Insight into start-up, its action and surroundings

Abstract
Start-ups are an appealing business form that gives space for self-realisation to enthusiastic, brave and creative people. The start-up progress is conditioned by the development of the business model. Other conditions for start-up viability include monetisation of business effort, effective leadership and teamwork, business strategy and external business support. A survey conducted on a sample of 76, 72 and 53 start-ups in three stages in 2015, 2016 and 2017 examined the development of those beginning and imperfect micro-enterprises in Slovakia. The research results are as follows. Start-ups are relatively closed, and their business model is inadequately connected to the environment. Start-ups know their customers well, but they do not know how to get them. They do not create partnerships in a sufficient range and quality. The monetisation of the examined start-ups is a little sophisticated, too traditional and without experimentation. Just less than a third of start-ups sell their basic product or service for free and generate money by selling premium services only. The most developed blocks are still customer value proposition and customer relationships; the least developed blocks are distribution channels and revenue streams. Start-uppers rely on the simple assumption that a working business model will provide a lucrative earning directly. The founders of the studied start-ups are capable visionaries, but less competent managers. Start-up teams have demonstrated a high degree of internal cohesiveness and support in unpleasant and unpredictable situations, but they lack a greater formalisation of work in a routine operation. Business strategies of start-ups are ambitious and international, but little verified in a competitive battle. The competitive advantage of start-ups is based on differentiation rather than on low cost. Start-ups do not trust the state support for business; they cooperate with large companies just a little, but prefer to work with the start-up scene and private investors. Start-ups must mature entrepreneurially, enthusiasts must become entrepreneurs and managers, and they have to learn how to monetise their business effort. Start-ups will be most aided by the cultural and civilisation development of a society that recognises entrepreneurship as a natural, useful and honourable resource for the development of the national economy.

Keywords: Start-up; Business Model; Monetisation; Leadership; Teamwork; Business Strategy; Public Support of Business Making

JEL Classification: M13; M21

Acknowledgements: This paper is the output of research project of VEGA MŠ SR a SAV No. VEGA 1/0019/15 Business models and business strategies of start-ups (2015-2017).

DOI: https://doi.org/10.21003/ea.V170-06
1. Introduction

Start-ups attract the attention of both professional and lay public, as they are not only a place of attractive business stories, an opportunity for brilliant business growth, a space for self-realisation but also a service to the public. Start-ups as a research object are perceived to be a social role when they create jobs, when they can efficiently valorise input resources and play an entrepreneurial and progressive role when they meet unsatisfied needs or improve the quality of life by creating, exploring and satisfying needs.

Start-ups are also a source of job opportunities for young people and school graduates who have decided to take their life plans in their own hands, they do not want to be regular employees, and see in business how to secure their own lives by meeting the needs of others. Start-ups are expected to play a social role when they create jobs, when they can efficiently valorise input resources and play an entrepreneurial and progressive role when they meet unsatisfied needs or improve the quality of life by creating, exploring and satisfying the needs.

The business model and, in particular, the start-up team features, business strategy and public support. This multidimensional view should contribute to a deeper insight into the start-up’s interior, its behaviour and the environment in which it operates. The source of new knowledge is field research carried out in the form of an empirical study.

2. Brief Literature Review

A start-up is a very small beginning enterprise, the origin of which is linked to the emergence of a business idea. According to Thiel (2014, pp. 10-11), investment readiness increases the hope that the start-up will become an enduring enterprise. Miold et al. (2012) state that the criteria of venture capitalists evaluating start-ups are, for example, a solo founder/founder team, an entrepreneur/top management team, team completeness, etc.

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Research reports of the European Start-up Monitor (Kollmann et al., 2015; 2016) provide formal data on leaders, teams and employees, and see in business how to secure their own lives by meeting the needs of others. Start-ups are expected to play a social role when they create jobs, when they can efficiently valorise input resources and play an entrepreneurial and progressive role when they meet unsatisfied needs or improve the quality of life by creating, exploring and satisfying the needs.

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The business model and, in particular, the start-up team and its leader are important investment criteria for angel investors and venture capitalists. According to Sipola (2015, p. 72), investment readiness increases the hope that the start-up will become an enduring enterprise. Miold et al. (2012) state that the criteria of venture capitalists evaluating start-ups are, for example, a solo founder/founder team, an entrepreneur/top management team, team completeness, etc.

