ENTREPRENEURIAL CULTURE IN HUNGARY – THE HYPE OF START-UPS

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ABSTRACT

The main focus of this article is to discuss startups from an entrepreneurial perspective, emphasizing the context and external sources for managing startup enterprises. First, a number of definitions of "startup" businesses will be provided. Startup as an enterprise and startup as a culture will be differentiated. As entrepreneurial and macro perspectives are adopted, some economic criteria and statistics will be provided, with a special focus on comparing Hungary to other countries along innovation, entrepreneurship and financial capital. This will give a clearer picture of Hungary's potential for startup-exits.

1. What is the definition of a "start-up" business?

1.1 Date of foundation, size and industry – Do they matter?

Some define startups as newly formed businesses that are in the phase of intense development and market search with a rapid growth potential in short time, thus emphasizing the aspect of time. According to Merriam-Webster, start-up means "the act or an instance of setting in operation or motion" or "a fledgling business enterprise." The American Heritage Dictionary suggests it is "a business or undertaking that has recently begun operation."

As Paul Graham, head of Y Combinator accelerator explains: a startup is a company designed to scale very quickly. This focus on growth unconstrained by geography differentiates startups from small businesses. Graham argues "A company five years old can still be a startup." Startups are often equated with tech-companies; however, a startup can be of any industry as long as they have the potential to scale rapidly.

Another definition provided by Eric Ries (2011), author of the Lean Startup (2011), capture startups as "a human institution designed to deliver a new product or service under conditions of extreme uncertainty" (2011). Thus, franchise companies do not fall under the criteria of startup business. It means he also differentiates startups from small businesses.

Some define startups as SMEs: "A company that is in the first stage of its operations. These companies are often initially bank rolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand. Due to limited revenue or high costs, most of these small scale operations are not sustainable in the long term without additional funding from venture capitalists." This definition emphasizes the age and size of the company that equals to the definition of SMEs.

1.2 Organizational Culture

Some claim that innovation is the essence of a startup and "the way things are done" qualify a business to fall in the startup category. Thus, these emphasize the organizational culture of an enterprise. Neil Blumenthal, cofounder and co-CEO of Warby Parker says "A startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed," "Startup is a state of mind," says Adora Cheung, cofounder and CEO of Homejoy.

"It stops being a startup when people don't feel as though what they are doing has impact," said Russell D'Souza, co-founder of ticket search engine SeatGeek. "I don't think the tipping point is a certain number of people, but an atmosphere that people individually and collectively can't will the company to success." (Forbes 2013.12.16).

We can conclude that startup can refer to the size and structure of the organization and also it can refer the organizational culture. This approach can legitimize to call, for instance, Google or IDEO a startup. Although the sizes of these organizations exceed the size of SMEs and processes are formalized to some extent, the core values and their belief in innovation reflect a startup culture. What a startup culture means is out of the scope of the present study. In the following paragraphs some business environmental aspects will be mentioned that are essential for creating a number of flourishing startups.

The definition adopted in this study refers to the rapid growth potential of a small enterprise. Such small enterprises evolve into mid-size enterprises in 3-5 years and they develop a paradigm-shifting product.

1.3 What are the benefits of startups?

Startups are agile and grow rapidly. Therefore it is no question that they refresh and accelerate a country's economy. In Hungary, 98% of the six hundred thousand enterprises are small and micro (KSH 2013).

What factors are essential to stimulate the evolution of small and micro businesses into mid and large sized enterprises? In this study innovation, financial capital, entrepreneurial spirit will be investigated.

2. External criteria

2.1 Entrepreneurial spirit – The level of entrepreneurial spirit

If we have a look at the table with the ratio of forced entrepreneurs in EU countries, we can observe that Hungary is among the top ten countries with the highest number of forced entrepreneurs. This suggests that entrepreneurs have founded their companies with the aim of ensuring employment for themselves because there was no other alternative for making a living. This motivation is different to the genuine motivation of becoming an entrepreneur, which aims at providing employment to others and create something truly valuable to the world. As Gerber (1994) says, the secret of a flourishing company is to work on your enterprise, instead of working in it. It suggests that entrepreneurs should always aspire for constant development, growth and improving their management skills.

If we have a look at the table of comparing countries along innovation, we can conclude that countries with high ratio of forced entrepreneurs do not fall in the innovative category, thus innovation and forced entrepreneurship are inversely proportional.

