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An Empirical Study on Determining the Advanced Concept of Business Startup: A Theoretical Perspective

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***Abstract* – Startups are brand-new companies that fight to survive. Most of these organizations are founded on amazing ideas and develop into successful businesses. The literature on management, organization, and entrepreneurial theories makes reference to these occurrences. This essay attempts to analyze the "startup" phenomena and identify potential obstacles in three key areas. The article ends with some closing thoughts after going over the three stages of startups Bootstrapping, Seed, and Creation—as well as the difficulties.**

***Keywords* - Startups, Life Cycle, Entrepreneurship, Management, and Organization**

I. INTRODUCTION

Startups are some of the most effective creators and innovators of new ideas. The creation of new jobs or filling of patents isa reflection of supporting local innovative startups whereby new companies are possible to be developed, and existing product ideas to be expanded thus, strengthening the economic system. Financial constraints, lack of commercial experience and managerial are parts of startups' difficulties as startups tend to rely on financial resources as well as enabling infrastructure for survival.Additionally,start-ups rely on establishing trusting relationships with key stakeholders namely financial resource providers.

Definition of Start-up

Start-ups are recognised as having high involvement in innovation activities. Start-ups are seen as a crucialsource of innovation.The term "start-up" originatedin the U.S. in the late 1970s and became popular inthe late 1990s as part of the internet hype and technologyand blazed out in the 2000s.Additionally, the term was established by venture capital to distinguish between new companies and small businessesthat have scalable fast growth potential, and the term is tied to risk funding and technology mindset.

According to the Cambridge Dictionary, "startup is a small business that has just been started". This definition is very general, and it has many opponents. One of them is Paul Graham, a co-founder of Y Combinator. He defines a startup as "a company designed to grow fast". He argues that not all newly founded companies are startups and that working on technologies and seeking venture funding does not define a startup. For startups, the most essential thing is growth. Another well-known definition of startup comes from Steve Blank and Bob Dorf, who states that "a startup is a temporary organization in search of scalable, repeatable, profitable business model". Eric Ries, an author of The Lean Startup, writes "A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty". He states that startups are not only about excellent ideas and technological breakthroughs but also about people who create them. According to him, a startup is especially a human endeavour, and its success lies in innovations and technologies.

II. RESEARCH METHODOLOGY

The study is based on secondary data which has been collected through journals, magazines, newspapers, research papers, books,websites etc.

Start-ups theories

Start-ups are rarely considered the main focus of theories in different domains. However, some theories could be implicitly considered as "start-up theories" in the existing literature. This paper categorizes these theories into three main areas: (i) organization, (ii) management, and (iii) entrepreneurship.

Organization theories focusing on start-ups

Van de Ven et al. (1984) were among the first scholars who considered three main approaches to studying start-up creation. They considered entrepreneurial, organizational and ecological approaches; and argued that prior research had only examined one of these three approaches without considering the others. As they pointed out: "The

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organizational approach argues the conditions under which an organization is planned and the processes followed in its initial development [phase, which] have important consequences on its structure and performance in later life".

Yet, organization theories are silent on the issue of organizational evolution, or more specifically on start-up evolution (Salamzadeh, 2015a).However, there is limited research that investigates the start-up phase (e.g. see Boeker& Wiltbank, 2005).Moreover, most of the existing theories and perspectives in organization science are defined to answer organizational questions. Among these theories, the following are more relevant in studying start-ups: organizational ecology theory (e.g. see, Scholz & Reydon, 2009), organizational configurations (e.g. see, Miller, 1990), contingency theory (e.g. see, Tosi& Slocum, 1984), resource dependence theory (e.g. see, Davis& Cobb, 2010), uncertainty theory (Kamps &Pólos, 1999), etc. Among the existing theories, Gartner (1985) and Katz and Gartner (1988) are more specifically related to this category.

Management theories focusing on start-ups

According to its general definition (getting things done through other people, or coordinating the efforts of people toward common goals), management is about people (Hofstede, 1999). On the other hand, management theories are either "perspectives" or "descriptions of the relationships among organizational characteristics" (Dean & Bowen, 1994).Thus, according to this view, while management theories have less to do with start-ups in an organizational sense;theyhave more to do with those entities as individuals/teams that coordinate their efforts toward some common goals.

