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on Economics and Business

CHALLENGES IN THE CARPATHIAN BASIN

*Innovation and technology
in the knowledge based economy*



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Edited by:

ANDREA CSATA
GERGELY FEJÉR-KIRÁLY
JÁNOS KASSAY
BENEDEK NAGY
MARTIN ZSARNÓCZKY
LÁSZLÓ PÁL

Revised by:

OTTILIA GYÖRGY
IMRE NAGY
MAKÓ ZOLTÁN
LÁZÁR EDE
SZILÁRD MADARAS
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Dear Reader!

You are holding the volume of studies presented at the 14th Annual International Conference on Economics and Business – CHALLENGES IN THE CARPATHIAN BASIN – *Innovation and technology in the knowledge based economy* -organized by the Sapientia Hungarian University of Transylvania, Faculty of Economic and Human sciences in Miercurea Ciuc, 10-12th of May 2018.

This year's conference had a special focus on innovation, technology and their economic impact on local communities, and national economies as well. It is recommended to scientists, researchers and representatives of the economic and business sector. An additional goal of the conference is to provide a space for discussion for academics and professionals interested in business, planning, organization and human resources issues as well as in mathematics, sustainable development and regional economics.

The changes that have occurred within the economic environment and the ongoing disadvantageous situation of peripherals have led to the actuality of the topic, especially as far as Szeklerland is concerned. The competition of transnational business in global economy and the nature of international markets created such economic relations and organizational forms which strongly influenced the companies and institutions within the Carpathian Basin. Global competition resulted in various technical instruments, tech solutions and innovations, but at the same time it has also taken into account the local resources. The effects of local factors are of utmost importance in the previously mentioned region. On the one hand, it is characterized by unique products and services; on the other hand, it is marked by strong local identity.

The main objective of the conference is to reveal these initiatives, products and services and to provide specific examples on how to market these local and regional products and services. The conference welcomed mainly studies about successful local initiatives, positive examples of local entrepreneurship for local stakeholders. The conference includes the following sections: management, financial affairs, marketing, regional development and politics, mathematics and IT, agricultural and rural development.

Over 40 studies have been submitted by a total of 60 authors. More than half of the studies submitted deal with regional policy; however, the studies submitted concern a wide range of issues.

The present volume contains all the articles submitted, which have undergone unified formatting and minor spellcheck. After the conference the scientific committee, based on the editors' and chairperson's recommendations, will select the articles to be published in an English conference proceeding volume. Selected articles will undergo professional evaluation, proofreading and editing before being published.

The organization of the conference and the publishing of the conference proceedings were sponsored by the T Systems Magyarország Zrt., we are grateful for their support!

LEADERSHIP STYLES APPLIED IN HUNGARIAN START-UPS¹⁰

Krisztina Bence-Kiss – Kaposvár University, Institute of Marketing and Management, PhD student
bence.krisztina@ke.hu

Tamás Turcsán, CEO, Startup Communications, turcsantamas@gmail.com

Csaba Bereczki – Kaposvár University, Institute of Marketing and Management, researcher,
bercsa0912@gmail.com

Szilárd Berke – Kaposvár University, Institute of Marketing and Management, associate professor,
berke.szilard@ke.hu

ABSTRACT

Start-ups are newly established and rapidly growing businesses, who are on the market with innovative products, services or processes. Start-ups are highly effective in many aspects, but the chances of failure are high. Is the question of “win” or „fail” determined by the leader’s skills, the quality of the idea or pure luck itself? What kind of leadership does a start-up need to become successful? Is there a recipe for start-up leadership or it depends on the circumstances, which strategy will prove to be efficient? In our research we seek answer to these questions, aiming to find out what leadership strategies Hungarian start-up leaders apply that prove to be successful. To get an insight into this emerging and rapidly changing world, we carried out focus group interviews with successful Hungarian ‘start-uppers’ – and leaders of small-enterprises as a control group to see whether there are any differences in their attitude or the way they lead their companies.

