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START-UP AS AN INNOVATIVE ECONOMIC ENTITY

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Summary. The basic condition for the survival and development of the company under variable and competitive environment is the need for broad, specialized knowledge and a wide range of skills and resources. The ever-changing environment requires another focus on the mechanisms that create a competitive advantage. The rapid changes, the increasing complexity of the environment and, above all, the lack of adequate potentials, can limit young, ambitious «novice entrepreneurs». So they are looking for their own way of business development, where the lack of capital that they could allocate for investment and innovation in the market industry niche is of their greatest concern. Startups are an ideal form of entrepreneurship stimulation, and the biggest advantages are certainly low costs. Business is created primarily for the customer, and traders often forget about this. These exactly unique values that the company can offer to the consumer are the most important ones. Startups allow, on the principle of experimenting and real consumer market research to define the final product according to the requirements and expectations of the prospective recipient.

Startup is a temporary enterprise that is at the beginning of its life cycle. Startups are established in order to identify the most optimal, scaled business model where the company's market share is relatively stable. The aim of such organization is to discover new markets for the development of its product and to achieve rapid financial success, herein not allocating its own resources for this entrepreneurship model.

Startups are entrepreneurial, innovative and the most important competitive forms of business operation as well as new management models or the known product manufacturing technologies. The great interest of young people and entrepreneurs in these business ventures results from the adopted assumptions of startups: minimizing the venture and risk costs and involving the investor resources supporting newly-formed enterprise. This new, innovative method of business operation is the alternative to the traditional business models.

The objective of the article is to present this innovative form of business operation by modern enterprises. The article is beneficial to all concern with economy and practice. We would greatly appreciate your comments.

Key words: start up, entrepreneurship, competitiveness, stability, cooperation, business.

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СТАРТАП ЯК ІННОВАЦІЙНА ЕКОНОМІЧНА ДІЯЛЬНІСТЬ

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Резюме. Основна умова виживання та розвитку компанії в умовах мінливого та конкурентного середовища – потреба у широких, спеціалізованих знаннях та широкому спектрі навичок і ресурсів. Постійно мінливе середовище викликає інший погляд на механізми, що створюють конкурентну перевагу. Швидкі темпи змін, зростаюча складність навколошнього середовища і, перш за все, відсутність адекватного потенціалу можуть обмежити молодих, амбітних «підприємців-початківців». Тому вони

шукають свій шлях розвитку бізнесу, де їх найбільша стурбованість – це брак капіталу, який вони могли б виділити для інвестицій та інновацій у галузі ринкової ніші. Стартапи – це ідеальна форма стимулювання підприємництва, а найбільшими перевагами, безумовно, є низькі витрати. Бізнес створений, насамперед, для клієнта, а торговці часто про це забирають. Саме унікальні цінності, які компанія може запропонувати споживачеві, є найважливішими. Стартапи дозволяють за принципом експерименту й дослідження ринку реального споживача уточнити кінцевий продукт відповідно до вимог та очікувань потенційного отримувача.

Стартап – це тимчасове підприємство, яке знаходитьться на початку свого життєвого циклу. Стартапи створені для визначення найоптимальнішої, масштабованої бізнес-моделі, в якій частка ринку компанії є відносно стабільною. Мета такої організації – відкриття нових ринків розвитку свого продукту й досягнення швидкого фінансового успіху, не виділяючи при цьому власні ресурси на цю модель підприємництва.

Стартапи – це підприємницькі, інноваційні та найважливіші конкурентоспроможні форми ведення бізнесу, а також нові моделі управління або технології виготовлення відомого продукту. Великий інтерес, переважно молодих підприємців до цих підприємницьких структур, випливає з прийнятих припущень про стартапи: мінімізація витрат на підприємство, ризик та залучення ресурсів інвесторів, які підтримують новостворене підприємство. Це новий, інноваційний спосіб ведення бізнесу, альтернатива традиційним бізнес-моделям.

Ключові слова: стартап, підприємництво, конкурентоспроможність, стабільність, кооперація, бізнес.

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Introduction. Enterprises operating on the market must constantly look for ways, methods and management concepts that would enable them to survive and develop, achieve successes and also to ensure an increase in the efficiency of their business. Each business activity is characterized by a high level of uncertainty and risk. The invested potential, both domestic and foreign, does not guarantee success as it is difficult to predict market expectations and needs, and, in addition, it is necessary to compete constantly to achieve a competitive advantage and gain a high market position.

