Management Studies, Sep.-Oct. 2024, Vol. 12, No. 5, 277-286
doi: 10.17265/2328-2185/2024.05.002

Is Innovation a Key Factor for Success of Start Ups in Croatia?

Sinisha Pekevski
Faculty of Applied Social Science, Ljubljana, Slovenia
Monika Markovska
University St. Kliment Ohridski-Bitola, Veles, North Macedonia
Renata Cupic
Faculty of Applied Social Science, Ljubljana, Slovenia

Start-up companies move the world and represent an engine for the development of society. There are several definitions of what a start-up company is, and depending on the period and the author, different definitions appear. But that's why everyone agrees that for a company to be a start-up company, one of the key characteristics is that the company must be innovative and this is the crucial element for the company's success. A key question that is the subject of this research paper: Is innovation a key factor for success of the start-ups in Croatia? The purpose of the research that was carried out in Croatia was to determine whether innovation is the key factor and element for the success of a start-up company. The main thesis of our research is to determine whether innovations represent a basic and crucial part for the success of every start-up company. The research was conducted through structured interviews with founders and co-owners of 14 Croatian start-up companies from all over Croatia operating in various industries. The results of the research showed that startups see the innovation is an integral part of the success of every start-up company, but it is not crucial and a basis for success, no matter how big and important that innovation is. The findings of the research suggest that while innovation is very important, it is not the sole determinant of success. The research highlights the importance of balanced approach that integrates innovation with other key elements to achieve sustainable growth and competitiveness in the global market. A large number of factors influence a start-up company to succeed in the global market and show significant success. At the same time, the research showed that innovations are of great importance for startups, but they are not the only determinant of success.

Keywords: entrepreneurship, startup, innovation

Introduction

Innovation and startups are crucial themes in contemporary academic discourse, particularly within entrepreneurship, business management, and economics. The intersection of innovation and startups is often explored through the lens of how novel ideas, products, processes, or business models are developed and commercialized by new or existing firms to create value and drive economic growth. Startups face numerous challenges in their innovation efforts, including resource constraints, market uncertainty, and regulatory hurdles. Despite these challenges,

Sinisha Pekevski, Ph.D. student, strategic communication on Faculty of Applied Social Science, Ljubljana, Slovenia.
Monika Markovska, Ph.D., professor, Faculty of Information and Communication Technologies, University St. Kliment Ohridski-Bitola, Veles, North Macedonia.
Renata Cupic, Ph.D. student, strategic communication on Faculty of Applied Social Science, Ljubljana, Slovenia.
Correspondence concerning this article should be addressed to Sinisha Pekevski, bul. K.J.Pitu no.28-3/17, Skopje Macedonia.

startups are uniquely positioned to introduce groundbreaking innovations due to their flexibility, risk-taking propensity, and focus on addressing unmet market needs. The academic literature emphasizes the critical role of supportive policies, access to funding, and robust entrepreneurial networks in enabling startups to navigate these challenges and capitalize on opportunities for innovation.

From an academic viewpoint, the challenge of balancing innovation with operational efficiency in startups involves a strategic approach to resource allocation, fostering an organizational culture that supports both innovation and operational stability, and ensuring strategic alignment between innovation efforts and the startup’s broader strategic objectives. This multifaceted approach requires continuous adaptation and reevaluation as the startup evolves and responds to changing market dynamics and internal capabilities.

According to data and analytics provided by Dealroom.co (2023), a global leader in the provision of data insights, the year 2023 witnessed the emergence of 464 start-up enterprises within Croatia. Among these, two have achieved the status of “unicorns”, a term denoting start-up companies that have reached or exceeded a valuation of 1 billion USD. These start-up entities are located across the country, with a significant concentration in Zagreb. Substantial number of these enterprises are located within business incubators or accelerators, underscoring the pivotal role these platforms play in fostering entrepreneurial growth and innovation within the region. Managers of the researched start-up companies in Croatia agree that sucess is balance between varius factor and it can be conceptualized through the lens of resource allocation, organizational culture, and strategic alignment. Resource allocation theory provides a foundational framework for understanding how startups must navigate the allocation of scarce resources between innovation initiatives and operational demands.

