STARTUP: HYPE OR TENDENCY?

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ABSTRACT

This research will show findings about the definition of startups and about the relation between them and SMEs. According to the statement: although startups are technically SMEs, there are big differences between them in the following points: organizational structure, communication, age, international relations, corruption and sources. The aim is to examine the definition of startup (Ries 2012, Alyson 2014, Blank 2006, Birch 1987, Vecsenyi 1999) and it's relation to SME (Páger-Szer 2012). Finding the best result, the most important researcher's opinions will be outlined about the two business type, and about the organizational structure (Vecsenyi 2011, Handy 1986, Tariszka 2018) and about the entrepreneur (Schumpeter 1980, Vecsenyi 2011, Deák-Imreh-Kosztopulosz-Kürtösi-Lukovics-Prónay 2018). In order to find the core elements interviews was made and analyzed with young entrepreneurs. According to the findings the difference of the organizational structure, communication, international relations, and sources is true and valid, but not in the case of corruption and age.

Key words: Startup, SME, Organizational Culture, Communication, Entrepreneur.

INTRODUCTION

Startups are really up-to-date topic nowadays, every day show up a new idea, even in Hungary as well. In this paper, I would like to introduce a research, about startups, and SMEs (Small and medium businesses) and to make a guideline, to understand the differences between the two terms, and show the importance of similarities and differences.
The aim is to examine the definition of startup (Ries 2012, Alyson 2014, Blank (2006), Birch 1987, (Vecsenyi, 1999) and it is relation to SME (Páger-Szer 2012). Finding the best result, the most important researcher's opinions will be outlined about the two business type, and about the organizational structure (Vecsenyi 2011, Handy 1986, Tariszka 2018) and about the entrepreneur Schumpeter (1980), Vecsenyi (2011), Deák-Imreh-Kosztopulosz-Kürtösi-Lukovics-Prónay (2018). In the second part my research will be introduced, which contains interviews and consequences.

Why Is Important To Deal With This Question?

Reading the definitions of startup, I realized that there are lots of common point and feature, like scalability, fast growing potential ect. Even so, everybody starts their sentence, that "*there is no clear agreement, what does startups means*". Eric Ries do the same in an article, What is a startup? (2012):„..people to mistakenly believe that any time they see two guys in a garage attempting the impossible, that's a startup. Wrong. It also causes them to miss the numerous other kinds of startups that appear in less-glamorous settings: inside enterprises, non-profits, and even governments.

And because both small businesses and startups have a high mortality rate, sometimes these images lead us to believe that any small business is a startup. Wrong again." (Ries, 2012) Alyson Shontell says the same in her article This is the definitive definition of a startup on Business Insider, on a famous startupper webpage: "*There's no definition any two entrepreneurs or investors agree on. Most say a startup is determined by its age, growth, revenue, profitability or stability.*" (Alyson, 2014)

It means that the concept is complex. How could it happen, that we think a lot of enterprise startup, what does not satisfy the criteria, for example, the Hungarian Escape Games? How can we compare that with a very different type, like Prezi? May a new viewpoint is needed!

This question can be lead back to the routes, to the SMEs. If a company is stigmatized not startup, it means that it is an SME. According to the SME's economic definition (it will be introduced later), which based on the size, startups are SMEs as well.

The SMEs has an "everyday" meaning, which has- especially in Hungary- a pejorative and contradictory meaning, this will be introduced in the next phase (Global Enterprise Monitoring, 2012). My research and findings clearly show that peoples have completely different association about startups and SMEs: for example latter have rigid structure, while startups are more flexible. Interesting, that if the two types has common route, how can be the startups so fashionable and "*trendy*"? Are we speaking about the same thing in different "*package*" or is there any core difference between them?

According To My Statement

(H1) although startups are technically SMEs, there are big differences between them in the following points: organizational structure, communication, age, international relations, corruption and sources.

LITERATURE REVIEW

In this section, the most important literature will be introduced: first the definition of startup, the organizational culture and the description of entrepreneur.

