BUDAPEST UNIVERSITY OF ECONOMIC SCIENCES AND PUBLIC ADMINISTRATION
PH.D. PROGRAMME IN BUSINESS ADMINISTRATION

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STRATEGICAL AND MOTIVATIONAL ANALYSIS OF INTERNET START UPS - THE CASE OF HUNGARIAN PORTAL SERVICE PROVIDERS

THE MAIN POINTS OF THE PH.D. THESIS

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Budapest, December 2003.

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Actuality, the problem

The topic of my dissertation is the strategic and motivational investigation of the start up of Hungarian Internet portal service enterprises. My work is basically *a case study*, however it is more than a pure recounting, in that it has the stated purpose of shedding light onto a general topic through a specific case study. This general topic is the development of the economy, and the emergence of an entirely new industry within it.

The millennium was witness to a tremendous success story, followed by a great disillusionment at the global economic level. The great rise in the business climate was due to the companies of the technological sector, and more specifically to those of the Internet branch. Then came a drastic fallback during the well-known events of 2000-2001. My opinion is that despite the depressive events of those years, the Internet economy is still one of the most exciting segments of the business world. On the other hand, the formation of this new form of service possesses several exciting theoretical and practical questions. I investigate one of these in my dissertation, namely*, how the enterprises formed and started their activity* in the Internet business. Chronologically I start with their beginning, then I try to describe *how they really operate during their initial period and later during their financial consolidation*.

Naturally, I concentrate on a few relevant elements of this wide-ranging topic. Regarding the start ups, I place the emphasis on the *incentives*, and regarding operation, I study the organisational *capability*. I proceed by asking these questions with the attitude of strategic research, although economics and enterprise theory, as well as Internet economy research also occur in my work.

My starting point is the following: There are several factors hindering the starting up of Hungarian Internet enterprises. If I wanted to mention a handful of the problems faced by the industry, then it would suffice me to highlight these facts:

- on-line marketing is very low (appr. 1 % in the year 2000)[1]
- we see a lack of credit card penetration that is needed for the payment of on-line services, as well as the premature state of payment systems
- Hungarian households have a low Internet penetration rate (in 2001 it was 5 %)[2] – the hardware is still too expensive for the average Hungarian, as well as the software, the connection and the telecom fee (e.g. local call)
- Lack of skills among the population (IT-, software and language)
- Social hindrances (lack of trust, Hungarian pessimism)
- Lack of e-government
- Security concerns (even Internet providers are hacked (Elender), Internet crimes).

I consider a further problem to be the serious concern regarding the *feasibility of enterprises breaking into the Internet sector*. This problem is especially important in the case of portal service providers. (80 % of such companies failed to produce profits in 2000[3]), since their income structure is not clarified. Specifically: their income depends on the scarce advertising – which is especially true for the start up phase of their operation. Also related to the lack of revenues is the lack of practical income and business models. Another such factor to be mentioned is that it is very difficult to make a prognosis on the future of the given market, which – given just the technological advancement and intensive innovations - is turbulent and insecure. The uncertain market – coupled with the hindrance factors listed earlier and the specific problems of revenue generation, can lead us to safely ask: „*Why did entrepreneurs and already operating enterprises start up Internet businesses and activities"*. In connection with this question we can also pose another, specifically, if they once decided to start such a business, then how do they operate and *what are the key elements of their operation*, especially given the intensive competition in the sector.

[1] MRSZ IT 2001. report and Kreatív Net 2. year 2. no..
[2] WIP ITTK-Tárki, 2001. december.
[3] Dotkom Internet Consulting (www.dotkom.hu): Tartalomszolgáltatási bevételek 2001. 01. 22.

Purpose

Beside the specific problem, it is of a general concern *to learn more about the strategic and business-motivational background of the industry*. It is especially important to analyse the decision leading to the creation of a new business (foundation of a company and entering a market). Hopefully, with the analysis of such a strategic decision, we can *specify the background reasons of the dynamics of the birth of such an enterprise*. The deeper understanding of the entrance into a market that has no previous traditions is therefore my goal in the following.