1. INTRODUCTION

In the 21st century many things have changed – and so did the business environment. The actual beginning of the start-up economy may not be precisely determined, but it certainly characterizes the 21st century. But what is more important: they define and dominate the business life nowadays: in 2015 there were 2300 registered start-ups in the European Union employing over 31000 people from all over the member states. We live in the era of start-ups, no question: according to the research of the European Commission 50% of new workplaces in Europe had been created by start-ups (Kollman et al, 2016). This new business model requires a completely new approach in many aspects including business planning, strategy, marketing, and leadership among others. Leaders and founders of start-ups are facing a set of new challenges starting off by having to manage very diverse, often multicultural teams, with the need to react to a rapidly changing environment and facing new challenges every day. All in all, start-ups create not only new business models, but also leadership styles. But what is a start-up actually?

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2. LITERATURE REVIEW

2.1. The definition of start-ups

There are no exact or general definitions yet, it being a pretty new phenomenon, however some general characteristics may be identified to define the essence of start-ups. The concepts may vary, and not only one of them have been created by famous start uppers, while academics also work on finding the essence of the start-up-model, though usually from different perspectives. Some start uppers regard start-up as a way of thinking; others consider it as a decision to prefer immediate impact over stability (Robehmed, 2013). Academics, on the other hand, tend to focus more on the actual business model, strategy and the structure of hierarchy. However, there are some common features in the numerous concepts, by which we may start off getting to know this new business model.

In spite of the various definitions there is a kind of a consensus that start-ups by all means have to be companies that existed for less than 10 years, meaning that the majority were founded after the financial crisis of 2008. For many the 5th year is already a milestone; as those companies, which have already survived this long may already be more stable, therefore they are out of the group, who are sacrificing security for growth. Yet, research generally works with the age of ten as a time limit. In terms of definition the greatest agreement is in striving for rapid growth: in academic research papers, business magazines and the interviews with famous start uppers this characteristic always appears as one of the main goals – both in terms of sales and workforce. The third – and statistically most easily definable – characteristic of start-ups is use of innovative, digital technologies. Most of the start-ups come up with a new, innovative solution to a social or economic problem, usually (but not always) based on IT&C and smart devices (Kollmann et al, 2016; Collyer, 2016).

According to the definition of the European Start-up Monitor (German Startups Association; 2015) three main characteristics need to determine a company in order to be defined as a startup. First and foremost it should not be older than ten years – since start-ups are often also explained as rapidly emerging and growing businesses. The second important characteristic is to feature innovative technologies and/or business models, which means thinking out of the box and going against the flow in many cases. The third part of the definition somewhat correlates with the first one, stating that these companies strive for growth both in financial and employee point of view (GSA; 2015, Allen et al, 2016).

Summarizing these, we can conclude that most of the concepts focus more or less on the same characteristics, such as age, innovativeness – though some regard it as business, others as IT solutions majorly – and the striving for growth.

2.2. The emerging of start-ups – why now?

The start-up environment is given and we face new challenges, but many would ask the question why, or why now have the start-ups emerged and why they determine the business environment of our time.

Rapidly changing business environment and swift technological advances require quick reactions and adaptation from the companies operating on the market. The large machines of the multinational companies are often not able to do so, bureaucracy and their processes simply do not enable them to change direction from one day to another. Young and dynamic companies are ready to react to the market changes more quickly than multinationals, so in those markets, where these rapid reactions are required they may be more successful in the short run. This does not mean that the era of the large companies has passed, however, new solutions are needed and welcome, and markets and people are more open for innovation than ever before. Very often this materializes in the form of cooperation between start-ups and large entities, where the former provide the ideas, innovation and new solutions, while the latter the resources, market knowledge and often also the financials (Hyytinen, Pajarinen, Rouvinenb, 2015; OE-Mitsubishi, 2013; VAN Gelderen, Thurik, Bosma, 2005).

Multiple research studies may identify a large number of other environmental factors, which provide a prosperous atmosphere for start-ups to emerge, but these are the most determining ones, which have an effect on the true essence of start-ups and make our times the 'start-up era'.

2.3. The situation of Hungarian start-ups

In our research we overview and analyse the start-up situation in Hungary, with an outlook on Transylvania, a place, which was also part of Hungary for a long time in history; and still a large Hungarian-speaking community lives and works there, including start-uppers as well.

It is hard to create any statistics on the actual number of start-ups in Hungary, even if we consider only those, which are based in Hungary, but according to the Visegrad Start-up Report in 2016 their number was approximately 113 (Beauchamp, 2017).