Startups are entrepreneurial, innovative and competitive forms of doing business, new business models or manufacturing technologies for a known product. An entrepreneur's main goal is to implement ideas and obtain funds for developing a project, creating a business structure as well as starting operational and gainful activities. Startups are supported by state entities as they create new work places and stimulate entrepreneurship of young, talented people just starting their «adventure» with business. They possess necessary knowledge, experience or know-how and are a driving force of new economic ideas. However, they do not have sufficient funds to finance their ideas, therefore they need support and encouragement from business, local government and social entities, especially in the first stage of an organization and functioning of a new business idea until they become competitive. The main features of startups are:

- low entry costs – starting a business requires creativity;
- high venture risk as it is based on an innovative business model;
- potentially high return on investment.

The purpose of the article is to indicate that startups are an entrepreneurial, innovative and most importantly competitive form of doing business. The article presents the basics of Polish startups and their main sources of funding.

Development of startups as an innovative form of entrepreneurship.

No enterprise is able to operate without capital. In business aspect, there are usually two types of capital: financial and human. Financial capital is obvious: in order to develop business and offer new products, it is necessary to invest in new technologies and solutions. It might seem that the greater a financial investment, the easier and faster it becomes to achieve success. Financial capital is indispensable to conduct investments and make expenditures on projects that are expected to generate profits in the future. Nevertheless, human capital, skills,

knowledge, passion as well as a belief that it is possible to beat competition and succeed on the market are equally important.

Human capital of a company is built on its employees' competences (know-how, skills, their experience), learning abilities, entrepreneurship and attitudes (motivation to work, honesty)¹. It is recognized that currently the economy is primarily based on knowledge, more precisely: on the knowledge of employees². Unfortunately, many Polish companies still underestimate the opportunities offered by managing employee development. Unless the role of employees and their real impact on an enterprise development are appreciated, most Polish companies will remain uncompetitive for western companies.

Entrepreneurship is a basis and a condition of innovative development of the economy, an increase of society's wealth and thus of improving the quality of life. It ensures revenues growth as well as an increase and improvement of the supply of goods and services or an increase in potential and competitiveness of the national economy on international markets. Entrepreneurship is also an opportunity to make use of resources that are currently beyond an entrepreneur's control³. This statement explains well the assumptions underlying startup operations.

Entrepreneurship is associated with the concepts of competition and competitive advantage. It is crucial for the functioning of each organization to create a development strategy that will lead to a permanent advantage over market competitors; this advantage is defined by intangible assets resulting from the skills possessed by employees: knowledge, know-how, experience or abilities⁴.

Nowadays there is a significant increase in the aspect of innovation in enterprise planning. The need for innovation is primarily due to growth in⁵:

- wealth of society, an increase in the amount of available free time and thus an increase in the demand for leisure services;
- the need for so-called complementary services (e.g. transport);
- work efficiency due to technological progress;
- enterprise specialization.

Innovation is directly related to knowledge, i.e. company's human capital that is necessary to create startups. Innovation can be divided into four categories:

- functional, which meets previously unknown social needs;
- subject, related to exchange of equipment into the one that better meets the tasks to which it is dedicated;
- process, concerning new production methodologies, streamlining and optimizing production, they also include methods that improve the condition of natural environment;
- organizational, which improve organization and production as well as work safety⁶.

¹A. Szymańska-Wieczorek, Koncepcja kapitału ludzkiego w teorii ekonomii – przegląd wybranych pojęć, Studia i prace Wydziału Nauk Społecznych i zarządzania nr 17. (The concept of human capital in economic theory – a review of selected concepts, Studies and works of the Faculty of Social Sciences and Management No. 17).

²J. Bogdanienko, M. Kuzel, I. Sobczak, Uwarunkowania budowania konkurencyjności przedsiębiorstw w otoczeniu globalnym, WAM, Toruń 2007, pp.11–20. (Conditions for building competitiveness of enterprises in the global environment).

³A. Kałowski, J. Wysocki, Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny, (Start-up and success conditions. Theoretical and practical dimension) Publishing House, Warsaw School of Economics, Warsaw 2017, p. 18.

