

# What are the Prerequisites for Starting a Startup Company?

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## ABSTRACT

The establishment of a startup company requires many elements. In the 20th century, people realized that technology was the primarily productive force. In addition, there are many conditions to meet one by one. Only in this way can the establishment, development, and future of the startup company be guaranteed. Based on the analysis of the direct requisites, such as company's operating funds and financing capabilities, and indirect requisites of startups, for example the founder's personality and management model, we verify the importance of these conditions. This research improved our understanding of the relationship between founders' social capital, business model development, and the success of early Internet startups. In this article, we discussed the importance of innovation, leadership and financing, and demonstrated the impact of these factors on startups.

**Keywords:** *Start-ups, Financing, Social capital, Human capital.*

## 1. INTRODUCTION

IT and entrepreneurialism are complementary because "IT is the magic element that stimulates and frequently contributes to current business ventures." They determined, based on the overall findings of the study, that early Internet microbusiness models were very dynamic, and that the founders exploited their social capital to construct economic models.

Founders give the organizations certain resources they created. Some prior literature has addressed "How does the initial resource endowment affect the performance of new firms?", and has determined that organizational results are affected by the human capital endowment of the new enterprise, the stock of technological assets and the environmental and market conditions at the time of establishment [1][2][3]. They focus on the relationship between the founder's social capital at the time of establishment and the results of his later life. Another reason for paying attention to this is that the organization building process is hindered by a wide range of information problems, which makes the founder's social capital affect the performance of new enterprises. especially in the case of technology-based enterprises. Therefore, they focus the theoretical development on the social capital argument. However, our analysis strategy regards the relative influence of the

endowments of these four types of resources on organizational results as a practical problem that needs to be solved in the analysis. In addition, on the growth drivers of high-tech startups: explore the role of founders' human capital and venture capital. New technology-based companies (NTBFs) are an important source of new jobs and provide an important stimulus to the national economy [4]. The purpose of this article is to clarify these mechanisms and assess their relative importance. Emergence weakens the link between the founder and the company's capabilities. They tested these arguments in a sample of 439 Italian NTBF companies that operate in both manufacturing and service industries. The econometric model they use controls the possible survivor bias in the sample data and the endogeneity of venture capital. In addition, they allow the founder's human capital to have a different growth impact depending on whether the company has venture capital support. Then comes the human capital investment of entrepreneurs and the life span of small businesses. Regardless of the owner's education level, the level of financial capital investment is an important determinant of the survival prospects of small businesses.

The founder's leadership and entrepreneurial drive are the final indirect factors. They feel that the founder's CEO's leadership conduct is critical, especially in these young organizations with limited processes, structures, and practices. They must create a vision that will inspire

all personnel, excite their intelligence, and direct them toward achieving the company's goals. The full-scale leadership (FRL) model proposed by Bass [5], which is one of the most commonly accepted leadership theories, incorporates all of these elements [6]. The relationship between the leader and the follower is the emphasis of the model. To that purpose, it distinguishes between three styles of leadership: transformative, transactional, and laissez-faire leadership. To put it another way, leaders make clear and express their expectations to their followers, as well as what they will receive if they are met [7]. It can be seen of as a motivational strategy that rewards followers who achieve the leader's objectives. Management by exception, on the other hand, refers to the amount to which the leader takes corrective steps depending on the outcomes of the leader's and followers' transactions (Judge and Piccolo, 2004), which can be classified into active and passive dimensions. The former is concerned with monitoring job execution for any potential faults and fixing them in order to maintain current performance levels [7]. The latter stated leaders, on the other hand, only take corrective action when a problem has gotten serious, and they frequently avoid making any decisions at all [7]. Laissez-faire leadership, according to Bass, is "no leadership at all" [5]. This indicates that there is a lack of focus and direction for followers' guidance. Feedback, rewards, and participation are non-existent under this leadership style, and decisions are sluggish or non-existent, hurting followers' motivation and needs.

The importance of finance comes next. This article will discuss the financial issues and constraints that entrepreneurs encounter, as well as the capital framework. The company's financial structure will have a direct impact on its growth. The major purpose of this article in this process is to draw entrepreneurs' attention to the above issues and to support their conclusions with appropriate information.

