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STARTUPS: THE ESSENCE AND FEATURES OF FORMATION ON THE EXAMPLE OF FOREIGN EXPERIENCE

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ABSTRACT

This article examines the content, essence, role of startup projects in the development of an innovative economy. The study also analyzes the conditions for the formation and development of startup on the example of developed and developing countries. As the authors of the report note, the difference between the most innovative companies and the companies lagging behind in this aspect lies in the degree of activity of searching for developments from third parties. In other words, a startup is a business, but not every business can be recognized as a startup. A business, as a rule, uses a ready-made business model, receives loans for the implementation of an entrepreneurial idea with subsequent payment of interest.

KEYWORDS: *Competition, Innovation, Startup, Investment, National Economy, Innovative Development, Ecosystem, Venture, Stages of Financing.*

INTRODUCTION

Modern realities of the development of the world economy are characterized by the fact that the country's competitive advantage is closely correlated with its innovativeness: knowledge reflected in innovative products or processes is today the main capital in society that contributes to economic growth and an increase in the country's living standards [1]. Building an innovation ecosystem is unthinkable without the development of innovative entrepreneurship in the form of start-ups - innovative companies with a short history of operating activities.

The term “startup”, which means “the beginning of the process” or “start”. Initially, this concept appeared in 1939 in Silicon Valley and is associated with the names of two graduates of Stanford University, who were the creators of a startup company - Hewlett-Packard, which later became a pioneer in information technology and solutions. Now the word “startup” is familiar to almost

every Internet entrepreneur who has decided to implement his grandiose business project [2, pp. 3946–3950].

In order to increase the competitiveness of the national economy of the Republic of Uzbekistan, the transition to an innovative way of development seems relevant; knowledge applied in innovative products or processes is today the main capital in society, contributing to economic growth, improving the quality of life of the country's population. One of the largest consulting agencies The Boston Consulting Group in 2020 published its 14th annual ranking of the most innovative companies, which is based on a survey of more than 1,500 CEOs from around the world; they are such technology companies as Apple, Google, Amazon, IBM, Microsoft, Samsung and others. As the authors of the report note, the difference between the most innovative companies and the companies lagging behind in this aspect lies in the degree of activity of searching for developments from third parties. Leading companies manage 65% of new ideas through social media and big data analytics, while inactive innovators only 14%. According to researchers, it is the ability to find and obtain technology from outside parties and competitors that plays a fundamental role in the implementation of innovations [3].

THE MAIN FINDINGS AND RESULTS

The practice of the world's leading economies shows that one of the levers providing this process are startups - innovative companies with a short history of operating activities [4]. The term “startup”, which means “the beginning of the process” or “start”, was introduced by the creator of the client development methodology, American entrepreneur S. Blank, who defined them as “temporary structures that exist to search for reproducible [5] and scalable [6] business models” [7]. According to E. Rees, a startup is an organization “creating a new product or service under conditions of high uncertainty” [8].

According to venture capitalist P. Graham, the main characteristic of startups is their rapid growth (5-7% per week in terms of the key indicator) [9]. It should be noted that most of the startups in the world are represented in the field of intelligent IT technologies; in particular, such technology companies as Yahoo, Google, Facebook, Uber, Amazon, etc. have received their conceptual development within the framework of start-up projects. At the same time, the technological nature of the business or the small age does not make the company a startup [10]; frequent use of the concept in the context of technology companies characterizes the role of technology in ensuring sustainable growth, but does not imply technological character as a mandatory characteristic of a startup [11].

Thus, a startup is innovative, often informational projects, created with the expectation of their rapid growth and, as a result, high capitalization;

- The main function is to simplify any actions for users in their daily life; the main goal of creating a startup is to sell it to a large corporation or to list its shares on the stock exchange and continue working as a separate company. The work of Start-up Genome and Grow Advisors to systematize knowledge about startups deserves high praise.

According to Grow Advisors [12], the startup ecosystem consists of the following components: ideas, inventions, and research; startups at different stages of development; entrepreneurs, members of start-up groups; Angel investors; startup trainers; startup consultants; other people with entrepreneurial abilities; other organizations that carry out startup activities. It also lists the

organizations and organizational arrangements associated with startups: universities; consulting and coaching organizations; incubators for startups; startup accelerators; co-working centers; service providers (consulting, accounting, legal, etc.); event organizers; selection at startup; investor relations; venture capital enterprises; reverse portals; other sources of funding (loans, grants, etc.); startup blogs and other business-related media; other elements of the environment.