Hungary is one of the dominant countries in technology innovation, also supported by statistics; according to the European Start-up Monitor of 2016 15.6% of them work in IT or software development. At the moment 41.4% of these companies create revenue within the country, which means that their customers are within the country as well, however, 75.4% of them are planning to go international in the following years. As we could see before, growth and the striving for growth is an essential part of the nature of start-ups, which also includes the desire and effort to enter the international markets (Kollmann et al, 2016).

As the definitions above suggested, start-ups are required to be younger than 10 years by all means, but many focus on 5 years old or younger. Hungarian start-ups are on average 2.7 years old, which suggests that they are mostly in the seed or pre-seed phase, at the beginning of their life; and that Hungary at the moment is a pretty dynamic start-up environment. Demographically we know that Hungarian start-ups have on average 6 to 7 employees and 2 to 3 founders, 85.5% of whom are male and 41.6% of them between 25-34 years (Kollmann et al, 2016).

2.4. Leadership of start-ups

First, what is the leadership?

"Leadership is an activity that based on the communication process, influences people's relationships and human behaviour in the interest of a specific goal (s)". (Bayer, 1995)

In another approach, leadership influences others to find a common solution for task. It is necessary for the leader to be accepted as a leader. If the leader is not accepted as such, then we cannot talk about leadership, only about coercion and repression (Berde-Felföldi, 2004).

In general, leadership is a process that coordinates the work of men by considering several factors, by a lead manager (Henschel-Heinze, 2018). This is a work-oriented, purpose-oriented, coordinating, complex and continuous activity (Szabó-Szentgróti, 2017). Historically, aristocratic thinkers thought that leadership ability was a result of "blue blood" and "good genes". By contrast, people with democratic empathy believed in leadership that based on talent and common sense, just like Napoleon's colonels who had a successful career.

People tend to think that there are two main leadership behaviours. One is the traditional, the instructor, the other is a human resource leadership, a cooperative type (Kőműves-Borbély, 2014). Among these classical management behaviours there are big differences, and of course many of them may be overlapping (Ensley et al, 2006; Bakacsi, 2015).

2.4.1. Instructor leadership

The leaders in charge allocate the task and check their employees to see if they are doing their job properly. The leader does not consider employee opinions and ideas, only considers his/her personal views as correct.

They are separating the job by two main groups: important and not important. Responsibility for change, leadership, and decision making is in their hands. Usually he prepares his employees for pre-planned tasks and takes deadlines strictly. They like to show their rank and that they are the "bosses". Among them, strategists, usually prospective leaders, are emerging.

2.4.2. Human Resource Leadership

Nowadays, more and more people with this leadership behaviour are in the foreground – collaborating leaders, who have a good relationship with their employees.

It is characteristic for them to listen to the opinions of the others, and ask for their opinion. He communicates well, looks at a subject in several ways before deciding. They pay attention to the employees. They are real team players, help employees, and mentor them.

It can be stated that based on the interviews, the start-uppers are in the latter category. The answers clearly show that they are empathetic and high-emotional intelligence leaders. It is important for them that the employees feel comfortable.

But we cannot draw general conclusions. There are a few start-ups in Hungary. Many have heard of each other and know each other. Their answers are in many cases the same. This might result from their

common interests and their participation in an incubator program. Therefore, in many cases, they represent the same opinion.

3. METHODOLOGY

Since statistics of start-ups are barely available; and, due to the dynamic environment, they often become outdated very soon. The leadership of start-ups is an emerging topic nowadays; therefore we mainly relied on primary data resources. The present study discusses the results of a pilot research, grounding the base for a larger, quantitative survey on leadership styles and best practices, so we relied on qualitative data sources, such as in-depth interviews and focus group interviews, which provide an insight into the life of start-uppers and gives an overview on the differences compared to small and mid-size companies. So far we have carried out three in depth interviews with Hungarian start-uppers of different sectors (food industry and manufacturing industry), and also carried out a focus group interview with Hungarian speaking start-uppers in Transylvania.

4. RESULTS AND EVALUATION

In our research we aimed to discover the practices Hungarian start-up leaders apply to manage their companies, adapt to the dynamic environment and develop and meet the requirements and challenges of the market constantly. The in-depth interviews and the focus group interviews were structured upon the same scheme, focusing on the success factors and personal efforts for becoming a good leader.

In the first phase of our research we carried out in-depth interviews in the first quarter of 2018 with three start-uppers of ideas in different stages, as Table 1 shows.