## **2. SOCIAL NETWORK/CAPITAL**

### ***2.1. Business Model Development***

In the case of Internet startups, the link between IT and entrepreneurship is particularly strong [8][9][10]. They take advantage of Internet technology and digital product economics (such as network effects) to achieve a competitive edge by entering the market early. They conducted expert informant interviews with 17 Internet startup company founders in the first phase of the study. They learned that during the startup stage, the founders assume that the company model is continually changing. Furthermore, they feel that social capital is critical to the development of business ideas and the success of their enterprises. Built on this discovery, they used social network analysis (SNA) technology to analyze a unique data set covering 70 Internet startups and their 145

founders. they found founders with good connections are more likely to create successful startups.

Early-stage internet firms' business models are highly dynamic and constantly changing; in fact, the business model is only being formed at this time. Startup success is a result of a highly dynamic process of business model iteration and validation, rather than a predefined function of opportunity identification and the "perfect concept." The founders have a critical role in the success of early-stage online startups, owing to their social capital. Using a mixed-methods approach, they discovered substantial evidence that businesses with better-connected founders are more successful because the founders' professional social networks give the necessary resources to create the business model early on. Based on 17 expert informant interviews with founders around the world and the application of SNA to a unique sample of 70 businesses and the professional networks of its 145 founders, this study demonstrates this link. These findings are critical in better understanding the development of business models and firm success in the setting of early-stage internet businesses.

Today, when enterprises are highly commercialized, technology has become the primary productive force, computer technology has penetrated into the development of our enterprises, and high precision has become an important factor in the development of enterprises.

### ***2.2. Connections to VCs***

Scott Shane and Toby Stuart's article emphasizes how the founder's social capital endowment affects the development of entrepreneurial enterprises—analyzing the number of new companies established between 1980 and 1996 to take advantage of the inventions distributed by MIT. They show two measures of the founder's social capital—the direct and indirect connection with venture investors before establishing the company significantly reduces risk mortality and increases the possibility of startups obtaining external funding. They interpret these results as the fact that social capital endowments have a long-term, positive impact on the performance of new enterprises through their impact on the financing process. However, the likelihood of being related to unobserved factors will decrease, and more accurately, distinguishing underlying mechanisms will decrease. Therefore, more detailed network measurements allow for more convincing empirical arguments, so they believe that the current results are instructive rather than conclusive. However, they view the results as a step towards developing the literature on the social context of entrepreneurial finance. Although there is a large amount of literature in entrepreneurial finance to solve financial contract information and agency problems, clear contracts often cannot wholly solve possible incentive problems.

Moreover, detailed financial contracts have only been used in the past half a century and are only used in advanced economies. Although well-designed contracts are often used in venture capital now, they are used less frequently in angel financing. For these reasons, they believe that network-based theories greatly help our understanding of entrepreneurial finance.

### **3. HUMAN CAPITAL**

#### ***3.1. Founders' Ability and Leadership***

The article by Massimo G. Colombo and Luca Grilli clarified the relative importance of the founder's human capital and venture capital's mechanism to improve NTBF's growth performance. Regarding the founder's human capital, the competency-based view holds that the higher the human capital, the more successful the company is. In other words, the founder's human capital has a direct and positive impact on the company's growth. The econometric model they use controls the possible survivor bias in the sample data and the endogeneity of venture capital. In addition, they allow the founder's human capital to have a different growth impact depending on whether the company has venture capital support. In addition, leadership is closely related to the success of startups. The creation and development of startups are inevitably related to leadership. Therefore, leadership is increasingly becoming part of the founder and CEO's scope of action and represents an essential factor in thriving venture capital. Entrepreneurial leadership is a term used in the literature to describe the intersection between leadership and entrepreneurship. This can be characterized as the founder and CEO of a new business's involvement in creating the flexibility required to cope with and deal with uncertain surroundings by conceptualizing and implementing a new transaction set. The majority of entrepreneurial leadership definitions concentrate on specific entrepreneurial behaviors or special qualities, such as recognizing and exploiting entrepreneurial possibilities or discovering and utilizing strategic value generation. This essay contributes to a better knowledge of startup leadership and offers new perspectives on the impact of leadership behavior on organizational performance. Transformational leadership is usually regarded as the most successful and active type of leadership. Laissez-faire leadership describes the least productive and most passive leadership conduct, while transactional leadership focuses on medium efficiency and activities [5]. By providing a compelling future vision and often using symbols and emotions that stimulate their attention, leaders are able to influence and motivate their followers. Furthermore, these leaders value their supporters, sincerely care about their personal development and growth. They allow them to be pushed to learn new skills and abilities, as well as to think about situations that are different from their previous experiences [11][12]. Their

interpersonal relations with disciples are centered on coaching or mentoring interactions, in which all the leaders are in charge of encouraging the followers' growth and development [13]. When confronted with a risk, transformational leaders seek possibilities, preferring effective over efficient solutions, and are less likely to defend the status quo. Random incentives and exception management are hallmarks of transactional leadership [14]. The degree of dialogue and interaction between the leader and his subordinates is referred to as contingent rewards [15].