For the time being, the business strategy of start-ups is studied to a very limited extent. Research studies address issues such as the influence of external factors on start-ups, the environment of start-ups, and the dynamics of the growth of new enterprises. Mata and Portugal (2002) directly analysed the determinants of the survival of newly established enterprises and the differences in the viability of domestic and foreign enterprises. However, the research of business strategy as a tool for achieving more long-term goals is still limited to issues of cooperation of start-ups in R&D and its determinants (Okamuro et al., 2011).

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Public support for start-ups focuses in particular on collaboration with universities and building an appropriate ecosystem. Leyden and Link (2013) claim that universities must offer an attractive program, so that start-up earnings could grow faster than their R&D costs. Published studies on ecosystem come mainly from the US environment, e. g. Moore (2006), Insenberg (2010). Their findings correspond to the conditions of an advanced market economy and a long-standing tradition of business culture.

The previous cognition of start-ups is relatively superficial and incomplete. The aim of the research is to deepen the knowledge of start-ups in order to fulfil their business and social role. Start-ups as a research object are perceived through a business model, monetisation of business effort, team features, business strategy and public support. This multidimensional view should contribute to a deeper insight into the start-up’s interior, its behaviour and the environment in which it operates. The source of new knowledge is field research carried out in the form of an empirical study.

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introduced himself to the world of business with the concept of lean start-up, defines: «Start-up is a human institution designed to create a new product or service under extreme conditions of uncertainty». Start-ups as an institution hire creative people, coordinate their activities and shape a company culture that delivers results. Paul Graham (cit. by: Robehmed, N. 2013, December 16, Forbes), a representative of Y Combinator, says that after three years of business making most start-ups are no longer start-ups, the completion of the start-up phase is linked to the acquisition by larger companies, revenues of more than USD 20 million and personnel of more than 80 employees. Start-ups can arise in any industry, but most often they are technology or internet companies that offer various mobile apps. They create or discover completely new needs or meet original needs with a completely different, more efficient or cheaper solution. Their identification marks are low initial costs, greater business risk compared to normal companies, potentially higher returns if a start-up becomes a regular company. Kiska Jr. (2014) of Credo Ventures writes that any start-up in the «seed» phase must have a great potential and a globally unique product, in such a case a 20 times recoverability is expected. The reasons for exceptional claims for investment valorisation in a start-up are the high rate of failure and exceptionally unique success.

A start-up as an incomplete and imperfect enterprise must build a business model to implement its business idea. The model should contain all the components and conditions that are necessary to create a new business making. A business model provides the customer with a value that the customer accepts and pays for; on the other hand, the company will cover all its costs and earn profit. Michal Truban (2016) is a Slovak IT entrepreneur who writes that the idea is of little value and is never unique. The true value of the company resides in the business model. The business model is usually visualised for clarity and simplicity of use. The business model from Johnson, Christensen and Kagarmann (2008) consists of four interconnected elements that make up and provide value. Its main parts are customer value proposition, a profitable formula, key resources and key processes. Glassman et al. (2014, p. 7) have constructed a simple visualisation with four dimensions that are arranged in a triangle (three vertexes and the centre): customer, value proposition, value chain, profitable mechanism. The most widespread visualisation of the business model is the canvas concept by Osterwalder and Pigneur (2009, pp. 15-44). Their nine-box model is abundantly quoted and described in the objectives and methods of the paper. The meaning and usefulness of the business model are confirmed by Blank and Dorf (2013), «... the only goal of a start-up is to find a repeatable and scalable business model». While existing companies pursue a business model, start-ups are looking for it. The result of business model operation will be reflected in the monetisation of business efforts. Monetisation answers two questions (Bednár & Tarišková, 2017, p. 72):

1. What value for money start-ups provide, to whom and for how much?
2. What is the source of revenue at start-up?

A successful investor Dave McClure (2017) introduces five key determinants of investment in a start-up, which are the market, the product, the team, the customers, and the revenue. He claims that 99% of start-ups need a reliable and efficient way to make money and end up. An efficient revenue model simply cannot be substituted by either a perfect product, or a functioning team, or the right market and a lot of users.