Moreover, management theorists and scholars are becoming more interested in studying start-ups (Davila et al., 2003). Some of the main management theories used in start-up research are as follows: strategic management (e.g. see, Pettigrew et al., 2001), small business governance (e.g. see, Ritchie& Richardson, 2000), human resource management (e.g. see, Miles & Rosenberg, 1983), team management (e.g. see, Kaiser& Müller, 2013), complexity theory (e.g. see & Lan, 2006), etc. However, these theories are looselyconnected to start-up research and are mostly considering start-ups as their samples or cases.

Entrepreneurship theories focusing on start-ups

In Van de Ven et al.'s (1984) view, "the entrepreneurial approach argues the characteristics of the founder and promoter of a new organization". Although this view holds a basic presumption regarding the existing theories, it lacks enough entrepreneurial focus on the phenomenon in question, i.e. start-ups. Although the founder is important, there are several issues to be discussed, described, and explained by entrepreneurship theories on startups. As Salamzadeh (2015b) argues, entrepreneurship theories on start-ups fall into two categories: (i) macro-level theories (e.g. see, Schumpeter's theory (Schumpeter, 1934), population ecology (Hannan and Freeman, 1977)), and (ii) micro and macro level theories (see e.g. Vesper, 1990; Lim et al., 2008; Bhaves, 1994; Veciana, 1988; Deakins and Whittam, 2000; Núñez, 2007; Serarols, 2008; Samuelsson and Davidsson, 2009).

This category of theories is more focused on start-ups. This might be due to several reasons. First, entrepreneurship deals with ideas, creativity, innovation, new product or service development, opportunity, and the like. Thus, entrepreneurship theories are more prone to be considered in the early stages of any business or organization. These concepts are integral parts of a start-up (Radovic-Markovic&Salamzadeh, 2012). Second, going beyond entrepreneurship theories, theories of organization and management will emerge, which deal with managing people and organizations (Van de Ven et al., 1984).Third, startups are about turning ideas into businesses which is a critical point in entrepreneurship studies such as new venture creation, value creation, and opportunity recognition, evaluation and exploitation.

The lifecycle of start-ups

However, start-ups are diversified and complex, these entities have their lifecycle. Hopefully, research on start-ups' lifecycle has been well-developed in the last few years (see Salamzadeh, 2015a, b). Since the sequence of activities and stages might vary among different start-ups, a holistic perspective is presented in this paper to offer a better understanding of the lifecycle of start-ups. The stages are as follows (Figure 1):

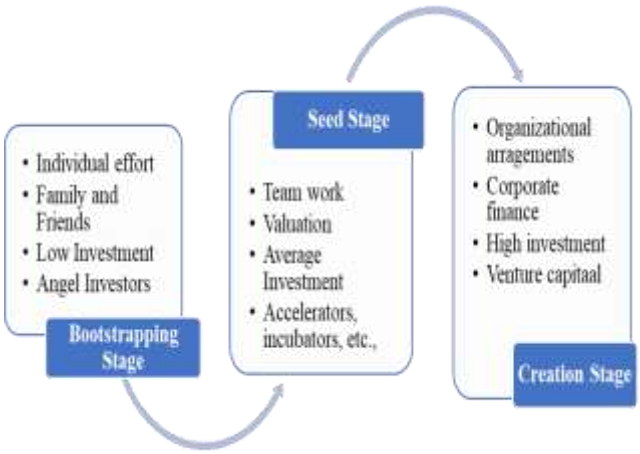

Figure 1. Lifecycle of start-ups (source: self-elaborated)

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Bootstrapping stage

In this very early stage, the entrepreneur himself/herself initiates a set of activities to turn his/her idea into a profitable business. However, he/she considers a higher risk or even uncertainty level, continues working on the new venture idea, makes a team, uses personal funds, and asks family members and friends for their investment in the idea. Bootstrapping, which is sometimes defined as highly creative ways of acquiring the use of resources without borrowing (Freear et al., 2002), is considered to be one of the areas of entrepreneurship research that most need to be addressed (Ebben& Johnson, 2006). The purpose of this stage is to position the venture for growth by demonstrating product feasibility, cashmanagement capability, team building and management, and customer acceptance (Brush et. al., 2006). Moreover, angel investors are more likely to invest in this stage. In sum, as Harrison et al. (2004) argue: "bootstrapping is a way of life in entrepreneurial companies". This argument reveals the reason why most of the theories of start-ups are borrowed from entrepreneurship theories (see, Entrepreneurship theories focusing on start-ups).