To summarize, the purpose of the thesis is the following:

- Mapping the specific motivations of the Hungarian portal service enterprises when starting up their Internet activity.
- Study the specifics of the initial rationalization of Hungarian portal service providers and the peculiarities of their operations, concentrating on the company potential.
- Through the above, to document the pioneer era of the first 7 years in the Hungarian electronic content industry.
- Finally, based on the findings of the research, a short discussion on the empirical and theoretical conclusions, and further possible areas for research.

My research is not primary an analysis of the industry, although many data is brought forth regarding the competition in the industry also. My fundamental research attitude is to study the *entrepreneurial action* in a specific industry, at a specific point in time. The specifics of the Internet- and portal-market are secondary from this point of view.
I have further goals from a theoretical point of view:

- On the one hand, I try to introduce the phrases by which I define problems in a more general context, so as to be able to correctly analyse from a theoretical stand the appearance of these services and service providers building on a new technology.
- Secondly, my aim is helping to clarify the confusion in definitions present in the business sciences and the Internet industry with the help of the economic sciences.
- Thirdly, I would like to call to the attention of the wider profession as well as the executives working in the corporate strategic area to the economic methods dealing with problems arising from technological and organisational transformations. This is important, since despite the strong theoretical backgrounds that exist within economics when describing actual tendencies and realities, this specific area of the economic sciences has been undeservedly neglected (and this is especially true for Hungary).
- Fourth, I argue for the possibility of synthesizing economics' and business sciences' notion of capability.

Methods

The dissertation can be thought of as *pre-research.* Its basic goal is *to gain knowledge*, and for this reason, the *inductive viewpoint* can be found in the section based on empirics, to an even greater degree then *deductive theory creation*. The reason for this is that since this is a case study of a special industry branch, the ability to superimpose theories from other industries is limited. I encountered obstacles during my research, finding that the professional literature on the motivation factors of Internet start up entrepreneurships is quite lacking. This also means that any well-founded pre-hypothetisation that applies to the start up of Internet companies is impossible due to the lack of similar case studies.

Nevertheless, I tried to pre-hypothesis on the two most important topics, for which I use general theories and the few – existing – research results. As a result, I

test different hypothesis for these themes. Thereafter I reach further conclusions in both topics. These results were worked out on the basis of the empirical research.

The processing of the elements of the initial innovation theory allows for the wider understanding of the theme in terms of the business sciences and the economics, and also highlights the main topics to be investigated. It highlights the events resulting from the appearance of the new technology on the start up of the Internet companies. The further theoretical investigation, coming mostly from literature on founding companies and on strategy, serve the understanding and handling of the specific problem, allowing for hypothetisation as well.

Theoretical background

The problem discussed can be applied in other sciences; the questions can be applied to classical economics, strategic management or corporate theory, or even organisational behaviour or economic psychology. Despite this possibility, my thesis starts out from the basic notion that strategic decisions oriented towards the future are needed for a company to start up activities in a very unpredictable market. Due to this, the processing of the literature builds on economic and business theories where the question of strategy is an integral part of the definition of the company. Namely, I am talking about theories, where the company and the core of the strategy are defined by the capabilities inherent inside.

In broader complexity, the industry to be examined is an important part of the new social and economic paradigm based on the info-communication technology. It is for this reason that, along with company theory, I use a concept that is associated with Schumpeter in the economic literature (and has been adopted by strategic thinking also) and view the company's role foremost in innovation. I use this innovation literature to introduce the creation of Internet enterprises, and also to extend it with my own interpretations. On the other hand, I consider the basic event of change as the most important factor, and have chosen, in part because of this, the innovation view to gain an understanding of the Internet industry's formation, a view

that deems change as very important. I try to show this at two different levels in my thesis.