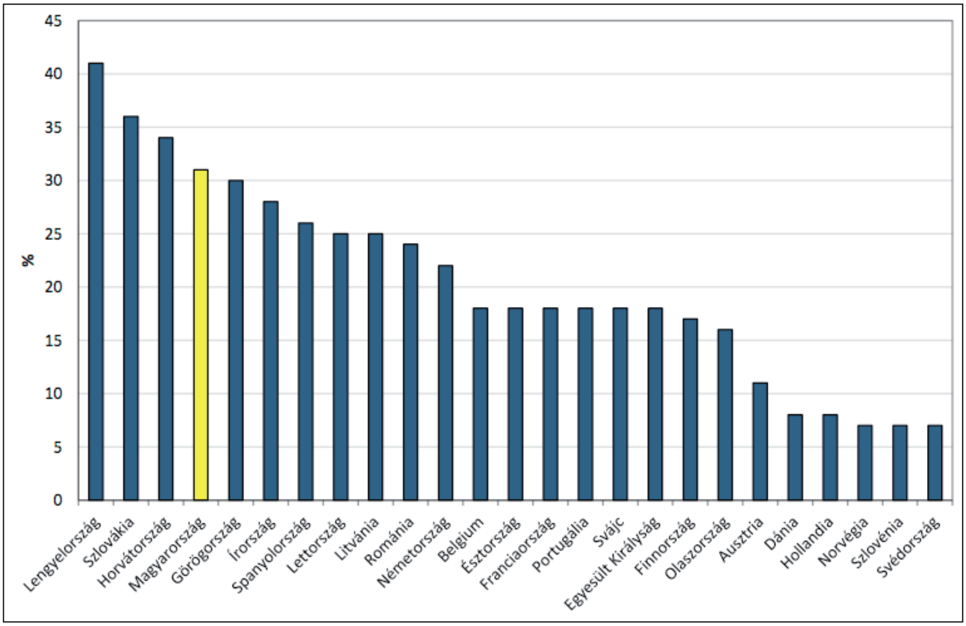
In the table below, it can be observed that micro and small enterprises outnumber that of other EU countries; nevertheless, the added value of Hungarian micro and small enterprises they contribute to the GDP is lower than in other EU countries.

1. Table: Percentage of Enterprises, percentage of employees, and added value 2011.

	Percentage of enterpri-ses (%)	**Employ-ment (%)**	**Added value (%)**			
	EU	HU	EU	HU	EU	HU
micro	92.2%	94.8%	29.6%	36.5%	21.2%	18.2%
small	6.5%	4.4%	20.6%	19.3%	18.5%	15.9%
medium	1.1%	0.7%	17.2%	16.9%	18.4%	19.5%
big	0.2%	0.1%	32.6%	27.1%	41.9%	46.2%

Source: Wymenga 2012.

1. Figure: Percentage of forced entrepreneurs in Europe in 2012.



Source: Xavier et al 2012. In: http://iksz.beszolunk.hu/x-program-ii-resz-kkv-reszere-jelentos-berjarulek-csokkentes-reformok-a-nyugdij-es-onkormanyzati-rendszerben/ 2014.06.10

2.2 Financial Capital to invest

Today in Hungary many believe that there are a great number of opportunities for funding a startup (e.g. Jeremie funds, business angels, business incubators, venture capitalists and loans provided by the government). Although investments have been made to thrive Hungary’s entrepreneurial culture, the number of exits does not prove the success. What could be the reason for this phenomenon? The answer lies in the fact that Hungarian entrepreneurs lack management skills as well as in the risk-avoidance attitude of venture capitalists and business angels. Venture capitalists and business angels in Hungary has not adopted a more risk-seeking behavior that would differentiate them from banks and governmental institutions. As Eric Ries states in his book, startups operate in an extremely uncertain business environment where the well-known metrics and strategy creation methods do not apply, thus the standard profit calculations often fail. A novel and more risk-seeking attitude and approach would be beneficial to be adopted by venture capitalists when negotiating on investments.

