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**Module Code: LCMB7004**

**ENTREPRENEURSHIP**

**Assessment 2**

**Part 2**

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## Introduction

The goal of this report is to define the concept of a start-up and to identify the various types of start-ups that exist today. The study presented will show an essential overview of key start-up concepts and support systems for start-ups. The author of the report is an independent consultant.

## Definition of a start-up

According to Cook (2020) start-up can be identified as “a new, emerging business.” A start-up mentality will, however, include established companies as long as they function with the same mindset on which they were created (Cook, 2020). There are no established criteria for what kind of business should be labelled a start-up, but the term most commonly refers to high-tech companies producing goods that exploit technology to deliver something new or to perform an existing role in a new way. Many start-up companies do not have goods for sale, and many do not have a revenue source (Rouse, 2020). Barringer and Duane Ireland (2016) recognized three types of start-up businesses:

1. **Salary-substitute businesses:** Small businesses that deliver their owners with a degree of revenue that is close to what they will receive when they work for an employer. Dry cleaners, convenience shops, restaurants, accounting firms, grocery stores and barber shops are examples of salary-substitute businesses (Barringer & Duane Ireland, 2016).
2. **Lifestyle businesses:** Lifestyle businesses include personal trainers, golf and tennis professionals, bed and breakfast operators, and tour guides. These companies are neither creative nor fast-growing. Lifestyle companies typically endorse a single sport, hobby, or pastime, and may hire either the owner or a few of people (Barringer & Duane Ireland, 2016).
3. **Entrepreneurial businesses:** These companies bring new goods and services to the market by creating and then taking advantage of opportunities. Dropbox, Facebook and LinkedIn are well-known, highly lucrative examples of

entrepreneurial companies. Having realised the potential, entrepreneurs of this sort develop goods and services that are worth, are essential to their customers and provide a measure of usefulness to their customers that they would not otherwise have (Barringer & Duane Ireland, 2016).

### Start-ups key principles

Cook (2020) identified six key principles unifying all the start-ups. They are displayed in the diagram shown below with more detailed explanation to follow.



**Diagram 1:** Start-ups key principles, based on source: (Cook, 2020)

1. **Founders and registration:** The founders have the idea that they want to take steps to bring about change in the market and are committed to making it happen, often because of a personal connection. To be a start-up, some people suggest that you have to be a formally recognised company, whether you have only one team member or 15 (Cook, 2020).
2. **Funding:** Start-ups tend to be self-funded or receive angel-funded funding (an individual (or group of individuals) investing in start-ups to support companies, often offering expertise and guidance) or venture capital firms. What separates these from other sources of funding is that there is much more collaboration between investors and founders (Cook, 2020).

3. **Global view:** One of the main distinctions between start-ups and small companies is that start-ups have an idea that can be applied and sold internationally. If a start-up can develop a specific business model and construct a network of relationships that will make the business model work, this collection of advantages can provide a barrier to entry (Barringer & Duane Ireland, 2016). In the other hand, a small business is connected to a specific area or industry. That is why many start-ups are tech companies with goods or services that only need an internet connection (Cook, 2020).
4. **Growth:** While a start-up may start life as a one-or two-person, small-scale company, a business that seeks to expand and scale rapidly to reach a wide market is a start-up (Cook, 2020).
5. **Problem-solving:** “Entrepreneurship is all about solving problems. Creating a startup, or managing any business, is all about problem solving.” (Chomwa, 2018). One of the key goals of a start-up is to solve an issue with a new or improved product or service than is currently available. This also means working without a straight direction or a guide to success (Cook, 2020).
6. **Team culture:** Although there is some controversy over how many team members a start-up can have, it is understood that it is a small company where each person, as well as the team, has a direct influence on the business as a whole (Cook, 2020).

### Identification of support structures for start-ups

Heart of the South West Growth Hub (2019) was able to identify five main support structures for start-ups, they are displayed on the diagram shown below with more explanation to follow.



**Diagram 2:** Main support structures for start-ups, based on sources: (Heart of the South West Growth Hub, 2019) and (Buckworths, 2015)

### 1. Organisational structures:

- 1.1. **Functional:** The functional structure is focused on the organisation being split up into smaller groups with unique responsibilities or functions. Each department has a manager or director who answers the executive level up in the hierarchy and who may supervise several departments. For example, a marketing director who administers the marketing department and answers to a vice president who oversees the marketing, finance and IT divisions (My CTO Friend, 2020).
- 1.2. **Divisional:** Larger organisations that work through a variety of horizontal targets often use a divisional organisational structure. This arrangement allows for a much greater degree of autonomy between groups within the organisation. Under this arrangement, each division basically functions as its own entity, managing its resources and how much money it spends on specific projects or divisional aspects (My CTO Friend, 2020).
- 1.3. **Matrix:** The matrix structure incorporates the components of the functional and the divisional models, making it more complex. It groups people into functional specialisation divisions, then further separates them into divisional projects and goods. In the matrix system, the team

members are granted more control and required to assume more responsibility for their work (My CTO Friend, 2020).

- 1.4. *Flat*: A flat organisational structure aims to challenge the traditional top-down management system of most organisations. Management is decentralised, meaning there is no "boss" every day. Each employee is the boss of himself, eliminating bureaucracy and red tape and increasing direct contact (My CTO Friend, 2020).

## 2. Legal structures:

- 2.1. *Private companies and limited liability partnership (LLP)*: A private corporation limited in shares is a company with a share capital. Shares in a corporation shall constitute a shareholding and shall be bought either at their nominal value or at a premium. Generally, ordinary shares have three rights: the right to vote at the shareholders' meeting, the right to earn a dividend and the right to share in the capital of the company. The LLP is also limited in liability. However, unlike a limited company, the LLP is not taxed as a separate corporation, although each limited partner is taxed annually on the income of the LLP by its equal right to those profits. The LLP must be set up by two or more people in order to make a profit from the company (Buckworths, 2015).
- 2.2. *Community interest companies (CIC)*: The CIC framework allows an organisation to have protections to protect its group function. This is achieved by implementing an asset lock that is intended to protect the community's intent (Buckworths, 2015). Assets cannot be allocated to the shareholders of CIC (except in limited circumstances). CICs are far more versatile than charitable structures and can provide investors with small returns on investment and a fair remuneration for directors (Buckworths, 2015).
- 2.3. *Charities*: Social enterprise may become listed as a charity if it has been set up for a purely charitable purpose and meets the strict criteria of the law on charities. An asset lock must be in place to ensure that all funds are used exclusively for charitable purposes. One of the greatest benefits of becoming a registered charity is that it has the right to a number of very beneficial tax breaks (Buckworths, 2015).

3. **Business plan:** It is important for entrepreneurs to have proper business plan to focus their thoughts on what they want to do and how they are going to do it. If they need to apply for funding, most funders will be asking to see a business plan and a financial forecast (Heart of the South West Growth Hub, 2019).
4. **Research:** It is crucial to research your market, to find out who is going to buy your product and who your rivals are going to be, to make sure your business idea is feasible (Heart of the South West Growth Hub, 2019).
5. **Marketing:** You'll also need to determine how you are going to market your company and what kind of internet presence you need (Heart of the South West Growth Hub, 2019).

## Conclusion

In this essay, the author studied and discussed current views and suggestions that relate to the life of start-ups. The study also included a thorough overview of the main concepts of start-ups and their relevance to entrepreneurship. Help systems for start-ups have also been discussed and analysed. Related online research was performed following online classes and home studies during the completion of this module. Special thanks to the module tutor, Mrs. Malani Gunaratnam, for her support and assistance during the course of her studies.

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