I start out from the fact that the economy is a system in continuous change. It is, among other reasons, that I use Schumpeter's theory, and place innovation at the centre. I showcase some important elements of innovation theory, then I use these for the development of Internet. I demonstrate the steps of Internet development, and how we can define the development of the Internet from a theoretical viewpoint. At this „level", I emphasize foremost the concept of innovation on the dimensions of technological development.

It is important to emphasize regarding innovation, that it is not equal to technological development. In my reading, innovation is a „market" concept. It only becomes tangible with its economic application, whereby it influences economic development. The most important factor in establishing the role of innovation thus is the enterprise. This thought appears at the next „level", that of the companies. Here I try to show the most important theoretical basis of the enterprise that is relevant to my study. On the one hand, I show the entrepreneur as a person from an economic viewpoint (as a starting point sticking to Schumpeter here as well). Then I show the organisational approach to the enterprise. Here my most important lead is to use those corporate theories, which approach the companies in a new way. The new way means for a theory to show us a definition of a company as something that is able to adapt to the fast changing environment.

The later one I can find in those corporate theories, which originate from the most recognised strategic researchers of the 1990's, and focus on capabilities and competencies. On the other hand, the innovation school, in other words the corporate theory of evolutionary economics, is also introduced, by which I tie into the definition of the company the original thoughts regarding change and innovation. There will also appear another goal here, which gathers the corporate concepts towards the direction of multidiscipline synthesis. This is already the group of theories dealing on a wide platform with knowledge, routine, capabilities, strategy (vision), innovation as definition of the company that is able to describe in a positive and normative way the real enterprise operating in the real world and real economy.

Finally, I deal with the foundations of the empirical research at this level, along with the setting up of two hypotheses. In other words, I tie into the literature on capabilities the topic of the birth of enterprises, with the motivational theory of the founding of enterprises, and the experiences of the Internet economy research. In this way I work out the two pre-hypothesises relating to the initial problem. Firstly, *I stress the existence of special (extreme) motivations, which are so much characteristics of the Internet (H1).* Secondly, *I do the same with human resource among the organisational capabilities (H2).* Exact hypothesises are the followings:

H1: During the formation of the Hungarian portal service Internet enterprises, regarding their business motivations and basic reasons for starting up, extreme companies were also created.

H1/a: there were founded speculative (for sale) companies, with the following:

- *cash-flow expectations: one large lump sum income when the project is sold,*
- *Boom: determinant in their market entry,*
- *vision: have developed detailed strategic vision at the start.*

H1/b: there were founded several marginal companies (from interest or hobby) with the following:

- *cash-flow expectations: minimal income expected,*
- *Boom: does not play a part in entrance, nor does the actual atmosphere,*
- *vision: none or very primitive.*

H2: The capabilities gainable from human resources are strategically definitely first priority ones for Hungarian Internet portal service companies.

Empirical research

The empirical research has two purposes: I test hypothesis and I try to gain new information on the subject. The empirical part of the research is *qualitative*. The base population is the group of *enterprises operating in Hungary as portal service providers or as Internet oriented companies that meet certain screening criteria.* I formed the sample from available home page registers and from information I received from industry participants (e.g. the industry's press and on-line data gathering). I reviewed the information by *deep interviewing,* whereby I talked to the

chief executives of the companies about strategic questions, about the circumstances of founding companies and entering markets and their motivations, and regarding the operation of the company. Since the data were mostly qualitative in kind, and for the sake of deeper data processing, I insisted on the deep interview method. This was practical not only due to the qualitative nature of my questions, but also to the confidential nature of the interviews.

The number of the samples was limited and decided upon by the limited time available for one researcher to carry out the research (search for the interview subjects, convincing them, carrying out and processing the interview). According to preliminary opinions of experts, the number of companies to be potentially sampled moved in between 50 and 100. Since no well-defined measurements or estimates existed for this specifically generated population existed, even according to pessimistic views, there are no more than one hundred and fifty companies affected. Knowing this, *the nearly 30-piece sample is ample enough for representation.*

From the large amount of data received during the exercise, I analysed 33 questions (variables) at first, with *descriptive multivariable statistical methods*. (I gained the non-numeric data from the *content analysis* of the interviews.) Along with the multi-variable methods, the data were also summed and analysed by using *simple statistical methods*. My later conclusions are based on results gained by this method.