Leadership focuses on the role of founder/leader in development of a new company (Klotz et al., 2014). Baum, Locke and Bobko (1999) found that vitalisation of the founder are the driving force of a start-up. Similarly, according to Timmons and Spinelli (2008), it is important for the start-up success that the start-up founder is a good leader. At a start-up, almost all key strategic and tactical decisions are made by its founder, and these decisions are based largely on his/her intuition (Vendetti, 2010). The behaviour of these leaders influence the long-term advantage and development of the business. Leadership is an essential expression of the company's action. The business strategy solves the task and answers mainly the question of how to surpass competitors in meeting the needs of the same customers. It is evident, that an advance can be achieved by dissimilarity only. According to Porter's typology (1980, p. 254), companies choose a cost leadership strategy or differentiation strategy across all the market or focus on one or a small number of market segments again through low costs or differentiation. Business strategy is then the result of a decision on differentiation, costs and segmentation.

Start-ups are placed and developing in an external environment and its impact cannot be ignored. Motoyama and Watkins (2014) called it an ecosystem with four basic relationships. 1. The relationship between entrepreneurs who can learn from mistakes or successes of other entrepreneurs. 2. The relationship between supportive organisations that coordinate their activities to avoid useless overlap. 3. The relationship between entrepreneurs and key supportive organisations providing mentoring, business contacts and finance. 4. The relationship between entrepreneurs and other forms of support, e.g. business acquaintance events.

A survey of external environment of Slovak start-ups elaborated by KPMG (2014) states that it consists of business sector, public sector, organisations supporting start-ups and investors.

3. Purpose
The purpose of the research is to find out how the business model of a start-up is changing and maturing, because a malfunctioning business model is considered one of the most serious causes of start-up failures (CB Insights, 2018). Characteristics of a business model are captured on the basis of the business idea cycle and the funding cycle over the three phases of the research (October - December 2015, June - July 2016, January - March 2017). Other research objectives that condition the viability of start-ups are monetisation, leader/founder and the team, business strategy, and external support of start-ups. Knowledge of these topics usually comes from the last phase of the research. In the first, second and third phases of the survey, the sample contained 76, 72 and 53 start-ups. The research sample consists of start-ups operating in Bratislava, where the largest start-up community in Slovakia is concentrated.

Estimates of some governmental material indicate that there are about 60,000 start-ups in Slovakia (The Government of the Slovak Republic, 2016). The Startitup Portal (2018) displays 301 start-ups. However, these data are not based on official statistics, which does not record start-ups as a special category. According to an estimate of the author of the article, about one half of all start-ups in Slovakia are concentrated in Bratislava and its suburbs. However, roughly one-third of all start-ups do not develop any obvious preparatory or business activity. For a comparison, in Germany (Cassala, n.d.) there is about 6,000 start-ups and in the Czech Republic (Benešovská, 2017) there are currently recorded about 1,300 start-ups, some of them are in the seed phase and may not even be established.
into nine blocks: customer value proposition, customer relationships, customer segments, distribution channels, key resources, key activities, key partners, cost structure and revenue streams. The gauge of business model development (individual blocks) is a five-point scale that measures a degree of development (quality) of particular blocks.

The sources of knowledge about the examined start-ups are the statements of the start-up founders based on a managed face-to-face interview and astructured questionnaire, additional interviews as needed, publicly available information from start-up websites, other websites and professional journals and books.

4. Results

4.1. Structure of the business model

For the studied start-ups, there is typical youth and entrepreneurial inexperience. Their production is insufficiently original; they provide little evidence regarding the proclaimed originality. The assessment of originality is more of a guess, desire or ambition.

The start-ups unequally perceive the development of entrepreneurial ideas. The development of an idea according to the entrepreneurial cycle is significantly overtaking the development of an idea according to the investment cycle. Evaluating the level of development from external providers of capital is clearly more demanding and shifts start-ups to earlier stages of development. Product development is slightly ahead of knowledge of the satisfied needs and solved problems.

The share of the investigated start-ups is territorially defined between Central European and European markets. In the third stage of the survey, the research sample is dominated by business action in the world market; the share of the European market declined very slightly; the orientation towards the Central European market increased slightly, and the national market was significantly reduced. Customer and market knowledge has been remarkably high since the start of the study and has not changed dramatically during the research. Entry to foreign markets takes place mainly in the form of direct export, hence independently, i.e. without intermediaries.