While addressing this research question, they expanded the existing theories on the growth of NTBFs to better understand the respective roles of the founders and venture capitalists of NTBFs and the nature of their contributions to the success of these companies. In addition, venture-backed companies will have a greater positive impact on the growth of these human capital variables than non-venture-backed companies because venture capital financing eliminates financial constraints that lack venture capital and slow growth. Conversely, if venture capitalists mainly act as "coaching" and fundamentally transform the resources and capabilities of portfolio companies, the founder's human capital will have less power to explain the growth of venture capital companies than non-venture capital companies. The founder-leadership CEO's behavior is judged solely by his staff, resulting in score variances. To overcome this bias, it is suggested that future study include a consciousness by the founder and CEO. Second, while our study approach is based on the FRL model, future research should investigate different conceptual frameworks and related definitions of leadership characteristics. It is suggested that shared leadership be included in the conceptual framework. Vertical leadership is the foundation of shared leadership, which indicates that leadership responsibilities are shared among a group of people rather of being concentrated on a single person. Because the founder and CEO are frequently the only preexisting leadership in enterprises, shared leadership may be a viable option for resolving complex issues. Furthermore, collaboration can boost employees' sense of belonging to startups, which can improve firm performance. Third, future studies should integrate the perspectives of employees more explicitly. The FRL paradigm, for example, can be expanded to include followers' subconscious viewpoints using the idea of super-leadership. As a corollary, the founder-influence CEO's on his followers can be investigated, and the impact on individuals, such as their subconscious behavior (entrepreneurship and innovation competence) at the organizational level, can be recorded. Furthermore, the entrepreneur and CEO's subconscious will have an influence on the effectiveness of their leadership conduct. The hypothesis that one's own successful leadership is related to one's own effective leadership is scientifically supported.

As a result, the leader's skill will decide the company's maximum bound and style, and the character of the employees under his guidance will be determined by their perseverance, ingenuity, and patience.

### 3.2. Education Level

Timothy Bates' article [27] uses a national random sample of non-minority male entrepreneurs who entered self-employment between 1976 and 1982 to investigate the longevity of small businesses. It ceased operations at the end of 1986. The literature is based on a national random sample of non-minority male entrepreneurs who entered self-employment between 1976 and 1982 to investigate the life span of small businesses. According to the survey results, the owner's human and financial capital investment can bring the active enterprises and those who own them to cease operations by the end of 1986. Specifically, compared with groups with less financial capital investment and low education, higher-educated owners are more likely to create viable and lasting companies with larger financial capital investment. Entrepreneur factor investment is directly related to the life of the enterprise, but the level of investment is often related to each other. The factors that explain debt input (Part E) are studied in detail, and a sample subset is determined, in which owner education and debt level are (1) strongly correlated and (2) weakly correlated. Then use financial capital, human capital, and demographic indicators as explanatory variables to estimate the discriminant analysis model that explains the company's survival. Regardless of the owner's education level, the level of financial capital investment is an important determinant of the survival prospects of small businesses.

Through Timothy Bates' article [27], they can see that a four-year university is a time node. A university degree or above is more like a prerequisite for the successful establishment of a startup company and stable operation in the later period. Highly educated entrepreneurs, who have four years of college or more, are most likely to create companies that continue to operate; owners 55 and older are most likely to see their companies cease to exist. Although financial capital is endogenous, the proportion of companies with sizeable financial capital investment at startup is always too high in the list of survivors. For 32% of companies launched through bank financing, having a highly educated owner is related to investing a large amount of capital in the company.

Compared with society, there is a better academic atmosphere and a better social circle in university, so it will be easier to promote the success of entrepreneurship and financing. Therefore, academic qualifications are an important diploma in life.

## 4. FINANCE

### 4.1. Access to Finance

When beginning a new firm, businesspeople confront numerous problems, one of which is acquiring financial sources. Obtaining finance sources is a difficult and time-consuming endeavor for businessmen, as they all know. Elmar Lins' paper [33] addresses the study gaps in significant external financing such as business owners, repayment of capital, public policy and crowdsourced, as well as present issues and future research prospects.