Startup vs SME

The European Commission define the SMEs as an enterprise, where the number of employees are less than 250, the turnover is less than 50 m euros or the balance sheet total is less than 43 m euros. In this category, there are subcategories as well, which you can see in the Table 1:

Table 1 EUROPEAN COMMISSION		
Company category	**Employees**	**Turnover/Balance sheet total**
Medium-sized	< 250	≤ € 50 m / ≤ € 43 m
Small	< 50	≤ € 10 m / ≤ € 10 m
Micro	< 10	≤ € 2 m / ≤ € 2 m

Source: European Commission (2003)

This is a clear and understandable definition, which shows a pure economic aspect. However, the other hand, there is an everyday usage of the SMEs as well, which is more complicated. Krisztián Takács, the EU Ambassador of FIVOSZ (Young Entrepreneurs National Association) said in an interview, that only 4% of 2.3 million youth (age 15-34), has ambition to launch a new business (Business Telecom, 2011). This low number can be explained with the pejorative meaning of entrepreneurship. The following table, which was made by Global Enterprise Monitoring, and published in Hungary as well in Table 2, demonstrate this (Páger-Szerb, 2012):

Table 2 GLOBAL ENTERPRISE MONITORING								
Country	Attitudes (ATT)		Facility (ABT)		Aspiration (ASP)		GEDI	
	2008	2012	2008	2012	2008	2012	2008	2012
Bosnia and H.	28,5	26,9	26,4	28,1	31,6	28,2	28,8	27,7
Croatia	46,7	32,8	36,6	38,8	52,9	50,9	45,3	40,9
Latvia	41,6	39,6	47,8	50,0	50,8	55,6	46,7	48,4
Macedonia	37,2	31,5	32,5	35,3	39,7	41,6	36,4	36,1
Hungary	41,8	40,5	38,8	44,1	22,8	48,8	34,5	44,5
Russia	22,2	32,4	41,4	41,5	29,5	25,7	31,0	33,2
Romania	32,1	37,3	40,6	42,6	44,4	53,9	39,0	44,6
Slovenia	66,1	48,3	56,6	54,3	61,1	55,5	61,2	52,7

Source: Global Enterprise Monitoring (2012)

As we can see, even the conditions have improved to start a new business; the attitudes (in the first two column) show a negative change.

The definitions of startups are really varied. Eric Ries, the writer of The Lean Startup emphasize that the startups needs a different financial plan than the SMEs. He says that the key element is the continuously learning from the costumers. According to his lean startup model, the best is to start a business as early as possible, and then, test it on the audience. Ries states that everybody is a "startupper", if he/she tries to create something new on an uncertain market (Ries, 2011).

Another big expert on this field is Steve Blank. He sees entrepreneurship as a nonstop learning process, where the most important is to understand the costumers. He highlights that a startup need to count on the fast growing, and to the success a long-term and repeatable business model is needed (Blank, 2006).

The Hungarian Spinoff and Startup Association (2012) set up a clear definition: a start-up, knowledge-intensive organization, which can provide fast growing in a short time, with low capital and labor investment. In contrast, the European Private Equity and Venture Capital Association (EVCA, 2010) use a different aspect. They mean startup as the first phase of an enterprise, when they are not on the market yet.

As you can see, there are many ways to define the term of startup. In the next part, I will introduce my research about the topic. My aim was to find out that how would the entrepreneurs create the definitions and what do they think about the relationship between startups and SMEs.

Enterprises can be classified according to a variety of criteria, one of which is Birch's (1987) approach, which focuses on the job-creating capacity of organizations. The highly successful approach identifies companies with animals. For example, gazelle businesses are agile and capable of rapid growth, elephants have a high number of employees, but herd growth is moderate, while mice are typically small organizations that can grow slowly.

