for the wider boundary spanning interactions with a multiplicity of ties.

This study's findings also have important managerial implications. Given the funding difficulties facing start-ups, many entrepreneurs will have to become much more adept at leveraging these new forms of entrepreneurial finance. Utilizing crowdfunding is significantly different from traditional forms of the transactional debt finance. Entrepreneurs have to be much more outwardly focused and connected to a range of other network actors when trying to obtain this form of relational finance. In this environment, relational competency is now an important component of the financial literacy of these start-ups. The onus is also on the managers to maximize the benefits from engaging with a wider array of the existing and new network actors, so that these firms experience the relational spillovers outlined above. Utilizing the pro-social behaviors of other entrepreneurs who have successfully gone through this process would seem an obvious way for capturing these kinds of learning experience (Brown et al., 2018).

A typical small business start-up is a new business venture; in temporary, small or unusual premises; nearly always financed from within, plus bank borrowings and with little or no long-term borrowing. Usually small in terms of employment, often with only family members involved.

Table 1 An analysis of a start-up business (*Bridge et al., 2003*)

Aspect of the business	Description
Key issues	Obtaining customers, Economic production
Top management role	Direct supervision
Organizational structure	Unstructured
Product and market research	None
Systems and controls	Simple book-keeping, Eyeball contact
Major sources of finance	Owner’s savings, owner’s friends and relatives Suppliers and leasing
Cash generation	Negative
Major investments	Premises, plant and equipment
Product/market	Single line, limited channels and market

In Table 1, an analysis of a start-up business is presented. The reasons for starting the business may vary, but the main values driving the firm will be those of the founders. The basic skills of the founder will also determine the functional emphasis and management will be by direct supervision. The main efforts will hinge around developing a commercially acceptable product or service and establishing a niche for it in the marketplace.

The result will normally be one working unit, operating in a single market with limited channels of distribution. Sources of funds will be haphazard, and will place heavy demands on the founder, his/her partners, friends, and relatives. With the high level of uncertainty the level of forward planning is low (Bridge et al., 2003). Analyzing Table 1, the author concludes that the aspects of a start-up business are simple, limited, and unstructured.

Lean start-up

One approach to the challenge of launching a business with limited resources (within your affordable loss) that has been popularized by Ries is called “lean start-up”. Ries has coined the phrase for the new ventures that minimize the lead time as well as their investment in a new product/service launch. The idea is that the product/service is not launched in a, “perfect state” but rather in its “minimum viable” state, then is refined using customer feedback in an iterative fashion to further tailor the product/service to the specific needs of customers – a process he calls “validated learning”. In this way, valuable time and money are not invested in designing the features or the services that customers do not value. This approach should give the start-up first-mover advantage and minimize costs while, importantly, reducing market risks when the product/service finally reaches the wider market. The key to the approach is close customer relationships and developing mechanisms to receive their feedback.

The lean start-up idea was originally developed for high-tech business, based upon the way companies like Google develop new products, but has gained popularity generally. It reflects the “parallel” new product development model – where product development and concept/market testing go side-by-side and embraces elements of the “lean manufacturing” philosophy. The approach mirrors the entrepreneur’s incremental approach to decision-making – gaining knowledge as they proceed – and the way they limit their financial exposure as much as possible (Burns, 2016). The product/service with minimal viability need to be refined to match customer needs and common market requirements.

The lean start-up provides a scientific approach to creating and managing startups and get a desired product to the customers' hands faster. The lean start-up method teaches how to drive a start-up – how to steer,

when to turn, when to persevere – and to grow a business with maximum acceleration. It is a principled approach to the new product development (Ries, 2011). A scientific approach to setting up and managing the start-up companies is required in every new business to develop business perspectives.

Start-up in Latvia context

In Latvia, the meaning of start-up companies is defined and determined by the Latvian Start-up Association and the Law On Aid for the Activities of Start-up Companies.

Latvian Startup association (NGO) Startin.LV was created in 2016 to unite Latvian startup community around common values and provide joint opinion with the aim to develop better startup ecosystem in Latvia. Latvian start-up association “Startin.LV”: “We unite Latvian start-ups and start-up community around common values in order to represent joint interests, speak in one voice and educate society about start-ups in Latvia”.

Startin.LV is a platform that enables startups to initiate ideas, to be heard, to receive support in fulfilling their needs and solving problems. At the moment, the association has 89 active members (Startin.LV, 2018).

The Law On Aid for the Activities of Start-up Companies defines that the start-up company is a capital company with a high growth potential the basic activity of which is related to the development, production or improvement of scalable business models and innovative products. The purpose of the Law is to promote establishment of the start-up companies in Latvia, thus promoting research as well as to use of innovative ideas, products, or processes in the economic activity (commercialization of research products) (Jaunuzņēmumu darbības atbalsta likums, 2015).