To discuss start-up companies, it’s essential to examine a distinction that exists between them and newly founded companies, or if “start-up” is merely a term used to promote entrepreneurship. Additionally, the topic of the research is how crucial innovation is regarding other elements and the connection of those elements in succeeding.

Innovations and Start-up

There are a large number of definitions of what a start-up company is and how that term is viewed by different authors. Definitions vary from author to author, but also from period to period when those definitions or viewpoints are given. If we ask the academic community they will give one type of definition, but if we ask entrepreneurs they will give another type of definition and a different point of view. Some authors agree that startup science is still a young discipline and there is a lack of research in this area (Costa, da Silva Fabíola Kaczam, de Barros Josenilde, & Janguia, 2021). Their descriptive analysis of the research corpus revealed 228 articles, with a total of 313 authors and co-authors that were distributed in 25 countries, with a concentration in the United States (37.28%). The period of distribution of the articles comprises the years from 1990 to 2019, with emphasis on the year 2015, with 48.43% of the articles published. Startups, characterized by their nascent, dynamic nature, are often at the forefront of innovation. They are typically seen as agile entities that challenge established norms and industries through disruptive or radical innovations. Blank and Dorf (2012) in *The Startup Owner’s Manual* highlight the unique position of startups in the innovation landscape, emphasizing their role in testing, developing, and commercializing novel ideas. The lean startup methodology, popularized by Eric Ries (2011) in *The Lean Startup*, further illustrates the iterative process of building startups and innovation through the build-measure-learn feedback loop, emphasizing the importance of agility and customer feedback in developing successful business models. According to the European Commission, a startup is “an enterprise, regardless of its legal form, that is in the process of being set up and whose goal is to develop an innovative product or service, or a scalable business model." (EU Startup Nation Standard 2020).

Startups are not just technology companies; but any companies in the process of being set up (Hermanson, 2011; Longhi, 2011; Blank & Dorf, 2012; Perin, 2016; Kohler, 2016). This type of entrepreneurship happens more in the area of technology because the costs are lower to create a software company than an industry. Eric Ries (2006), defines a startup as a human institution designed to create a new product or service under conditions of extreme uncertainty. Start-ups are the strongest manifestation of entrepreneurship and innovation (Giezzi & Cavallo, 2020). They are distinguished from other business ventures by dynamic market expansion executed most of using modern technologies, such as information and communication (Barandiaran-Irastorza, Peña-Fernández, & Unceta-Satrústegui, 2020). Their rapid development is guaranteed by unique know-how and investor financial support (business angels; venture capital). Due to the exceptional originality of business ideas, high demand for capital, and intensive pace of development, start-ups are high-risk ventures, intended for visionaries and entrepreneurs with above-average levels of risk acceptance. Anamaria Diana (2017) says, that startups can be defined as newly established, innovative companies with a service life of up to two years and a maximum of 10 employees, while Krejci, Strielkowski, and Cabelkova (2015) says, a startup is a new and temporary company that has a business model based on innovation and technology. In addition, these types of companies have a potential for rapid growth and scalability.

Innovation is broadly defined as the introduction of something new or the improvement of existing products, services, processes, or practices. This concept is encapsulated in the Oslo Manual, jointly published by the OECD and Eurostat, which provides guidelines for collecting and interpreting innovation data. The manual categorizes innovation into four main types: product innovation, process innovation, marketing innovation, and organizational innovation. These categories underscore the multifaceted nature of innovation, extending beyond mere technological advancements to include changes in how businesses operate and engage with their markets. McGrath (1995) in "Defining and Developing Competence: A Strategic Process Paradigm" suggests that firms need to engage in "discovery-driven planning" to allocate resources efficiently under conditions of high uncertainty, which is characteristic of startups. This approach emphasizes the need for flexibility in resource allocation to accommodate the iterative nature of innovation processes while ensuring operational requirements are met. Organizational culture plays a pivotal role in balancing innovation with operations, as highlighted by Tushman and O'Reilly (1996) in "Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change". They introduce the concept of an ambidextrous organization, capable of exploiting existing competencies while simultaneously exploring new opportunities. This dual capability necessitates a culture that supports experimentation and tolerates failure in innovation efforts, alongside a disciplined approach to managing day-to-day operations. Strategic alignment between innovation and business strategy is critical to ensure that innovative activities contribute to the startup's overarching goals. Kaplan and Norton (2001) in *The Strategy-Focused Organization* argue that aligning innovation with strategy involves integrating innovative initiatives into the strategic planning process, ensuring that innovation is not pursued in isolation but is directly linked to the startup's strategic objectives. This alignment ensures that innovation efforts are market-driven, addressing real customer needs and enhancing the startup's competitive position.