⁴M. Szymura-Tyc, Zasoby oparte na wiedzy w procesie budowy przewagi konkurencyjnej przedsiębiorstw (Knowledge-based resources in the process of building competitive advantage of enterprises) Organisation Review, No. 3 Warsaw 2002, pp. 7–10).

⁵S. Pangsy – Kania, Rola innowacji w sektorze usług, (The role of innovation in the services sector) Polish Agency for Enterprise Development, Warsaw 2012, p. 25.

⁶S. Pangsy – Kania, Rola innowacji w sektorze usług, (The role of innovation in the services sector) Polish Agency for Enterprise Development, Warsaw 2012, p. 29.

Startups can be divided by various criteria, among others by the purpose which an entrepreneur intends to achieve, that is⁷:

- finding an investor;
- creating a workplace for an entrepreneur (self-employment);
- developing an idea and selling the investment.

The typology of startups by the purpose of their establishment is presented in Figure 1.

Regardless of a chosen aim, the goal of an entrepreneur who decides to run a startup is to maximize future benefits. As it has already been indicated, contrary to popular belief, startups do not have to offer a new product. Entrepreneurs can also offer «old» products in a new version, in a new business model, or for a new group of customers.

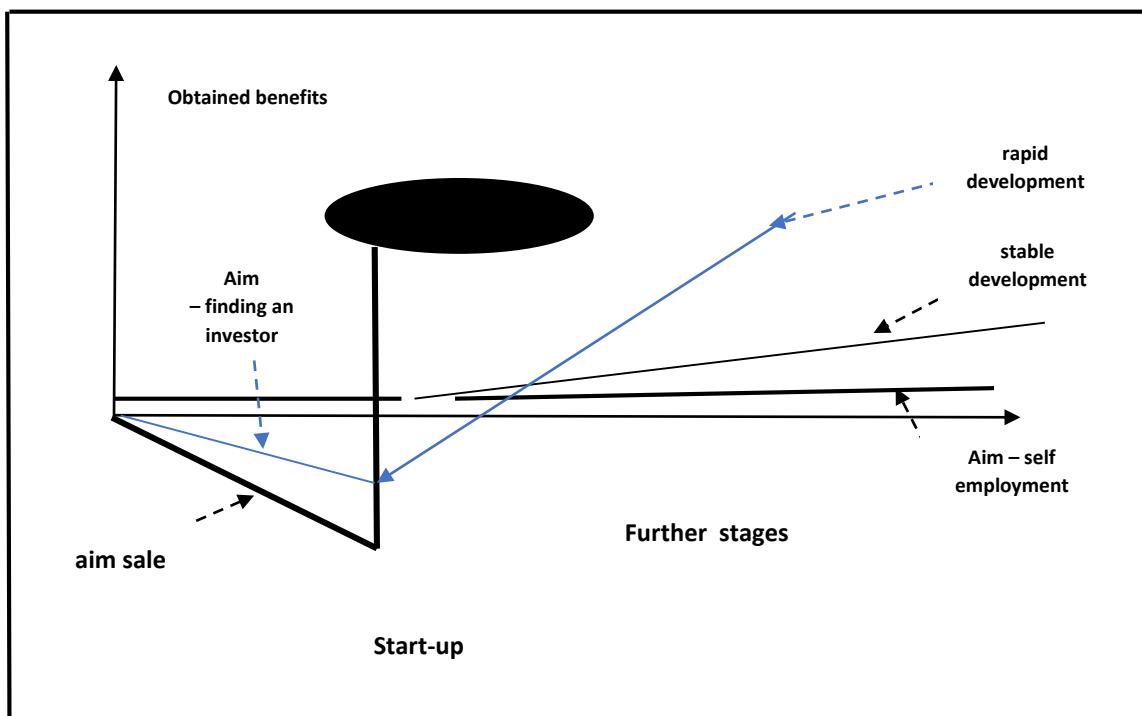


Figure 1. Typology of start-ups by the purpose of their establishment

Source: A. Kalowski, J. Wysocki (ed.), *Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny* (Start-up and success conditions. Theoretical and practical dimension), Publishing House, Warsaw School of Economics, Warsaw 2017, p. 19.