Table 1: Participants of the in depth interviews

Name	Position	Industry	Idea	Age of the idea	Funds
Péter	CEO, founder	agriculture/food	online outsourcing of farming	3 years	not yet
Pál	CEO, founder	food	meat marinating	4 years	yes
András	CEO, founder	manufacturing	production management software	2 years	yes

After the introductory phase we asked all the participants to define success and the characteristics of a good leader. Probably it is not surprising that when it came to defining a successful start-up, the answers showed some similarities with the general definition of start-ups, putting growth and lots of active work and participation in the focus. One of the respondents have already directed the topic towards leadership, stating that the core and essence of start-ups is the team.

All the three respondents emphasized the importance of starting with ‘why’ and putting it in front of the questions ‘how?’ and ‘what?’, which is also suggested by the famous work of Simon Sinek *Start with why* (2011); however they all admitted that they have read and started to apply its findings as well. These factors were considered as the key to success, but have already shown forward, towards the characteristics of a good leader as well. As for the free association, our respondents identified a good leader by flexibility, care and being a super plus person (meaning the dedication of enough time, effort and money for the cause). They furthermore highlighted the importance of self-realization and example-setting to the colleagues and employees, which again enhanced the importance of thorough dedication to the idea and the start-up. When considering the more practical side, our respondents focused on the optimal use of the resources – certainly considering the interests of the company – which also includes the ability to delegate the tasks efficiently, sharing responsibilities and organizing a traceable reporting system.

So far the conversations were focusing on generalities, but in the second block our questions focused more on personal experiences, thoughts and ideas. First of all we asked what our respondents personally do day by day in order to improve their companies. To this question the answers were quite varied, though there was one thing highlighted by all: communication. Péter was the person, who focused the most on the importance of communication: communication of the reasons why they do something to the employees and asking questions from customers to understand their interpretations of the product, their ideas and the things they probably lack. He also emphasized the importance of measurability, which is a bit in line with the response of András, who believes in the role of traceability and continuous monitoring and cooperation with the employees. On the other hand, Pál, while mentioning thinking together and learning from each other as important means of communication, he put the focus on finding the best practices and solutions; but also emphasized the difference between a leader and a boss, claiming that being a leader is far more beneficial; and certainly that is the approach he prefers.

When asking what they do to become more successful as leaders, all respondents – independent from each other – replied self-development and continuous learning. Their sources of learning are different: András enhanced the importance of experience, and Péter for example uses videos and professional books to improve himself, which, as he said, is one of his main strengths as well. All the leaders mentioned the need to develop in terms of administration, which they would also like to minimize, as it is time consuming and – as they feel – it does not contribute to value creation; and all of them would like to improve their time management skills as well. Improvement in terms of IT knowledge has also appeared in the answers of all three respondents, as none of them comes from this sector, but all three need to deal with technological issues on a daily basis. Pál also emphasized the importance of planning, for which he would dedicate far more time than he currently does. When it came to planning, András and Péter also mentioned that at the moment there are no written rules or codes of conduct in the company, but they clarified that this is also something they would like to improve in the future.

Generally all the three start-up leaders seemed to focus a lot on the things they need to improve; and their dedication and eagerness to learn was visible in all of their responses. However, since we were curious about best practices and leadership techniques as well, we tried to focus also on what they consider as their strengths. Certainly, these are characteristics originating from personality as well, but it is interesting to see which strengths start-uppers mention as important from the business environment perspective. András considers flexibility and quick situation-analysis and reaction as his main value, which helps him to get by in the dynamic and complicated start-up atmosphere. Péter, as mentioned before, regards himself the best in learning and self-development, which he tries to transmit to the company as well. Pál explained that he

is good at decision making under large pressure, which is quite usual in the start-up world, and he also feels he is good in handling colleagues and his team, which is – as written above – most often the core of the start-ups.

5. SUMMARY AND CONCLUSIONS

The greatest challenge of the research is to address and ask start-uppers both in Hungary and in Transylvania. As our interviewees explained, time is money, and in this rapidly changing environment they cannot really afford to spend time on non-value-creating processes, which unfortunately also includes answering questions of researchers. This meant our most severe limitation; however, we are truly grateful to our respondents for sacrificing their time and capacities to support our work.

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