The concept of open innovation, introduced by Henry Chesbrough (2003) in *Open Innovation: The New Imperative for Creating and Profiting from Technology*, has also gained traction. This paradigm shift suggests that startups can benefit from leveraging external ideas and technologies in conjunction with their internal R&D

efforts to accelerate innovation and bring new products to market more efficiently. Autio and Thomas (2014) in "Innovation Ecosystems and Growth in Startups" examine how startups' growth is influenced by their surrounding innovation ecosystems, highlighting the interplay between startups, investors, research institutions, and government policies in fostering an environment conducive to innovation. Clayton M. Christensen, a renowned Harvard Business School professor and a leading authority on innovation and growth, provided a nuanced view of innovation that has influenced business leaders and academics alike. In his book, *The Innovator's Dilemma*, Christensen defines disruptive innovation as a process by which a smaller company, typically with fewer resources, successfully challenges established incumbent businesses. This is achieved not by emulating the incumbents' products or services but by targeting overlooked segments of the market and providing more suitable solutions that the incumbents are not offering. Over time, these innovations move upmarket and eventually displace the established competitors. Christensen's definition of innovation, particularly disruptive innovation, emphasizes the importance of how innovations can change competitive landscapes and business models, rather than focusing solely on the novelty or technological aspects of new products or services. His work highlights the strategic implications of innovation and the need for companies to be vigilant and adaptable to emerging innovations that might initially seem insignificant but have the potential to transform industries.

Start-ups should not solely prioritize innovation; rather, they must exhibit adaptability and preparedness for the challenges that innovation may introduce. While the success of a company is influenced by various elements, the recognition of innovation's significance as a factor in securing a competitive edge is imperative. Concurrently, research indicates that although innovations are vitally important for start-ups, they do not singularly determine success. Success in start-ups is contingent upon a multitude of factors, in addition to innovation.

The challenge of growth and development is significant for established companies and startups, yet it presents substantial opportunities for new startups capable of introducing innovative rules to the game. The dichotomy between one company's challenge and another's opportunity underscores the essence of entrepreneurship, which is deeply rooted in innovation. The quintessence of innovation involves identifying opportunities and devising novel approaches to capitalize on them. Entrepreneurs are characterized by their willingness to embrace risk, yet they engage in careful evaluation of the costs associated with actualizing an idea against the potential rewards, aiming to introduce distinctive solutions that garner admiration from competitors (Tidd & Bessant, 2018). To secure a competitive edge, continuous innovation across all products and services is imperative. Successful innovations are not serendipitous; they require deliberate management. Innovations are pivotal for the growth and development of companies, with the ultimate objective of innovation being to effectuate improvement and foster positive transformation.

Schumpeter (1942) points out that innovation leads to "creative destruction", which causes constant progress and improves living standards. But Peter Drucker (2009) agrees that entrepreneurs must learn to practice "planned innovation". According to Peter Drucker, planned innovations are an integral part of a planned and organized search for changes and of the planned analysis of the opportunities that those changes can offer for economic or social innovations. Specifically, planned innovations are the result of observing seven sources of innovative opportunities namely: the unexpected, inconsistencies, process need, industry and market structures, demographics, changes in perception, new knowledge (Drucker, 2009). "Innovations have become a driving force for the future opportunities of the companies." (Urbaníková, Štubňová, Papcunová, & Hudáková, 2020) and innovation is also the main essence of startups.

Innovation is crucial for startups as it enables the development of novel products or services, setting them apart from competitors. While innovations vary in type, their core objective remains consistent: to generate value for customers. Innovation transcends the mere creation of new offerings; it also encompasses the enhancement of existing products or services. Startups are constantly engaged in exploring and testing new ideas to devise superior solutions for customer needs. Consequently, alongside other vital factors for their sustainability, startups must foster an innovation-centric culture. This culture serves as a base for securing a competitive edge, as well as facilitating the growth and evolution of the business.