Figure 2 shows classification of start-ups by novelty of products, services or a business model used⁸.

⁷A. Kałowski, J. Wysocki, *Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny*, (Start-up and success conditions. Theoretical and practical dimension). Publishing House, Warsaw School of Economics, Warsaw 2017, p. 18.

⁸A. Kałowski, J. Wysocki, *Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny*, (Start-up and success conditions. Theoretical and practical dimension) Publishing House, Warsaw School of Economics, Warsaw 2017, p. 19.

new business model	e.g. sale of furniture without inventory	e.g. crowdfunding of a new product
an already functioning business model	e.g. sale of products offered abroad	sale of a new product
	a known product/service	An innovative product/service

Figure 2. Typology of startups by novelty of a product / service and a business model used

Source: A. Kalowski, J. Wysocki (ed.), *Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny (Start-up and success conditions. Theoretical and practical dimension)*, Oficyna Wydawnicza SGH, Szkoła Główna Handlowa w Warszawie, Warszawa 2017, p. 19 (Publishing House, Warsaw School of Economics, Warsaw 2017, p. 19).

It should be pointed out that the issue of recognizing something as «new» is usually fluid and subjective. What is innovative and modern for some may be of secondary importance to others⁹.

The classification of startups according to a legal form adopted by an entrepreneur is presented in Figure 3.

foreign legal form	Startup in a business incubator	Start-up under the parent company
Own legal form	A start-up in the form of a business or commercial law company	Resale of a start-up or part of shares
	Ownership of entrepreneur's	Ownership of investor's copyrights

Figure 3. Typology of start-ups by their legal form and ownership of ideas

The conclusions that can be drawn from the presented considerations are that two trends can be identified in the perception of the startup phenomenon. On the one hand, it is perceived

⁹A. Kałowski, J. Wysocki (red.), *Start-up a uwarunkowania sukcesu. Wymiar teoretyczno-praktyczny, (Start-up and success conditions. Theoretical and practical dimension)* Publishing House, Warsaw School of Economics, Warsaw 2017, p. 22.

as a kind of a dynamically developing enterprise with a large impact on its environment, whose success is not a foregone conclusion. On the other hand, an emphasis is put on a company's development phase and the fact that a business model has not yet been fully developed in a startup. A decision on which method of defining a startup is appropriate depends on a subjective opinion of researchers and their research needs. Regardless of one's own assessment, however, three inalienable features of an enterprise classified as a startup should be pointed out: entrepreneurship, early stage of development characterized by a non-established business model, high and difficult to assess investment risk associated with high innovation.

Activities of Polish startups and their financing sources. The main assumption of financing startups is to obtain funds for an undeveloped project. Such undertakings normally need much more funds than a novice entrepreneur has at disposal. Finding an investor with a sufficient budget depends primarily on the persuasiveness of a startup management, reliability of a venture and proving that a project promises an interesting rate of return. Financing startups is usually based on external sources. However, it should be noted that the weaker the legal and financial system of a country in which an entity develops, the lower the value of external financing, especially the long-term one. The issue of financing the SME sector cannot be discussed in isolation from the SME sector.

In highly developed countries, the share of the SME sector exceeds 95% of employment. Sometimes this percentage reaches even 99%. In Poland, in 2017, the number of all small and medium enterprises was 99.8%, of which almost all enterprises employed up to 50 employees¹⁰. As these data indicate, small and medium-sized enterprises have a very significant share in creating GDP. Small and medium-sized enterprises have the strongest position in such sectors of the economy as trade (95%) and construction (85%), however, they take a smaller share in industry (26%) and transport (30%)¹¹. Due to an enormous impact on the economy, the method of financing SMEs, and hence startups, is worth attention. Financing new investments has been associated with innovation and startups are usually seen as catalysts for innovation. Not only startups but also the entire SME sector is a factor of an expansion of technological novelties in industrial clusters, creating an atmosphere of innovation and giving dynamism to the entire industry in which they operate.

When isolating startups as a separate category of business entities, it should be noted that the investment environment of Polish entities is still far from this of Germany or the Silicon Valley. Recently, a kind of fashion has been created among investors to support startups. The government is also creating a so called *fund of funds* aimed at increasing availability of funds for innovative companies but also attracting foreign investors, which would stimulate the Polish investment market.