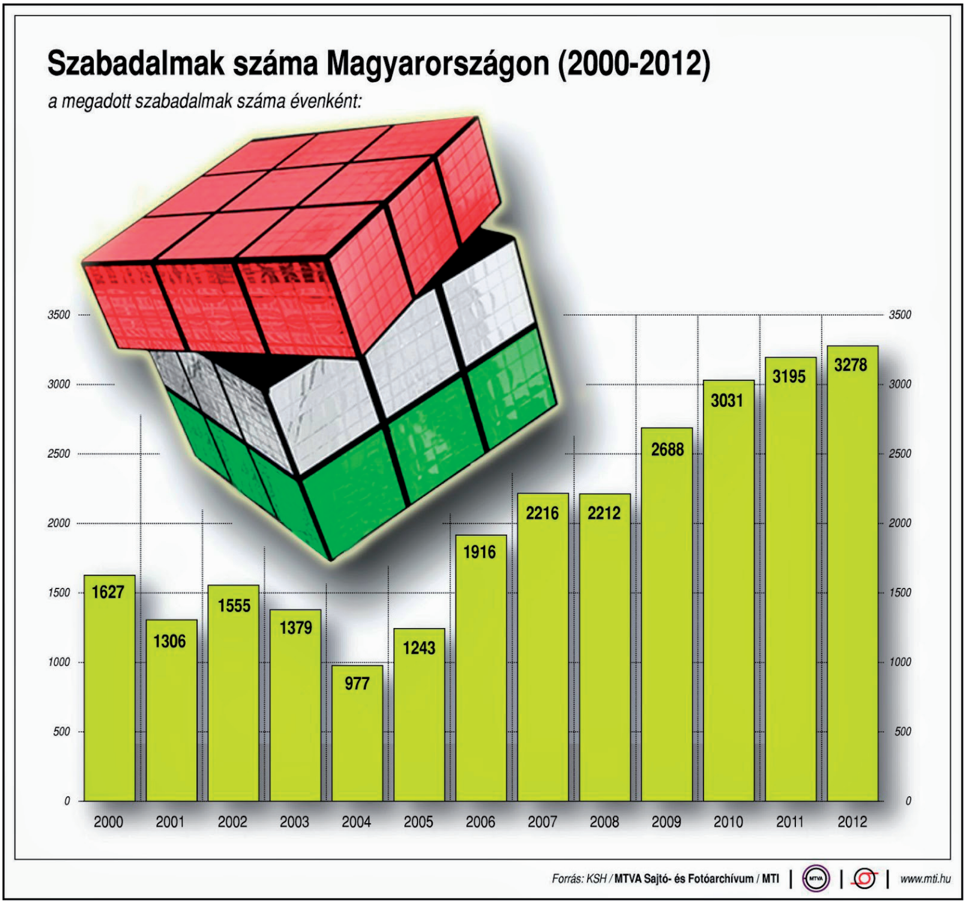
2.3 Creativity and Innovation

To what extent Hungary is a creative and innovative country?

Hungarians tend to call themselves creative and innovative where the quality of education excels that of other EU countries. Nevertheless, the statistics show somewhat different results.

As regards ideas and innovations, the statistics of SZNTH show that the number of patents has increased in the past years; however, compared to EU countries Hungary has secured only a few numbers of patents. (In 2011 Germany protected 405 patents / 1 million people; Ireland 158; Italy 83, Spain 54, Portugal, Greece 12, Hungary 17) (European Patent Office; 2011 Statistical Yearbook).

2 Figure: Number of Patents in Hungary (2000-2013)



Source: KSH/MTVA 2013

According to the GEM ranking, Hungary's economy is considered to be efficiency-driven, rather than innovation-driven (GEM 2013 p10).

Furthermore, being an innovative country also means that the enterprises can manage their innovation pipelines and make innovations become realized. However, Hungary severely lacks this capability if we examine the number of exits and the penetration of Hungarian patents in the international market.

The difficulty in making innovations realized lies in the fact that there are a limited number of positive examples and role models from which startups could learn. First, there is a great abyss between successful multinational companies that have developed innovation management know-how. Such type of knowledge-sharing is lacking. Secondly, SMEs can learn how the big companies achieve success from case studies; however, most available learning stories are not region or country specific. Thirdly, more and more multinational subsidiaries restrict their operations to the most essential ones: research and development/ innovations are not among them. Furthermore, in Hungary there is no competition in terms of innovations, neither startups nor big companies urge fast growth. Thus, the speed of growth in terms of innovations, revenue, workforce and knowledge acquisition is not stimulated, compared to Israel or to the Silicon Valley in the U.S. where fierce competition drives the whole startup ecosystem.

In conclusion, startups could be engines of the national economy; however, they are embedded in a business context. This means a number of other factors should positively contribute to thrive startups. Financial Capital is an essential but minor component. Investors' attitude, entrepreneurs' motivation, management skills as well as professional knowledge should be equally developed in order to increase the likelihood of Hungary become Central-Eastern Europe's startup hub.

3 Figure: GEM Economies By Geographic region and economic development level

GEM ECONOMIES BY GEOGRAPHIC REGION AND ECONOMIC DEVELOPMENT LEVEL

Region	Factor- Driven Economies	Efficiency-Driven Economies	Innovation-driven Economies
Latin America & Caribbean		Argentina[2], Brazil[2], Barbados[2], Chile[2], Colombia, Ecuador, Guatemala, Jamaica, Mexico[2], Panama[2], Peru, Suriname, Uruguay[2]	Trinidad and Tobago
Middle East & North Africa	Algeria[1], Iran[1], Libya[1]		Israel
Sub-Saharan Africa	Angola[1], Botswana[1], Ghana, Malawi, Nigeria, Uganda, Zambia	Namibia, South Africa	
Asia Pacific & South Asia	India, Philippines[1], Vietnam	China, Indonesia, Malaysia[2], Thailand	Japan, Republic of Korea, Singapore, Taiwan
Europe - EU28		Croatia[2], Estonia[2], Hungary[2], Latvia[2], Lithuania[2], Poland[2], Romania, Slovak Republic[2]	Belgium, Czech Republic, Finland, France, Germany, Greece, Ireland Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Sweden, United Kingdom
Europe - Non-EU28		Bosnia and Herzegovina, Macedonia, Russian Federation[2], Turkey[2]	Norway, Switzerland
North America			Canada, Puerto Rico*, United States

1) In transition phase between Factor-Driven and Efficiency-Driven
2) In transition phase between Efficiency-Driven and Innovation-Driven
* Puerto Rico is considered to be a part of North America for its status as an associate state to the United States, even though this economy shares many characteristics of Latin American and Caribbean countries.

Source: Amarós – Bosma 2014

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