Research

The central research question addressed in this paper examines the perceptions of startup managers and owners regarding innovation, specifically its significance and impact of innovation on the success of startups. Entrepreneurship is acknowledged as a catalyst for innovation, productivity, and job creation, with innovation being particularly crucial for startups to distinguish themselves in a competitive market. Innovation serves as a formidable tool for securing a competitive edge, offering numerous benefits that facilitate the growth, development, and success of startups. Innovative startups face serious obstacles in their innovation processes because of the high costs of innovations, lack of commercial and managerial competencies, and difficulties in cooperating with industrial agents (Franco-Leal Noelia & Rosali, 2020).

Firstly, innovation enables the creation of novel and viable products or services, allowing startups to present unique value propositions to customers and thereby differentiate themselves from competitors. Furthermore, innovation contributes to cost reduction and enhances operational efficiency. Through the exploration of innovative approaches to daily operations and the experimentation with new ideas, startups can optimize resource allocation. Additionally, innovation attracts talented individuals to establish startups and fosters a culture that values and emphasizes the importance of innovation. However, the pursuit of innovation also presents significant challenges, primarily due to the inherent risks and uncertainties of venturing into uncharted territories.

This paper employs a qualitative methodology through structured interviews to explore the role and significance of innovation in establishing a growth and success for startups in Croatia. The study research involved interviews with 14 startup owners and managers from Croatia. Companies were selected based on the methodology provided by Dealroom.co, adhering to their criteria for defining startups. According to this methodology, 466 companies are registered in Croatia, with the highest concentration in Zagreb and its surrounding areas. To ensure a comprehensive analysis, companies from both Zagreb and the surrounding regions, as well as those from the interior of Croatia, were included to maintain criteria of equality. The interviews were conducted between December 2023 and February 2024.

One of the objectives of this research was to qualitatively assess the significance and function of innovation in the success of startup companies, and to determine whether innovation serves as a key factor for their market success. The aim of this research is to contribute valuable scientific insights into innovation and how start up managers define the importance of innovation in their success. The subsequent analysis of the findings is detailed in the following sections of the text.

As a Manager of a Startup, How Do You Perceive the Role of Innovation in Determining the Success of Your Company?

The answers include a different spectrum of perspectives that describe the different attitude of the respondents towards the innovation. The responses to the question on the role of innovation in determining the success of a startup reflect a spectrum of perspectives and attitudes toward innovation. One perspective emphasizes the importance of innovation as a critical ingredient for success. It acknowledges that while innovation alone may not suffice to build a sustainable and profitable business, it is nonetheless a crucial factor that, when integrated with other aspects such as strategic planning and operational excellence, facilitates success. This viewpoint underscores the need for a balanced approach to innovation, considering both disruptive and incremental forms. Another perspective highlights innovation as a mindset and strategic approach that sets startups apart in competitive landscapes. It delineates various ways in which innovation contributes to success, including providing a competitive advantage, fostering adaptability, solving problems, improving efficiency, and expanding market reach. This perspective underscores the multifaceted benefits of innovation for startups, emphasizing its role in driving differentiation, competitiveness, and growth. Conversely, some respondents express a more reserved view of the importance of innovation. They acknowledge the necessity of innovation but perceive it as less crucial compared to other factors such as sales, relationships, and market demand. This perspective suggests that while innovation may contribute to success, it is not always the primary determinant and must be balanced with other considerations such as meeting market needs and building relationships with clients.

Overall, the responses reflect diverse perspectives on the role of innovation in startup success, ranging from viewing it as a crucial ingredient and strategic imperative to considering it as a secondary factor that must be balanced with other business priorities. This diversity underscores the complexity of innovation’s role in determining the success of startups and the need for nuanced approaches that consider the unique context and challenges of each venture. In summary, while innovation is widely acknowledged as a key driver of startup success, its role is perceived within a broader strategic context. Effective innovation is not just about introducing novel ideas but also about aligning these innovations with the startup’s overall business strategy, market demands, and operational capabilities. This balanced approach enables startups to leverage innovation for competitive advantage while ensuring sustainability and relevance in the market.

What Challenges Do You Face in Balancing the Need for Innovation With Other Operational Aspects of Running a Startup?