Many Polish startups still focus on their own funds. Although it has been 30 years since the transformation, having an external investor is still associated with the risk of losing control over one's own product. That is why local entrepreneurs focus on slower development which is not restricted by investor relations. In 2018, self-financing was chosen by as much as 41% of Polish startups, which is an increase by 3% compared to the previous year. The structure of financing Polish startups in 2015–2018 is presented in the chart in Figure 4¹².

¹⁰ Polish Agency for Enterprise Development, 20th edition of the Report on the state of the SME sector in Poland, Ministry of Development, Warsaw 2018. URL: <https://www.mr.gov.pl/strony/aktualnosci/20-edycja-raportu-o-stanie-sektora-malych-i-srednich-przedsiębiorstw-w-polsce/>, dostęp on-line: 17.02.2019.

¹¹Ibidem.

¹²U. Drabińska, Polskie startupy. Raport 2017, (Polish startups. Report 2017), Startup Poland, Warsaw 2018, p. 26.

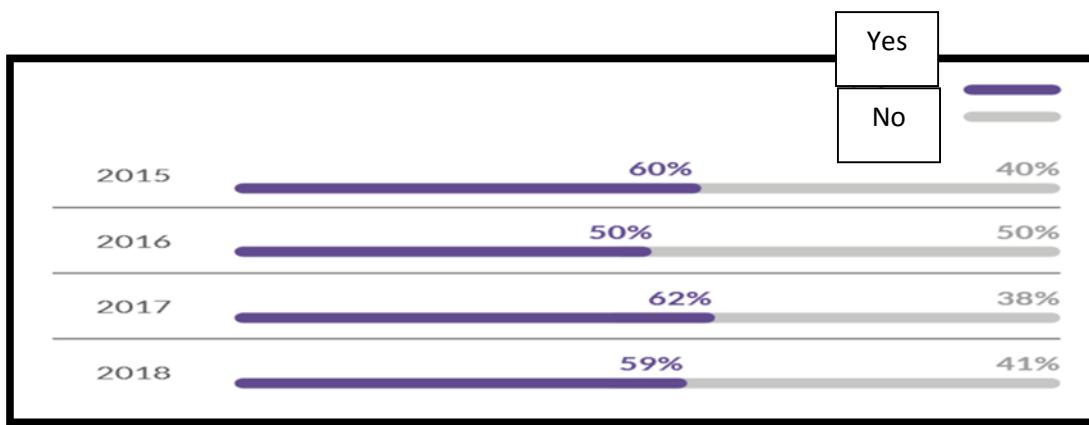


Figure 4. Have you financed the startup only from your own funds so far

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2017 (Polish startups. Report 2017)*, Startup Poland, Warsaw 2018, p. 26.

In 2017, 17% of entities grew at a rate exceeding 50% per month. Regular profit is reported by 40% startups. Only every third startup does not generate revenues from its main product or service. Such results are good because it should be remembered that these entities at a very early stage of development. Detailed data are presented in Figure 5.

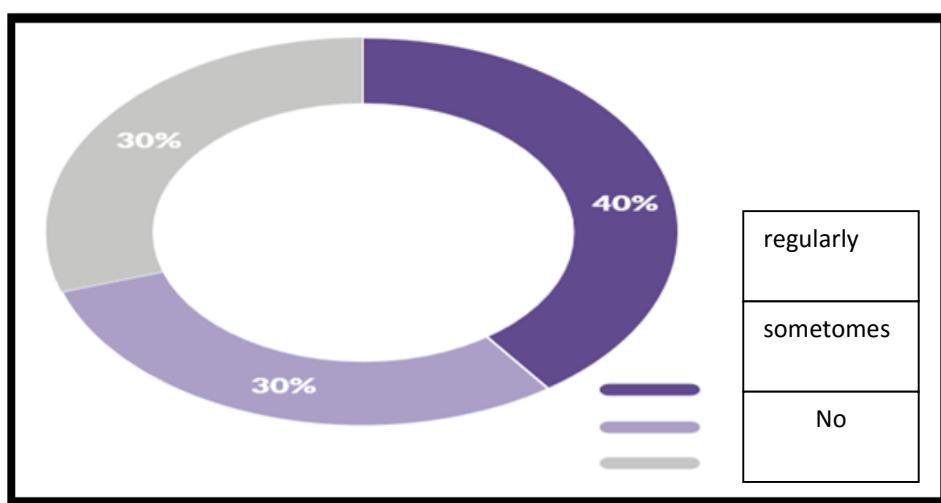


Figure 5. Are you currently generating revenues from the sale of your main product/service

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2017 (Polish startups. Report 2017)*, Startup Poland, Warsaw 2018, p. 26.