Startup Genome [13] has been analyzing global startup ecosystems for several years, as evidenced by the fact that 4 reports were released in 2012, 2015, 2017 and 2018, respectively. The organization's research is based on the Startup Ecosystem Index, which is used to sort out startup ecosystems. This index is made up of specific parameters and components. The Startup Ecosystems Index (SEI) in 2015 consisted of 8 components that covered trends in startups, finance, company performance, talent, support infrastructure, entrepreneurial potential, ecosystem trends and differentiation, as well as the 2017 SEI 5 report presented in the form of components - the result, funding, market success, talent, and startup experience. The 2018 report used groups of metrics such as the thinking ability of the founder, local communication, the founder's know-how, and demographics for the assessment.

Each report presents the top 20 startup ecosystems in the world, including Silicon Valley, Berlin, Beijing, Singapore and Bangalore. Of particular importance is Silicon Valley, which is the cradle of the startup phenomenon and the most developed startup ecosystem in the world.

Comparison of approaches to American and European startup ecosystems shows the following:

- In the US, a liberal approach to bankruptcy prevails, which, in turn, impedes the development of motivation for startups. In Europe, on the other hand, bankruptcies or setbacks mean business interruptions and loss of talent, so projects with a potential capitalization of more than \$ 1 billion over the next 5 years could fail;
- The procedure for investing in the US is simple, while in Europe conservative investors need many reasons;
- In the US, students are preparing for business by opening start-ups, while in Europe; young people prefer to work in large corporations;
- In addition, Europeans are more willing to invest in their area of residence, while Americans do not consider it a priority, and instead may invest in other parts of the country, even in Europe.

In Asia, start-up ecosystems are characterized by rapid growth, although high growth is observed a little later. The largest and most promising startup ecosystems are Yekaterinburg, Shanghai, Bangalore and Tokyo, as well as China, Singapore, India and Japan.

Features of Asian startup ecosystems include:

- Active participation of the state in financing start-ups;
- Low operating costs: low wages, low rents, low tax rates;
- An active role of the public and private sectors in the implementation of innovative developments;

The situation is almost the same or has characteristics similar to Latin American startup ecosystems.

However, it is necessary to note the difference between a startup and a small business: as a rule, ordinary firms are based on relative certainty and predictability. The future of the new startup, however, is very uncertain - the new idea must find its application and target audience. As the entrepreneur N. Blumenthal notes, "a startup is a company aimed at solving a problem when the solution is not obvious and success is not guaranteed." In other words, a startup is a business, but not every business can be recognized as a startup. A business, as a rule, uses a ready-made business model, receives loans for the implementation of an entrepreneurial idea with subsequent payment of interest. In this case, the founder / and the firms remain its owners.

In a startup, on the other hand, "investments are attracted through" rounds of funding, "and with each round the owner's share is diluted. Thus, it turns out that the owner pays for future super profits with his share "[14]. Thus, the concept of a startup incorporates the interests of three parties: a business initiator offering an original idea;

a venture investor whose goal is to multiply the profit from investments, as well as a consumer who is interested in extracting maximum utility from the consumption of goods and services.

The concept of a startup proposed by S. Blank was aimed at developing a client development model based on testing a prototype of a future product on potential consumers. It consists of four stages, during which a startup is transformed into a stable company [15]:

1. "Customer identification", during which a startup builds hypotheses about how its product solves the problems of potential customers
2. "Verification of consumers", the stage of hypothesis testing and preparation of a sales plan, marketing strategy, search for early adopters of the company. In case of failure at this stage, the startup returns to identifying its customers.
3. "Attracting consumers", after confirming the usefulness of the company's product, the startup moves on to product sales and marketing investments.
4. "Creation of a company" - the ultimate goal of a startup, the creation of a formal structure of the company and business processes for further development [16].