This Law provides the aid programs, eligibility criteria, as well as the procedure for the administration of the aid granted to a start-up company; the venture capital investor qualification conditions; the procedure for establishment and competence of the commission for start-up company activity assessment.

The Law includes the aid programs – a set of state aid measures promoting development and research of innovative products and implemented as:

- fixed payment aid program, personal income tax, and enterprise income tax relief applied in accordance with the procedure prescribed by the Law;
- aid program for attracting highly qualified employees (Adopted Law on Aid..., 2017).

The author has interviewed two start-up companies – “Froont” and “TechHub Riga” with the purpose to examine main aspects of the advantages and disadvantages of “start-up” company.

In 2013, Roll and his team have launched Froont as an online editor that allows anyone to create WYSIWYG-responsive web designs in the browser. With Froont, making a website that works on your desktop, phone, and tablet requires no coding – instead, every aspect of the design is done visually. You can drag and drop headers and images, add or remove columns with a click, change type simply and quickly.

The service was born out of a longstanding frustration. “As a designer, I always felt a little crippled when doing stuff for the web,” says Ruluk. “Because I can’t code, I’m always locked in this static environment, which is not how you see things.” It’s referring to the typical workflow, which requires designers to mock their ideas in Photoshop and then hand it over to developers who try to replicate the visuals in the code. Unless you’re adept at both coding and designing, some things are lost in translation. “A lot of time is wasted talking about what it should look like,” he says (Stinson, 2014).

The author of the paper has interviewed the employee of Froont Company. The author has asked about main aspects of the start-up company and the team member Kārlis has answered: “The company has not caused any difficulty in creating a website. The idea was to simplify the process in such a way that it would be possible for a person to complete one without additional special knowledge. There are also disadvantages in our own way, as we are a small team that facilitates collusion, but also complicates expansion/development, since there is no resource to go ahead with high rates”.

TechHub Riga team member Pauls about the company has commented: “TechHub Riga is a collaborative place for the startups which are technology-related companies. Taking this into account, we have created an environment where our members will always be able to turn to an adjoining person for the technical issues, or business-related issues. We try to unite our members on a daily basis so that they are not just their current job, but a place where they are happy to spend and spend free time with each other voluntarily. In this way, they are given a network of people who work in the same field and who can become an integral part of their professional life. TechHub Riga was established in 2012 and is one of the first joint sites in Latvia. We also regularly organize various types and scale of events that are both publicly available and designed specifically for our members. Among these events is our TechHub monthly meeting, which takes place monthly and invites startup ecosystem experts. This event is publicly available and created with the idea of promoting the development of a startup environment and

educating the public about it. TechHub as such does not originate in the company of Latvia, but is part of a global network. TechHub has its headquarters in London. In addition, TechHub's offices are also in New York, Bucharest, Bengaluru and Swansea. Our members have the opportunity, if they are located in one of these cities, to run the TechHub for free for a certain period of time. TechHub Riga was founded by seeing the potential for this area and realizing that this type of opportunity was not offered in Latvia at that time”.

Conclusions and suggestions

1. In articles and papers on the start-ups, each author suggests an interpretation of the concept according to his/her view – hypothesis is confirmed.
2. A start-up is a company designed to scale very quickly, the main aspect of the start-up is its ability to grow, focused on solving a problem, where the solution is not obvious and success is not guaranteed.
3. A start-up arises from a specific context of social, economic and technical connections.
4. Starting up and developing start-up companies, it is important to build networks with customers, suppliers, and partners.
5. A scientific approach to setting up and managing start-up companies is required in every new business to develop business perspectives.
6. A start-up means “the act or an instance of setting in operation or motion” or “a fledgling business enterprise”.
7. Start-ups are attributed the key roles in commercializing new ideas emerging from the academic research and in exploiting knowledge spillovers from industry.
8. The basic skills of the founder will also determine the functional emphasis and management will be by direct supervision. Specialized skills what founders of start-ups should have are – leadership, management, selling, marketing, finance, engineering, etc.
9. A typical small business start-up is a new business venture; in temporary, small or unusual premises; nearly always financed from within, plus bank borrowings and with little or no long-term borrowing, small in terms of employment, often with only family members involved.
10. The key to the approach of a lean start-up is close customer relationships and developing mechanisms to receive their feedback.
11. Start-up companies should create presentations; organize seminars at the regional level, to introduce the public, stakeholders with the main issues in daily work, in order to help the new founders to develop companies.

12. The founders of the start-up companies should become managers, who place emphasis on putting together and leading a team and identifying customer needs and satisfaction of these needs.

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