Customer relations have gone through a considerable transformation. Partial contact accounts for more than one-third of customer contacts at the end of the survey, while shares of self-service, personal and extraordinary assistance slightly decreased and the role of co-creation increased.

People are regarded to be the most important source. They have a 50% share of all start-up resources, whereby resources are slightly more advanced than processes. The most important processes are the realisation of the idea, hence the conversion of the idea to a real product or service, and then the sale of the finished product.

The most important partners are the investor, the merchant and the manufacturer. At the end of the research, the manufacturer was replaced by the component supplier. A decline happened in the share of other suppliers and makers and the share of merchants has grown significantly.

The largest cost items of the operation of start-ups are wages, co-operation and materials. These items remained the largest in the next stages of the research and slightly increased. The largest source of funding in the first stage of the research is own savings, then own resources (retained earnings and depreciations), strategic investors, venture capitalists and business angels. In the second and especially in the third stage, the largest source of financing is own resources (retained earnings and depreciations) followed by strategic investors, own savings and venture capital, with a significant decrease in own savings.

Revenue streams measured by the number of users, the number of customers (customers) and revenues, are underdeveloped compared to other business model blocks, but the start-up performance from the first to the third stage of the research has risen continuously. The reason for non-revenue generation is the product or service itself, as its operation or production implementation and distribution are in the state of preparation. The share of this cause is gradually decreasing and then the resource cost structure and especially the distribution failure and team failure, is growing.

Business model blocks that have statistically significant impact on start-up performance vary between research stages: only the customer relationships block has a relatively stable impact, affecting all the three performance indicators in the second stage of the research, and influencing a number of customers and revenues at the 3rd stage. This block, therefore, has a significant impact on the performance indicators over time (from 2nd to 3rd stage). The largest number of blocks affects the indicator of the number of users.

The conversion from users through customers to revenues has a declining trend, but during the research from 1st stage to 3rd stage this decreasing trend is on a higher starting level. The start-ups with higher conversion and higher revenues have more advanced business models. Many of the start-ups make a sale, yet only few of them make some earnings.

The span between the most and the least developed blocks in the period from 1st to 3rd stage of the research is shortened. The most developed blocks are still customer value proposition and customer relationships; the least developed blocks are distribution channels and revenue sources. The greatest improvement between the first and third stage of the research is recorded at partners and revenue sources, customer segments, and key processes have been changed the least, but partners are still under-average developed block. The blocks of the business model are improving approximately directly in proportion to time, with no signs of growth accelerating.

The business model is gradually homogenised. The individual model blocks increase in accordance with the tightness of the links between them weaken, and the improvement of the model slows down at the last stage of research.

4.2. Monetization of business effort

The source of income for most of the start-ups is the sale of their service (40%) or product (20%). Approximately 20% of the start-ups earn on the intermediation of sale of a service or product and about 20% of the start-ups have not yet found an appropriate source of revenues. Some of the start-ups are not deliberately looking for revenue streams and are devoting to proliferation of the number of users to monetise them later.

Almost one half of the start-ups receive an income by standard payment when selling a product or service. Less than a third of the start-ups sell basic product or service for free, whereas money is generated only through the sale of premium services or from other subject than the user of the service. Premium payments have been required only by 4% of the start-ups so far. About 20% of the start-ups have not yet decided on the type of payment.

Most of the start-ups (41.3%) prefer instant payment at the moment of sale, but subscription payment is growing steadily (29.3%). It is a repeated sale of services that will give start-ups a smaller, but stable revenue stream compared to a one-time sale. A smaller share of the start-ups (12.0%) will get paid only after the service has been executed and billed. The rest of the start-ups (17.3%) have not yet chosen a payment timing.

The start-ups with the highest profit offer products, sell for money and take the payment directly at the point of sale. The start-ups with the highest losses offer services, sell them for money and the payment is made in the form of a subscription.