This approach was further considered by Vecsenyi (1999) and supplemented with the conditions in Hungary. He identified two main dimensions: experience and entrepreneurial

ability. Based on these, he defined the following categories: (1) tigers: dynamically developing, long-established organisms, (2) gazelles: dynamically growing small businesses, (3) ants: small and slow or no growing businesses, (4) dinosaurs: large companies that perpetuate the socialist tradition and stagnate. Under this category system, startups can be identified with gazelles.

The Entrepreneurs

Different solutions have been developed for the description of the entrepreneur in different eras and aspects. Schumpeter (1980), for example, viewed the entrepreneur as the engine of innovation and his economy, using the tools already used for production to accomplish new goals and tasks.

Timmons defined in the 1990s who we call an entrepreneur. He did all this with the help of a matrix, in which he compares the level of creativity and innovation with the level of business sense and managerial skills (Vecsenyi, 2011). He wrote 4 categories: executives (creativity: low, business: low), Manager (creativity: low, business: high), Inventor (creativity: high, business: low), Entrepreneur (creativity: high, business: high).

Vecsenyi (2011) explains that the entrepreneur sees problems as opportunities and strives for assertiveness. He does not look for risk, if he chooses to do so, his decision will be preceded by careful calculation and consideration. The essence of an entrepreneur is the success, which motivates him as a driving force. (Vecsenyi, 2011).

Bygrave summarized the characteristics of the ideal entrepreneur in 10 points (Deák-Imreh-Kosztopulosz-Kürtösi-Lukovics-Prónay, 2018). In his opinion, a successful entrepreneur:

1. dream builder: the entrepreneur is able to dream big and also feels able to make it happen
2. determined: able to make decisions quickly, which can be crucial in sharp situations
3. Executor: not only makes decisions, but also makes efforts to enforce them
4. committed: fully committed to the idea and the business and doing everything possible to make your plans come true
5. self-sacrificing: able to make serious sacrifices for success and progress, even in relation to family and friends
6. Obsessed: Obsessed with the product idea, helping the sales process

Nieuwenhuizen (Deák-Imreh-Kosztopulosz-Kürtösi-Lukovics-Prónay, 2018) also explores entrepreneurial qualities. The entrepreneur is proactive and confident, able to delegate tasks and instructions. He can see and take advantage of the opportunities that come, and treat efficiency as a priority during implementation. It also requires high quality of work and planning, which includes breaking down tasks, forecasting outputs, and considering options. The entrepreneur is committed to his work and can even make great efforts to succeed. Finally, yet importantly, a good entrepreneur can recognize the importance of business relationships and nurture them.

Organizational Culture

The operation of an organization is described by organizational culture. Ideally, in a well-functioning organization, employees should know the company's short, medium, and long-term goals, that is, know what they want to achieve, where they want to go. To do this,

employees must be aware of their own tasks, have the necessary procedures for solving the tasks, and know the cooperation norms (Vecsenyi, 2011).

Handy (1986) distinguishes four models of organizational culture according to the following aspects: main characteristics, source of control, means of control, main source of motivation, central values, and negative characteristics. Based on these, it exists: power culture, role culture, personal culture and task culture. The latter can be key for startups, as the task culture is characterized by flexibility, control comes from inside of the company, the means of control are world-saving plans and goals, the source of motivation is the common goal, the main value is professionalism, and its disadvantage is that it makes great use of the worker's energies.

Organizational culture is based on five basic pillars, which Tariszka (2018) summarized. One of the elements is the economic environment, which largely determines the success of a business. A fundamental pillar is also the values that appear in the organization, and the fact that all employees can embrace them. It is important for the organization to have heroes who represent these values, to have attachment-strengthening, regularly recurring ceremonies, and to have a cultural network, that is, an informal network that allows for the spread of elements of culture.

METHOD

During the research, we assign data to the texts, which allows us to get even more information during the scientific research and get to know the subject of the research thoroughly. These data can be quantitative or qualitative. In the qualitative research, we are interested in the qualitative properties of the examined object and phenomenon. The most common forms are interview, in-depth interview, focus group, and case study. If we combine the features of qualitative and quantitative research, we can talk about mixed research (Boncz, 2015).