Balancing the need for innovation with operational aspects in a startup presents a multifaceted challenge, as highlighted by various managers. The primary struggle involves managing the inherent tension between the drive for innovation and the need for stability, predictability, and efficiency in day-to-day operations. One of the core challenges is the scarcity of resources, which is a common constraint in startups. Innovation often requires a significant investment of both time and money in activities with uncertain outcomes, such as research and development, testing, and iterating new ideas. This investment can strain limited resources, making it difficult to maintain operational aspects like production, marketing, and sales, which are essential for immediate survival and profitability. The process of innovation itself, characterized by trial and error, demands flexibility and a tolerance for failure that can conflict with the need for operational stability and predictability. Startups must navigate this delicate balance, ensuring that the pursuit of new and innovative ideas does not undermine the reliability and efficiency of existing operations. Risk management emerges as a critical tool in this balancing act, allowing startups to evaluate potential outcomes and the impact of innovation initiatives on the broader business. Establishing a culture that values both innovation and operational excellence is essential. This culture should encourage open communication, strategic allocation of resources, and clear prioritization of tasks. Furthermore, aligning innovation with the overall business strategy ensures that innovative efforts are not only focused on creating novel products or services but also on addressing market needs and contributing to the company's long-term goals. The challenge is not merely to innovate for innovation's sake but to do so in a way that is relevant to the market and sustainable for the business.

In conclusion, balancing innovation with operational aspects requires a strategic approach that considers resource allocation, risk management, and the alignment of innovation activities with market needs and business objectives. It is about finding a sustainable middle ground where innovation can thrive without compromising the operational integrity and financial stability of the startup.

To What Extent Do You Believe That Staying Ahead of Technological Advancements and Industry Trends Is Crucial for the Success of Your Startup?

The responses to the question of the importance of staying ahead of technological advancements and industry trends for startup success reveal a spectrum of perspectives, ranging from cautious endorsement to strong advocacy. On one end, some respondents argue that while keeping pace with technological advancements is beneficial, it is not the sole determinant of success. They suggest that a startup can thrive by excelling in other areas, such as operational efficiency or lean business practices, without necessarily being at the cutting edge of technology. This viewpoint acknowledges the value of innovation but places it within a broader strategy that includes other critical business elements. Conversely, there is a strong consensus among many respondents that staying ahead of technological and industry trends is not only beneficial but essential for the long-term success and competitiveness of a startup. This group highlights the dynamic nature of the business landscape, where rapid technological innovations and shifting market conditions can significantly influence market dynamics. They argue that proactively engaging with emerging technologies and trends enables startups to innovate, adapt, and maintain a competitive edge. The ability to anticipate market shifts, identify new opportunities, and meet evolving customer demands is seen as crucial for avoiding obsolescence and securing a sustainable position in the market. A moderate stance emerges from some respondents who view the importance of technological advancements as situational, suggesting that while it is important, it should be balanced with improvements to existing systems and processes. This perspective emphasizes a balanced approach, where innovation and technological engagement are part of a dual strategy that also values the enhancement of current operations.

In summary, while views on the absolute necessity of staying ahead in technology and trends vary, there is a general agreement on its significance for startup success. The divergent opinions underscore the complexity of navigating the startup landscape, where strategic choices about innovation, technology adoption, and market responsiveness are tailored to individual business contexts and industry specifics.

Are There Specific Industries or Sectors Where You Believe Innovation Is Particularly Crucial for the Success of Startups?

The responses to the inquiry about the significance of innovation across different industries reveal a nuanced perspective that acknowledges the universal importance of innovation while highlighting its critical role in certain sectors. Respondents agree that innovation serves as a fundamental driver of startup success across all industries, yet they emphasize its paramount importance in specific sectors such as technology, healthcare, and clean energy. In technology and healthcare, the rapid pace of scientific advancement and the evolving nature of consumer needs necessitate continuous innovation. Startups in these sectors are expected to deliver groundbreaking solutions that address complex challenges, improve patient outcomes, and leverage the latest technological developments. The emphasis on innovation in these areas is not just about sustaining competitive advantage but also about contributing to significant societal advancements. The clean energy sector is identified as another area where innovation is particularly critical, given the global urgency to address climate change and the transition towards sustainable energy sources. Startups in this sector are at the forefront of developing renewable energy technologies, energy-efficient solutions, and sustainable practices, highlighting the role of innovation in driving environmental sustainability and economic viability. While respondents recognize that every industry can benefit from innovation, they point out that in sectors characterized by rapid technological change, intense competition, and high societal impact, innovation is not just beneficial but essential. Startups in these areas must prioritize innovation to remain relevant, meet regulatory and market demands, and contribute meaningfully to their respective fields.