Financial bootstrapping may allow young ventures to pursue new opportunities without the need to own a sizeable resource base and without the need to raise external finance. Bootstrap strategies take two interrelated forms (Freear, Sohl, and Wetzel 1995; Van Auken and Neeley 1996; Winborg and Landstro¨m 2001; Harrison, Mason, and Girling 2004). First, it includes strategies that minimize the need for cash by securing resources at little or no cost. Entrepreneurs may, for instance, rely on their social contacts to obtain free access to specific resources. Second, it includes strategies to acquire resources without using bank finance or outside equity finance. Entrepreneurs may, for instance, rely on subsidy finance or use personal sources of finance.

Seed stage

After the bootstrapping stage, the founder enters into a new stage, which is the seed stage. This stage is characterized by teamwork, prototype development, entry into the market, valuation of the venture, seeking support mechanisms such as accelerators and incubators, and average investments to grow the start-up. Frankly speaking, for most startups the seed stage is a mess and is construed as highly uncertain (Salamzadeh, 2015 a). The seed stage is characterized by the initial capital that is used to do product and/or service (Manchanda & Muralidharan, 2014). Thus, the founder seeks support mechanisms such as accelerators, incubators, small business development centres, and hatcheries to accelerate the process. A great number of startups fail at this stage. Since they could not find support mechanisms in the best case they would turn to a low-profit company with a low rate of success. On the other hand, those who succeed in receiving support would have a higher chance of becoming profitable companies. Valuation is normally done at the end of this stage.

Creation stage

The creation stage occurs when the company sells its products, enters into market, and hires its first employees (Salamzadeh, 2015). Some scholars believe that entrepreneurshipstops when the creation stage is ended (Ogorelc, 1999). This supports the argument that most of the theories that cover start-ups are borrowed from entrepreneurship theories and not management and organization theories (see Entrepreneurship theories focusing on start-ups). At the end of this stage, an organization/firm is formed and corporate finance is considered as the main choice for financing the firm. Venture capital could facilitate the creation stage, by funding the venture.

Start-up India Action Plan

The Government's Action Plan will help accelerate the growth of start-ups throughout India, across all important sectors – in Tier 1, 2 and 3 cities, including semi-urban and rural areas – and includes promoting entrepreneurship among SCs/STs and women communities.

The Start-up India Action Plan was unveiled by Prime Minister Narendra Modi on 16th January 2016 to highlight several initiatives and schemes proposed by the Government of India to build a strong ecosystem to nurture innovation and empower startups across India.

The 19-point Action Plan, organized by the Department of Industrial Policy & Promotion (DIPP), focuses both on restricting hindrances and promoting faster growth by way of:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

Launch of Start-up India Action Plan Start-up India's 19-Point Action Plan

- Self-certification compliance,
- Single point of contact via Start-up India Hub
- Simplifying processes with mobile app and portal (for registration, filing compliances & obtaining information)
- Legal support, fast tracking & 80% reduction in patent registration fee
- Relaxed norms of public procurement
- Easier & faster exit
- Funding support via a fund of funds corpus of INR 10,000 crore
- Credit Guarantee Funding
- Tax exemption on capital gains
- 3-Year income tax exemption

- Tax exemption on investments above Fair Market Value (FMV)
- Annual start-up fests (national & international)
- Launch of world-class Innovation Hubs under the Atal Innovation Mission (AIM)
- Set up of country-wide incubator network
- Innovation centres to augment incubation and R&D
- Research parks to propel innovation
- Promote entrepreneurship in biotechnology
- Innovation-focused programs for students
- Annual incubator grand challenge

III. GOVERNMENT OF INDIA& TAMIL NADU INITIATIVES FOR THE DEVELOPMENT OF START-UPS

A few initiatives of Indian Government's effort at promoting Entrepreneurship and Innovation include Start-up India (2016), Make in India (2014), Atal Innovation Mission (AIM), Support to Training and Employment Programme for Women (STEP), Biotechnology Industry Research Assistance Council (BIRAC), DST, JAM, Digital India, Stand-Up India (2015), Trade Related Entrepreneurial Assistance and Development (TREAD), Pradhan Mantri Kaushal Vikas Yojana (PMKVY), National Skill Development Mission (2015), etc.

The latest announcement of a new start-up and innovation policy by the Government of Tamil Nadu has given a boost to create 1 lac jobs and 5000 start-up firms including 10 high-growth firms by 2023

IV. CONCLUSION

This paper explains and conceptualises start-ups by elaborating their lifecycle. The lifecycle includes three main stages, which are the bootstrapping stage, the seed stage, and the creation stage. Moreover, the paper concluded that among the three main streams of research on start-ups, entrepreneurship theories are the most dominant theories.Finally, the paper highlighted a few start-up schemes of the Centre and State.

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