Exploring the international experience in the formation of sources of funding for startups, it is necessary to note several possible investors, in particular:

1. 3F / FFF (from the English words family, friends, fools - literally "family", "friends", "madmen"), who have no investment experience, but are ready to invest in original ideas; bootstrap startup means raising only your own funds for development
2. Business angels; private investors who invest relatively small funds in projects have competencies and connections [17]
3. Venture funds - risky investment companies focused on working with innovative enterprises and startups; they assess the possible success of the project and finance projects
4. Crowd funding is a method of collective financing; a way to raise funds for a project using special Internet sites. It is based on voluntary contributions, which implies the interaction of a crowd funding platform (an Internet site for announcing crowd funding projects and fundraising)

and directly those who finance a project or idea - donors who can receive material or non-material rewards.

It should be noted here that “crowd funding is quite diverse. In addition to gratuitous support or project support for a nominal fee, there is, among other things, crowd-investing, which is focused on micro-investment in startups with further benefits from the future cash flows of this company. Also, crowd funding differs from venture investment in a fundamentally different structure of the transaction itself. In this case, crowd-investing platforms act as intermediaries between micro-investors and startups. Such an intermediary implements all internal venture investment processes - from project verification to closing a deal. For its role in this process, the platform receives a commission (as a rule, no more than 10% of the amount of the completed transaction). In addition, platforms often set a minimum threshold for a transaction. If the required amount is not collected, the money is returned to the investors”.

TABLE 1 FUNDING MODEL FOR STARTUPS BY P. GRAHAM [18]

№	Financing stages	Content
1.	Seed Investment (3F)	cover the expenses of the team for accommodation, development of a business plan and a prototype of a future product
2.	Angel investments (private investors)	A business angel who is part of the company's charter capital usually gets a seat on the board of directors and the ability to block decisions of the founders, which he considers unreasonable. At this stage, the startup gets the opportunity to expand its staff, finish work on the first version of the product, attract the first customers - "early adopters"
3	Round “A” / Venture Fund (further rounds can be expanded)	Attracting venture capital funds to a company with a workable product, clients and development plans. The amount of investment significantly exceeds the previous indicators, the startup begins to build a formal structure and expand
4.	Primary public offer, IPO - placement of the company's shares on the stock exchange	IPO is usually the main goal of a startup in the later stages of development.

At the same time, it should be noted that specialized conferences can be used as alternative ways to find investors. Several such conferences are held annually around the world. For example, a conference in SaryOskol - Startup Village, ClickZ Live New York (New York, USA), Pioneers 500 Festival (Vienna, Austria).

The well-known expert Mikhail Babich, having studied the life cycle of startups in foreign countries, claims that 97% of startups “die at the embryonic stage” without attracting investment, and only the remaining 3% find investors. At the same time, about 2% of them also “die”, because in addition to funding, these startups have acute problems with strategies for product formation and development, as well as problems with team work. Babich's analysis showed that the loss of investment when financing startups is 69%, with 30% of investments returning without return and only 1% making a profit. A startup financing system is considered effective if

the profit from this 1% investment and the return on investment cover 69% of the lost investment [19, p. 176].

The international practice of start-up development shows that the main platforms for the development of start-up initiatives are universities, business schools, technology parks, grant programs and funds, business incubators and accelerators, etc. For example, the Massachusetts Institute of Technology (USA) has created on its basis the infrastructure of high-tech entrepreneurship. The aggregate gross product of companies created by students, graduates and teachers of the institute for 50 years is comparable to that of major world economies [20]. Silicon Valley, which has formed around Stanford University and the factories of large technology corporations, is a prime example of the world's leading startup ecosystem, where the largest major venture capital funds are concentrated. Israel, when considered in proportion to the total population, has the largest number of start-up companies in the world.

It is Israel, after the United States, that occupies a leading position in the world in terms of the number of companies opening (3,500 companies, most of which are engaged in the development, improvement and implementation of high technologies). However, Israel has the highest concentration of high-tech companies in the world, with the exception of the US Silicon Valley [21]. Under the auspices of the Government of the Republic of Uzbekistan, a resolution “On measures to further support innovative activities” No. 721 dated 09/11/2018 was adopted, the purpose of which is to provide financial and other assistance to startups; “The Fund for Support of Innovative Development and Innovative Ideas will provide grants based on self-sustaining projects for startups that are aimed at creating and commercializing domestic scientific developments. An innovative startup accelerator and a startup incubator have been created in the structure of the Center for Advanced Technologies under the Ministry of Innovative Development. Here, small high-tech companies on preferential terms will be provided with lease of laboratory equipment, production facilities and office space for a period of two years (in agreement with the Ministry of Innovative Development, the period can be extended to five years). In addition, residents of the Center for Advanced Technologies until January 1, 2022 are exempt from land tax, income tax, property tax of legal entities, a single tax payment, customs payments for raw materials and components imported for their own needs (except for customs clearance fees) [22].