How Does the Startup Ecosystem, Including Collaboration With Other Startups, Impact the Innovation Capabilities and Success of Your Company?

The impact of the startup ecosystem and collaboration with other startups on a company's innovation capabilities and success is multifaceted, drawing both positive and critical viewpoints. On the positive side, collaboration within the startup ecosystem is highly valued for its role in facilitating knowledge sharing, resource pooling, and access to complementary expertise. Such collaboration is seen as a catalyst for innovation, enabling startups to leverage shared resources, such as office space, equipment, or expertise, without substantial investments. This environment fosters a culture of continuous learning, accelerates innovation, and opens doors to potential collaborations, joint ventures, and partnerships that enhance innovation capabilities. The responses also highlight the significance of cross-pollination of ideas, brought about by collaborating with startups from different industries or with complementary skill sets, which leads to fresh perspectives on problem-solving and innovation. Moreover, collaboration is credited with allowing market validation through shared experiences, emphasizing the startup ecosystem's dynamic and collaborative nature in shaping innovation capabilities and contributing to success. Conversely, some responses reflect a more critical view, pointing out the insufficiency of cooperation and the challenges posed by the introverted nature of some developers, which can hinder effective communication and collaboration. Despite these challenges, there's a recognition of the need for increased collaboration, both formal and informal, to drive success. The mixed experiences with collaboration underscore the variability within the startup ecosystem, suggesting that while the potential for a positive impact on innovation and success is significant, realizing this potential can be contingent upon overcoming communication and cooperation barriers.

Conclusion

Research shows the multifaceted nature of innovation in startups, encompassing not only product or technological innovation but also process and business model innovations. Furthermore, study indicates that, despite the importance of innovation, the startup company managers and owners must balance between innovation and operational efficiency, not only rely on innovation. It is essential to recognize that the strategic alignment of innovation efforts, the industry-specific impact of innovation, and the supportive role of the startup ecosystem are critical factors in navigating the complex landscape of startup management and fostering company growth. A start up company cannot merely depend only on innovation as a singular factor and anticipate success. Managers need to rely on holistic approach that integrates innovation with solid business practices, adaptable strategies, and collaborative networks if they want to achieve sustainable success. As articulated by one of the interviewed company managers, the essence of the relationship between a start-up and innovation lies in:

> Innovation is not just a luxury for startups; it's a necessity. It's a mindset that should be embedded in the company culture from the top down, encouraging creativity, experimentation, and a continuous quest for improvement. Startups that prioritize and integrate innovation into their DNA are better positioned to navigate challenges, seize opportunities, and achieve sustained success as a moment that was also important and an integral part of the success of the start-up company, it should be ahead of technological advancements and industry trends is essential for the success of our start-up. It enables us to be agile, adaptable, and relevant in the market. (Marko Vincenkovic, CEO of Makabi Agritech, 2023)

In summary, it is evident that innovation is fundamental across all industries, and progress in any domain is unattainable without innovation. However, it is crucial to underscore that in IT technology, healthcare, agriculture, finance, and consumer goods are examples of sectors where innovation plays a vital role in driving growth, disrupting traditional business models, and addressing complex challenges. Research shows that, despite managers highlighting the significance of collaboration within and among start-up companies, they reported that actual cooperation levels are notably low. This phenomenon can be attributed to the reticence of managers to exchange and share ideas, driven by a desire to maintain focus and safeguard their companies. Additionally, it was emphasized that a majority of owners and managers have lack of communication skills which is very important for running and developing a startup company. Like a general conclusion, research shows that start-up companies should not always focus and stand only on innovation as main driver to success, but should also include the other elements for the company's success which is very important. This research will provide a starting point for subsequent studies aimed at exploring whether startup companies depend solely on innovation as a success factor or incorporate other elements in their development. Future research should focus on identifying the key factors that contribute to the success of startups and the role of artificial intelligence in their achievements. Additionally, it is important to determine the proportion of new startups that depend exclusively on innovation and to research the extent to which reliance solely on innovation has contributed to the failure of these companies.

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