The research results indicate that as many as 62% of regularly earning startups achieve revenues of up to 100,000 PLN, and 15% above half a million PLN. The most popular source of obtaining external capital for startups is domestic or foreign capital, and the second most common source of money are EU funds. Private capital obtained from business angels is only slightly less popular. The next place is taken by capitals obtained as part of acceleration programs. Detailed data are presented in Figure 6.

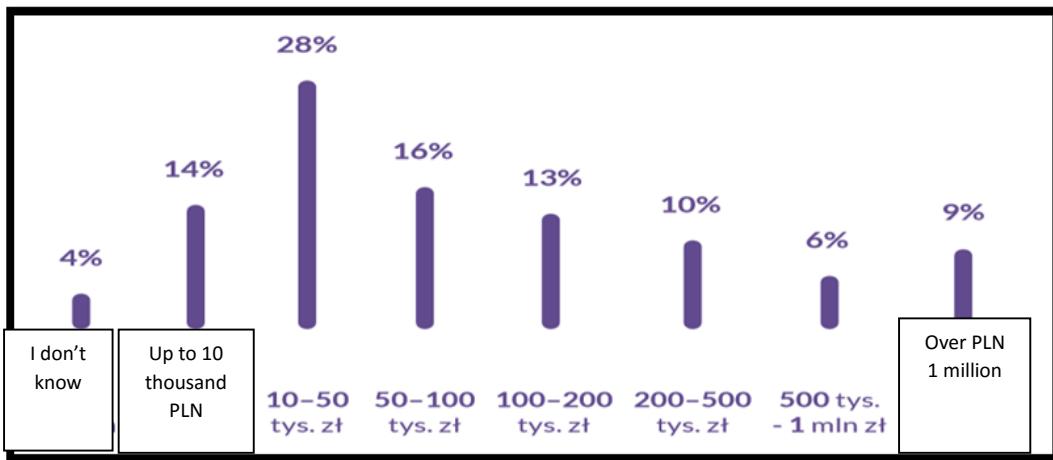


Figure 6. Average monthly revenue for the last six months

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2017 (Polish startups. Report 2017)*, Startup Poland, Warsaw 2018, p. 26.

While studying the financing structure of Polish start-ups, one can come across an interesting correlation. The results indicate that the majority of entities with regular revenues decided to use financing by national venture capital funds. About 1/5 of startups generating regular income benefit from the support of a national business angel, and 16% from the EU support through the Polish Agency for Enterprise Development (PARP). In Poland, in 2017, there were 18 startups with an average monthly revenue exceeding PLN 1 million. Four of them benefited from national VC support and three benefited from a private investor support¹³.

The conducted research and analysis show that only 26% of startups surveyed in 2018 did not plan to reach for external sources of financing. Almost half of the respondents planned to obtain funds from venture capital (VC) and 1/3 planned to find a business angel or raise funds for development from public sources. Almost half (44%) of respondents are interested in both private and structural foreign investors such as VC, EU funds, business angels and development accelerators.

Warsaw is the Polish startup center. As many as 29% of all such entities are located there. Another places are large agglomeration such as Wrocław (12%), Kraków (10%), Poznań, Lublin and Tri-City (6% each). The city of Toruń is an interesting exception – despite being smaller in size than other cities in the rate, the number of startups located there is comparable to much larger cities (6%)¹⁴.

The founders of Polish startups are mostly people aged between 30 and 39. Just over a quarter of the founders of startups are under 30. Only 18% of the founders are over 40 years old. The details on the age structure of startup founders in Poland are presented in the chart in Figure 7.

¹³U. Drabińska, *Polskie startupy. Raport 2017 (Polish startups. Report 2017)*, Startup Poland, Warsaw 2018, p 27.

¹⁴Ibidem, p. 13.