4.3. Leadership and team

The leaders of the studied start-ups are competent visionaries, they achieve to create above the average original and attractive vision. However, it does not reach the level of the absolute peak. They manifest a slightly lower quality of leadership in the ability to inspire, excite and motivate their co-workers to acquire a defined vision. The leaders are also slightly less skillful in encouraging team members to face problems, complications and failure. A relatively weaker trait of leaders is the development of co-workers’ competence through further education, coaching and mentoring. The role of the leader as a visionary during the development of a start-up is gradually decreasing, although the reminding of the main joint goal is needed constantly. The quality of the leader’s encouragement is less expressive and decreases during the research, yet it rises again at the last stage of research.
The teams have demonstrated a high degree of internal cohesiveness, mutual support and trust in unpleasant, unpredictable situations. Such situations are a lack of money for workaday operation, no payment of wages, extraordinary work effort and personnel changes in the team. The formal division of job responsibilities and roles in the team reaches the lowest rating amongst parameters of team work. The start-up teams consist mostly of versatile and self-confident individuals who submit to the authority of a chief with displeasure. On the other hand, the leaders lack managerial skills. The quality of team work recorded a slight decrease from the 1st to the 2nd stage of the research, however all the parameters of the team work increased at the 3rd stage. On the path to their success, the start-ups have to overcome a number of different obstacles and, they will fail without cohesive and cooperative teams.

4.4. Business strategy

Most of the start-ups serve several market segments with a tendency to reduce their number. The differentiation of products is noticeable, as far as 90% of the start-ups are different in originality at the international level (from Central European to Worldwide). The differentiation has a very slight tendency to decline. A significant share of the start-ups (78%) have costs at the same and lower levels as competitors, slightly declining during the stages of the survey. The product prices category has a similar tendency. The exceptional capability of the start-ups lies primarily in a substantial difference or, they try to do things differently and offer different values, while they are only slightly different in costs, prices and market segments.

More than 70% of the start-ups operate in foreign markets, at least in Central Europe. The share of internationally operating start-ups increases during the survey.

The reasons for entering international business are the size and the rate of growth of the foreign market, the proximity to the local customer (after the establishment of a branch), cooperation with foreign investors and attractive, but usually small, acquisitions abroad.

The vision/ambition of start-ups is to become apparent at least at the European level. They are placed in industries where the life cycle is between the phase of growth and the phase of maturing. The business environment has average dynamics and complexity, relatively good predictability over a period of three to five years, and the average intensity of competition. The competitive position of most start-ups is also average. Quality/added value of production is considered to be comparable to competitors at the European level, yet the key and competitive advantage are evaluated at a level approaching European one only.

The action/strategising of the studied start-ups is defensive with a tendency to offensive. They follow pioneers in their industries and adapt to them. Their dynamics and speed of action, sensitivity and perception to external impulses are average with a tendency to increase dynamism and sensitivity. Their action or real strategies differ from competitors’ strategies to a greater extent, but it is not a big or a complete difference.

4.5. External support

Start-ups receive minimal or low support from the government and public institutions and, at the same time, do not trust support. They expect stable and transparent business conditions for companies of any size. They appreciate, however, the assistance from the government agency for the development of SMEs, which encourages participation of start-ups in foreign events, makes foreign contacts available and offers consulting.

A lack of start-ups and larger companies is evaluated more positively, yet it is labelled by concerns about non-equivalent relationship and possible misuse of trade secret. The simplest is trade cooperation, which is a purchase of a number of products and offer of distribution. Larger and more experienced companies offer consulting, contacts, premises, financing, partnership and repurchase at exit.

About start-up business and start-ups themselves is relied to a greater extent than the government and large companies. The assistance of start-ups scene resides in consulting, mentoring, lectures, events, providing premises for business making and creative activities, cohabitation in a communicating and cooperating start-up community.

The most appreciated is the support from investors, which is expressed in helping with the business model, marketing, intermediation of contacts, consulting, team building and, ultimately, providing finance. The investor is expected to be smart and, besides some finance, he/she delivers advice, experience and networking.

In addition to start-ups which expect some help from the outside, there are also start-ups that avoid it because they want to maintain their independence and their original concept, or they look for support only later in their development, or commitments following from the external assistance are too costly for them.