Interviewing is an interactive research method that is made up of questions and answers to questions. We can talk about structured, unstructured and semi-structured interview, there is also in-depth interview and narrative interview. During a structured interview, we follow a set of specific questions, while in the case of an unstructured interview, we define the topic and a kind of free conversation developed. A narrative interview is, when the subject of the conversation is an event that is tied to the speaker, while in an in-depth interview we only mark the given topic and within that the subject talks about what he or she wants.

To find the differences and the similarities of startups and SMEs I made interviews with young entrepreneurs. I found this a good method, because simple questionnaire seems too cursory to explore the core elements. Therefore, I decided next to the personal connect and a freer way.

I prepared for the interviews with a list if topics, which was assembled according to the literature, like Eric Ries (2011), Steve Blank (2006), Brant Cooper and Patrick Vlaskovits (2010), Vecsenyi, János (2011), Simon, Sinek (2009), Varsányi Ágnes (2012), Tariszka (2018), Handy (1986). From their work, the most important topics shown out:

1. Definition of startups
2. Definition of SMEs
3. Relation between startups and SMEs

4. Differences and similarities in
5. Age
6. Organization structure
7. Communication
8. International relations
9. Corruption
10. Money

Five interviews were made because of the repeating answers and the similarities this amount proved to be enough. The patter was a special segment of the startup entrepreneurs: all of these entrepreneurs were Hungarian, two of them have foreign experiences. Four of them already have a startup company or work on one, except the 22-year-old responder, who is just planning to establish one in Table 3.

Table 3 STARTUP ENTREPRENEURS		
Interviewee	Age	Number of enterprise he/she create or took part in creation
A	25	1
B	22	1
C	36	3
D	27	2
E	31	2

The interviews took about 70-90 minutes, which was enough to warm up to the topic, and bring up the real opinions and attitudes. I prepared a written version of the interviews and made on them to content analysis. My method was to find the most frequently used keywords and phrases. So make a rank about these and amass the synonym meanings. I used the previous presented topics to make tags in the text. After that, I collected the text with the same tags, and find the same attributes that were used (for example: innovation, small size, strong vision etc.) I would like to avoid subjectivity, therefore as a "*control*", I asked a college to review the categorization.

RESULTS

The collected date were organized in a table, which clearly shows the most important results in Table 4.

Table 4 ECONOMICS BUSINESS	
Topic	Answers (frequently used words and terms)
Startup definition	Innovation, Scalability, Fast growing International growing (and the business model help this) Base on community Vocation and strong vision Small size (few employee) Uncertain market
SME definition	Economic definition: number of employees and turnover
Relation between startup and SME	"Startup is a special SME, which requires a different attitude"

As you can see, the startup definition is complex, according to the interviewee. The most important is innovation and scalability. One of them said: "*startup has been developed – from the aspect of capital- to be able to grow fast*". This is clear, because investors want to return their investment. The community and vision play an important role and was mentioned several times: "*A real startupper works for the idea and learning and rarely for money*".

There was a big agreement, that SME is an economic definition, which not contains any information about the company culture. One of the interviewee grabs the problem on the following way: "*Startup is a special SME, which requires a different attitude*".

In the second part of the interviews, the focus was on the different aspect: how they work in the two types of enterprise in Table 5:

Table 5 STARTUP IS A SPECIAL SME		
Aspect	**Startup**	**SME**
Organization structure	Teamwork Flat structure Planned to grow fast It has a thoroughly thought business plan (which is needed to find investors)	Top-down Authorial Organic growing Often there is no clear business aims and plan
Age	Does not matter	Does not matter
Communication	It communicates about the future: how far can they get, what they can became	It communicate about the preset: what they are doing
International relations	Plans to international market Distance is not important Startup is an international culture	After a level opens to international market Expanding just nearby
Where the money comes?	From the beginning look for investors At the beginning they use investments and own sources	From the beginning live from the costumers Usually use own sources or loan
Corruption	Different opinions: somebody say high level of corruption, but some of them refuse that because of the international market	high level of corruption and kickbacks