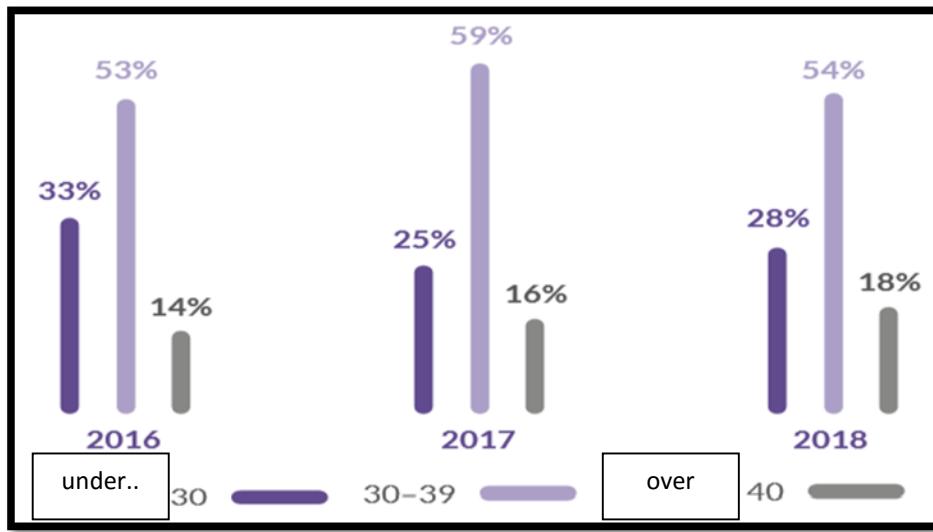


Figure 7. Age structure of respondents who are CEOs / founders of Polish startups

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2018* (Polish startups. Report 2018), Startup Poland, Warsaw 2018, p. 27.

Over 80% of startup founders have a university degree, only 3% have not yet completed their studies. As many as 1/5 of the founders have an academic degree. Interestingly, startups are still a domain of men. Every fourth startup has been founded or co-founded by a woman. Few people decide to run their businesses single-handedly. 41% of startups are owned by 2 people, and every third entity is owned by more than 2 people, as shown in Figure 8.

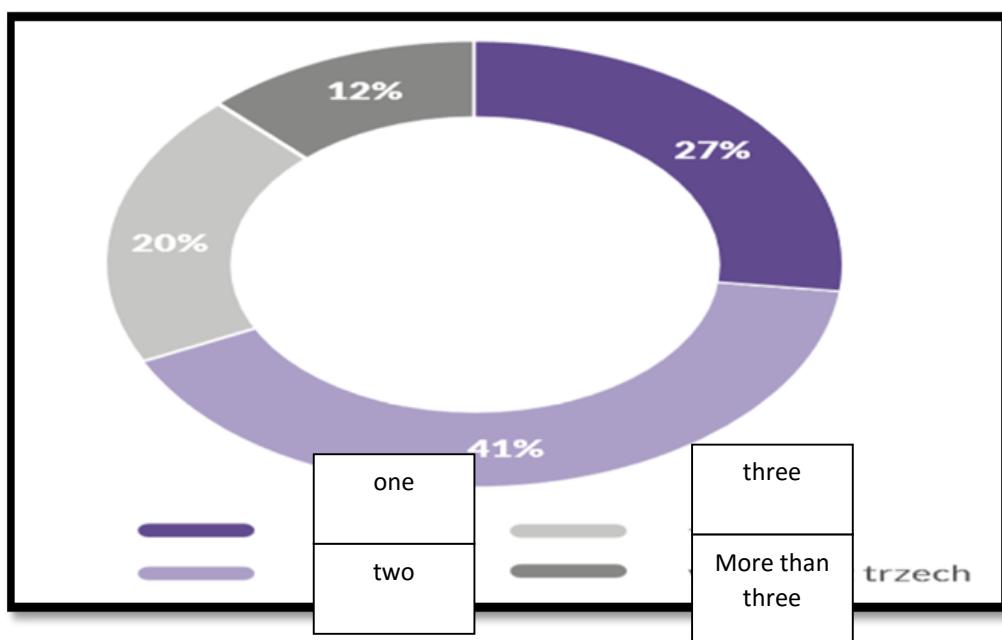


Figure 8. The number of startup founders

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2018* (Polish startups. Report 2018), Startup Poland, Warsaw 2018, p. 27.