According to statistics, unfortunately, about 70% of startups wind down their activities in their first year of operation. Among the remaining 30%, about forty do not live until the third year. The main reasons are systematized in the form of table 2.

TABLE 2 THE MAIN REASONS FOR THE “FAILURE” OF START-UP PROJECTS
[23, PP. 3946–3950]

Main reason	Failure percentage	Sub-reasons
Incompetence	51	-lack of knowledge on pricing; - tax evasion; - lack of planning; - ignorance of the economy; -lack of experience in accounting
Inconsistent experience or lack of managerial	35	-lack of experience in working with loans; -too fast expansion;

experience		- the wrong choice of "experience for borrowing"
Lack of experience in the line of products and services	11	-wrong conduct inventory; - ignorance of suppliers; -a waste of advertising budget
Fraud, disasters and more	3	-

Thus, summing up, we can say that for the creation of a startup project, the decisive factor is the generation of fundamentally new ideas that meet the needs of society at a given moment in time. Therefore, we believe that creativity and an unconventional look at many everyday things is the key to the success of your future enterprise.

To date, the Republic is implementing several large programs for subsidizing and providing grants to entrepreneurial projects, [24] in particular:

Yoshlar - kelajagimiz Foundation under the Youth Union ("Youth is our future"); is aimed at providing unemployed youth with work, supporting the implementation of youth business initiatives, start-ups, ideas and projects. The fund provides preferential loans and property through banks on lease at a rate of 7% per annum for the implementation of business ideas and startups. The Fund can: a) issue a guarantee for loans in the amount of 50% of the total amount (but not more than 1 billion soums); b) participate in projects by buying out 50% of the company's value with the condition of selling its share within five years. In 2018, the fund allocated 725 billion soums (about \$ 86 million) for the implementation of more than 6 thousand projects throughout the country.

- Fund for Support of Innovative Development and Innovative Ideas under the Ministry of Innovation. The state budget allocated 50 billion soums to the fund to support start-up projects, as well as innovative research and development projects. The fund's supervisory board includes 16 heads of ministries and departments. Any decision, including the allocation of funding, must be approved by each member of the board. In 2018, a competition for innovative, research, development and start-up projects was announced for the first time. Of the 170 start-up projects that applied for the competition, 16 were selected for funding. In 2019, the second cycle was announced; the amount of funding was up to 1.5 billion soums. The main condition is that the project should become self-sufficient in about two years.

- An intensive program to support the development of innovative ideas and start-up projects, designed for students, university staff, including teachers and researchers, the 5th cycle was announced in 2020. The program is divided into several stages. First, the participants study the basics of launching a project, and then move on to its direct implementation - they draw up a development roadmap, create a prototype and conduct test sales, these events are carried out with the appointment of mentors / consultants. In addition, master classes on marketing, taxation, legal aspects of doing business are held for the participants. They are carried out not only by local, but also by foreign experts. The Demo Day ends, where the teams present the results of their work to interested organizations and potential investors. So, starting in 2018, the project has allocated funds for prizes: five winners of the third cycle program won 40 million soums each; in 2019, five winners also received 50 million soums each for the development of their projects; for the winners of the fifth cycle of the program in 2020, a total prize amount of 2 billion soums was

announced (40 projects of 50 million soums each). Today the program covers all regions of Uzbekistan.

CONCLUSION

In summary, it should be noted that, given not only the socio-economic importance of start-up projects in the context of a structural shift in the direction of innovative and technological business, but also the importance of creating a favorable climate for venture capital and direct investments of the future, it is proposed to create:

- A unified strategy for the development of start-up projects in Uzbekistan, taking into account foreign experience;
- Startup accelerator in the Free Economic Zones, in particular, in the field of tourism, in the field of hotel and restaurant business;
- Business incubators at universities for creating startups in such areas as Internet and mobile banking, e-commerce, international logistics, advertising technologies, systems for processing and analyzing large amounts of information.

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