4.6. Discussion about research results

The business model of start-ups is formally arranged and functional. A key start-up asset is a business idea that is being developed on the basis of a business model. A start-up is an enterprise with extremely limited resources, and therefore it has to open its business model and replenish it with complementary external assets. However, a closer look suggests that start-ups are relatively closed and their model is inadequately interconnected with the environment. Start-ups know their customers well, but they do not know how to get towards them. They do not create partnerships in a sufficient range and quality. They work with relatively high-quality resources, yet they cannot fully exploit them due to less functional internal linkages, and therefore it is also obviously unclear binding of the model to the performance of a start-up. It may be thought that it is a consequence of the youth and inexperience of founders with the company’s internal operation and the lack of knowledge of the business making rules.

The monetisation of the studied start-ups is a little sophisticated, too traditional and without experimentation. Start-uppers rely on a simple assumption that a successful business model will directly guarantee successful monetisation too. However, the transformation of the produced and delivered value into money is a special business task and invention. Firstly, investors require getting huge masses of users from some start-ups and then some part of them will be monetised. The database of a large number of users helps the later at conversion on customers or at selling a start-up for a high price.

The founders are characterised by visionarity and enthusiasm, which is gradually exhausted and not supplemented or replaced by managing. The founders are not prepared for a change of the content of managerial work, which is a shift from leadership to managing, from informal relationships to formal division of labour, from friendly relations to at least moderate hierarchy, from volunteering to punctual and accurate fulfilment of duties.

In the business strategy, there is a discrepancy between the declared originality, considerable distinctiveness, high aspirations (subjective perception) of a start-up and industry conditions/parameters (objective reality), which is more typical of less original and ambitious entrepreneurship. The transformation and stabilisation of start-ups are not evident, proved by the market and feedback from the customer, and therefore a surprising corrections of the business strategy can be expected during the maturity of industry and increase of competition intensity. Most start-ups have too many ambitions at the beginning of business making, e. g. targeting/addressing on too many segments.

Public support should bridge the inexperience of start-ups and the lack/absence of money. Easy access to investments will do more harm than good, and therefore investments should come from private sources only, otherwise they are the cause of irresponsible actions. Start-ups that receive support, however, must count on the loss of independence to a greater extent. Solving the discrepancy between the originality and independence is the key to the progress of start-ups on the
basis of public interest. Any support is effective only if there is mutual trust between the provider and the recipient, and an agreement that start-ups change and transform their business and become exponential organisations (ExOs). Start-ups that have participated in the research are three to four years old, their growth is for now slow but they can potentially become (ExOs), e.g. Vectomy, Ixworx, Mente gram and Eyerim. Esset (antivirus software) that has been in operation for five years and has been globally known for a long time. A start-up is the most significant Slovak ex-start-up with ExOs features, and Sygic (mobile navigation) approaches it.

Pixel Federation, ColosseoEAS, DECENT, Exponea, Sli.do and GA Drilling are also approaching exponential organisations. The main constraint to the progress of start-ups is the lack of the capital they need, which amounts to tens of millions of euros.

5. Conclusion

A start-up is a very small enterprise that has to deal not only with the variability and unpredictability of the business environment, but also with its own imperfection. Imperfection is not a deficiency; it is a natural trait of start-ups. It renews in the contradiction between a business idea and externally limited resources. The solution is in opening and complementing the business model with external complementary assets. A start-up is driven by enthusiasts that later fades and must be replaced with more cold professionalism. An increase in entrepreneurial professionalism is the most significant challenge for the surveyed start-ups. This, however, means that the founders will have to share the managerial and proprietary control of the enterprise with experienced managers and investors, because the acquisition of own experiences and capital is a long-term issue. Loss of managerial, and in particular, proprietary independence, is frustrating, and it is another challenge for start-uppers.

Start-ups are thinking about business strategy, yet so far it is rather an idealised idea than real action, and therefore they should reinforce realistic perception of their position in the business environment through continuous feedback, carry out entrepreneurial experimentation, creatively and persistently develop and implement ideas. If start-ups want to get external support, they will have to demonstrate an viability on the base of their own efforts, verified results and their own financial resources.

Further research will probably be focused on turning start-ups into a standard small or medium enterprises. Key themes include completing the business model, distribution channels, routine operation, determination of start-up value, sale of the owner’s shares, conditions of exit and business strategy in growing competition in the mature industry.

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Received 1.06.2018