As the research results show, education is an extremely important factor in the development of startups. As many as 60% of founders of the best startups in Poland have completed their studies in the field of social sciences. Generally speaking, startups founders are people with technical or social education. Detailed data on education of all start-up founders as well as education of the best start-ups founders are presented in Figure 9.

Half of Polish startups operate only in the B2B (business to business) sector. Only 14% operate on the B2C market (business to client). 14% of entities operate on both these markets. The clients are mainly small and medium enterprises (61%) and large companies and corporations (41%). Individuals constitute just over a quarter of solvent clients. Government institutions and offices constitute only 16% of clients. The most popular products offered by Polish startups include:

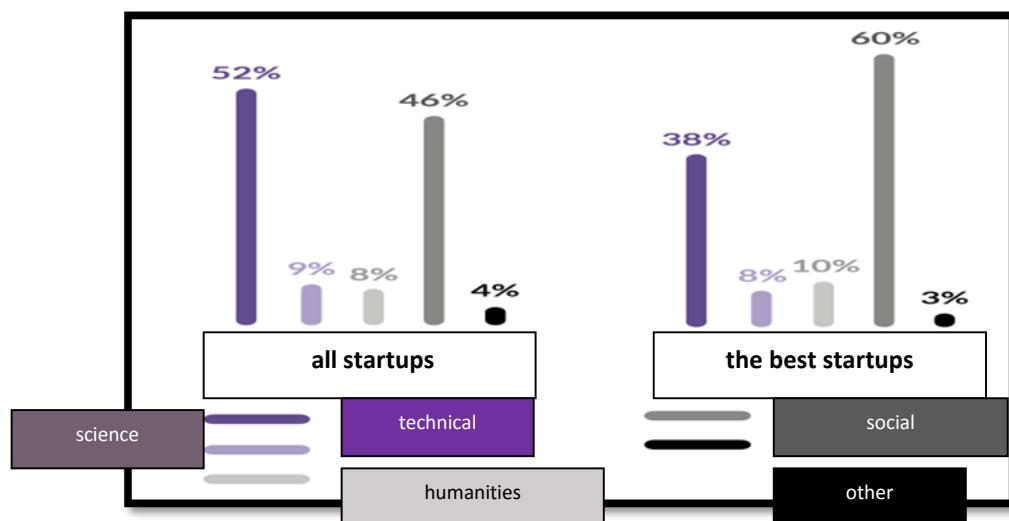


Figure 9. Education of all start-up founders as well as education of the best startups founders

Source: U. Drabińska (ed.), *Polskie startupy. Raport 2018 (Polish startups. Report 2018)*, Startup Poland, Warsaw 2018, p. 27.

1. 1.15% – big data,
2. 14% – Internet of things (IoT),
3. 13% – analytical tools / business intelligence,
4. 4.11% – financial services,
5. 10% – marketing technologies,
6. 10% – management and optimization of CRP/ERP productivity,
7. 9% – education,
8. 9% – IT development tools,
9. 9.9% – machine learning,
10. 9% – social service.

Conclusions. Socio-economic development of the region and state depends on the number of prosperous and profitable enterprises. The state, local authorities, private entrepreneurs, and especially banks create conditions for establishing and functioning of business entities, including such forms of economic activities as startups, by providing adequate development potential and shaping a friendly business environment. The experience of Western

European countries and the USA confirms that startups can have a major impact on economic development. They are also important from the point of view of all these individuals who are at the stage of planning their business activities, have interesting ideas, sometimes technologies and are looking for a strategic partner or a client of their innovative ideas and products. In Poland, as presented in the article, this form of economic activity is not yet well advertised and adopted in economic activity, despite its low initial costs. The reason for this may be difficulty in financing such ventures and a lack of belief of especially young people in the possibility of achieving market success.

Is it worth deciding on a startup? The answer to this question depends mainly on the idea – certainly not every idea of a company will be suitable for this way of operating. At the same time, it is the solution worth considering because of the opportunity to gain experience, and also because of great benefits in case of success. The goal of the article has been achieved. It seems that the authors have managed to present this innovative form of doing business in modern enterprises.

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