The table shows the comparison of startups and SMEs. The company structure is different, startup is "*flat and plan for fast growing*", while "*SME prefer organic developing*". In the aspect of age there were agreement, like one of them said: "*I do not really think, then just the young people can have innovative idea!*" The corruption was an interesting question, and was divisive. One of the interviewee said: "corruption is everywhere; it is a cultural thing, so the company type does not matter". Another opinion was the following: "startup ecosystem builds up usually from down, but in Hungary the government want to build it from up. They give lot of money for incubators and irrelevant much money for early stage startups. But in early stage startups need less money, they need the education and mentoring more". However, the other hand, some of them was on the following opinion: "*startups are international, so the corruption and state interference cannot prevail*".

CONCLUSION

In this chapter I will explain the results, and make some consequences.

Conclusion about the Definition

In the interviews everybody used the words and terms, which were mentioned by the experts in the first part. But it was clear that nobody define startup as a phase in an enterprise life, like EVCA. The reason could be that the term is more complex. It was interesting that some features come up in the interviews, which were not emphasized by the expert, like the community and the strong vision. Actually the community show up at Eric Ries, who highlight the importance of mentoring and continuously learning, but maybe there is something more. Many events are organized for young people to get to know the world of entrepreneurship, meet investors and so. According to my opinion, this is a main difference between startups and SMEs.

The strong vision is the same. Of course, an SME's CEO could have strong vision as well, but as the interviewees said the vision needs long-term planning which is often missing in SMEs. Closing this part, there were an appropriate sentence, which describes the opinion about the startups and SME's relation: "*Startup is a special SME, which requires a different attitude*". The second part of this statement clearly describe that there is difference, and this can be grab not in economical level, rather on a personal and organizational level.

Conclusion of the Comparison

In the second part, a kind of comparison was created. First aspect was the organization structure. Cleary seen, that startups are flexible companies, who need to prepare for the investors questions, therefor it is essential to create a detailed business plan. It is interesting, that many nonprofessional people think that startup is for the young people, but the result shows, that the age does not matter.

The differences in the communication show another focus point: startup concentrate to the future, while SMEs concentrate to the present. This can be lead back to the planning. If an SME do not have a detailed business plan, understandable, cannot speak firmly about the future. However, on the other hand, the continuously planning can go to the expense of productivity-, which can be a big problem for startups.

Not surprising that, there are differences on the field of financial as well. Many startups without investment and venture capital cannot launch, so they need external help. This can influence they planning method, they everyday work, the organization structure and the ownership rations as well.

According to the statement: although startups are technically SMEs, there are big differences between them in the following points: organizational structure, communication, age, international relations, corruption and sources. As previous you can see this statement was mostly confirmed: the difference of the organizational structure, communication, international relations, and sources is true and valid. But it was not unequivocal in the topic of corruption, because interviewee were not on the same opinion in this question. The age assumption was also not substantiated, as this was not considered a relevant factor in the description of the two organizational types. The biggest limitation of the research is the low number of samples, which on the one hand can be defended due to the high degree of agreement, but it jeopardizes the validity of the results.

Research could be pursued in several directions. It would be an interesting basis for comparison to conduct the same interview among SMEs and look at the similarities with interviews with startups. It would be interesting to examine the roots of the differences

presented here: can they be attributed to the Hungarian entrepreneurial culture? It could also be the subject of further research whether the same questionnaire would produce different results in another country!

This topic is interesting because there is a little gate between the two types of companies: lot of SME start a startup division, because they can work on innovation on an effective way, but on the other hand maybe a startup after a point more "looks" like an SME than a new innovative enterprise. Therefore, there is an open gate, which's key –according to my statement- is communication network. The task is finding out, that do we have the right key or not!

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