The core objectives of entrepreneurship finance investigation are the characteristics of venture capital funds. In addition to the certificates supplied by institutions and authorities, which may improve the likelihood of venture capital investment, the leadership traits are equally important in determining funding decisions. The implications of gender prejudice in accessing venture financing are also discussed in this research. Female founders receive much less money than male founders. Higher education, contrary to popular belief, is unable to close the gender gap, contributing to increased disparities between foreign and domestic investors. For new firms, there are various sorts of external equity suppliers. This article demonstrates that encouraging project inventiveness increases the likelihood of persuading crowd funders to offer equity financing by focusing on the impression performance measure in the activity synopsis. This association has already been established to some significant degree, and the occurrence will reverse, reducing the likelihood of funding success. As a manner of explanation, they propose that the crowd supports new ideas but is concerned about the excessive level of tremendous potential, which may break established practices and cause societal resistance. In general, only specific language models are decisive factors for the success of crowdfunding.

Therefore, in sophisticated financial markets, language, gender, and race may become important factors that reverse or promote financing results.

### 4.2. Capital Structure

In the tradable sector, startups with no history or reputation run a high chance of pre-failure. As a result, forming a relationship with these businesses is a high-risk proposition for NFS, especially since they must make numerous relationship-specific expenditures that will be lost if the firm is liquidated. Other exploratory studies have indicated that corporations may modify their capital structure based on NFS bargaining power in order to lower negotiations surplus survival chances or avoid future NFS hijacking. The paper by Tom Franck provides solid statistical proof that the NFS connection cost is an important predictor of a startup's initial financing

selection. First, they discovered that the volume of the NFS liquidation cost is inversely proportional to leverage. The correlation of bank loans to overall debt is negatively associated to a lower extent. Second, supplier negotiating power has an effect on the association between NFS termination costs and capital structure, since when NFS liquidation prices are incurred and suppliers are prominent, startups are less reliant on debt. The interplay between NFS clearance costs and client union representation, on the other hand, is not critical. Third, the bargaining power of the suppliers and suppliers hurts startups' ability to acquire bank financing.

Overall, these findings confirm Sarig's (1998) hypothesis that by modifying their capital structure, enterprises concerned about rigorous bank clearing procedures can reduce their exposure to NFS strategic maneuvers. The corporation limited the debt ratio consisting of bank loans to mitigate the impact of customers' and suppliers' union representation on the risk of NFS delays and the company's collapse. Their findings, in essence, are comparable with early research on mature publicly traded companies, but also highlight the unique history of visionary startups. Their empirical findings suggest some directions for future investigation. Startups that pay heed to NFS clearance costs and NFS negotiation strength have a higher chance of success, according to logistic regression. This may also assist establish whether there are other options for reducing the impact of NFS relationship expenses on the valuation of the company and survival outside revising the corporate structure. Considering debt is typically the only source of external finance accessible in startups, especially in conventional industries, this idea is significant. The options for altering their financial leverage to lower NFS relationship expenses aren't unlimited for these enterprises.

Due to the rigor and high uncertainty of debt arrangements, emerging businesses are reluctant to employ bank loans to fund R&D activities. Because banks normally lend finance with lower necessary returns when the perceived value of human capital is high or will be high, new businesses may employ borrowed capital to fund economic growth. Furthermore, the buildup of human capital as a result of debt financing has a favorable impact on a company's success. When looking at the factors that influence bank lending choices, this article shows that subsidy handouts can help new businesses by reducing knowledge asymmetry between them and financial institutions. The certifying impact acquired through subsidies is potent for businesses with impenetrable information. In order to receive bank loans, slightly elevated manufacturing and awareness service new businesses benefit from subsidy receipts. This emphasizes the importance of subsidies in providing direct financing impacts and as a guidance tool for potential loan equity shareholders in the long term. It's worth noting, however, that obtaining subsidies will only have this influence if government efforts meet the

criteria of selectivity and legitimacy. The subsidy receipt is proof of the quality of the bank and proof of the quality of the venture capitalist when making an investment decision.

## 5. CONCLUSION

In the article, we have reviewed previous studies on the characteristics leading to a successful star-up. They document several crucial conditions: founder's social capital including their connections to VCs, their human capital including their education background, and the financing ability of the start-ups concerning the accessibility and capital structure decision. The lack of any one will lead to a lack of balance. In general, the empirical results of the empirical results provide more reference cases and evidence for future research. In our opinion, innovation is crucial, and it can bring unlimited possibilities for startup companies in the future.

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