As regards the *methodology,* I have to emphasize that because of the pre-research characteristic of this project I had to solve special methodological problems. First off, the different services don't exist in an adequate form in the official nomenclature, or to be more specific, they only do since the most recent times, and in a simplified manner. Thus, I could not count on the statistics. On the other hand, when defining the scope of services, or the level of business activity, it was hard to handle the wide range of newer and newer services, and the convergence experienced at all levels, as well as the repositioning of off-line companies onto the Internet. It is for this reason that I had to create a unique sample, and in a way, I had to define some services myself. All of these are parts of a crucial methodological issue, which is regarding to the *lack of a clear-cut population*, from which is possible

to take a sample. That is why I worked out a special system of filter-criterias for interpretation and qualification.

Results, further utilization

I place the topic of the foundation of Hungarian Internet portal service providers into an innovation economic and technology history framework. Based on this, I consider the appearance of the Internet foremost as a result of a *technological push innovation,* since it is the result of a long technological evolving process started from a long base-research period, coloured by technological transfer events. In addition, I argue that the info-communicational technologies are the basis of a *new social-economic paradigm*. Within this paradigm, the different new technologies, depending on the innovation potentials within them, have different levels of significance. In this relation, the *Internet is defined by me as a new general purpose technological system, which is the infrastructure of the new paradigm.* I emphasise the dot com fever of the second half of the 1990's, the investors' boom felt in the US and the world, which I did not consider a unique event, but the frequent happening associated with the appearance and rise of a new paradigm.

I make further theoretical considerations, by examining the role of the entrepreneur and the enterprise. I place all this within the technology-intensive 1990's, where many possibilities arose for the business exploitation of the new technologies. I stress the importance of company foundation, and the theories explaining this. I gave separate attention to the *environment, visioning and business expectations* in the start up. It is in this context that I interpret the role of strategy. I argued for the *inclusion of strategy and capabilities in the concept of the firm.*

As relates to the Internet's progress, I mention the *non-profit* beginnings, then apart from the already mentioned, also factors that boomed outside the industry (investors) and inside it (technology) among inside-outside factors. As long as the non-profit view of the Internet was a natural one in the quarter century up to the middle of the

1990's, another attitude was brought into the industry, that of the investor, that of purely speculative money making. From this, I derived my hypothesis about the entrants. The results proved the initial hypothesis, that among the enterprises, the ones with *extreme, that is, non profit-type, and also those with purely a profit motive, both appeared (H1).* These motives can be well associated with the extremes as defined by the considered characteristics. That is, to the cash flow expectations tied to marginal and speculative enterprises, to the sensitivity of the environment (attitude towards the fever), and to the strength of the visioning. The empirical data nicely gave a shape to these extremities in the sample. *The companies created with the intention to be resold* for example *judged the evolution of the environment over-optimistically,* and naturally their resale possibilities as well.

What is more interesting than this is that the (hobby type) marginal group included a very extreme little cluster. These enterprises gave surprising answers to the questions, showing such extremity that was unexpected. The self-awareness at the point of founding can be questioned in their case. For example, they did not position themselves at all to competitors. These companies I called purely hobby enterprises, and thus created a category, which is non-existent in the enterprise grouping categories of the professional literature. (It is a further question that is it a different category or as I interpret it here only an extremity of marginality.) In their case, we can talk about a kind of institutional necessity, which pushed the founders into a forced enterprise creation. They could only continue their hobby activity with more essence, if they legally became companies, and can thus receive domain names and thus start up their home page. The other moment thus was spotlighted is that the market pushed itself onto their lives. Their frequented hobby home pages were found by potential advertisers, who asked the operators to be able to give them invoices – as usual for economic entities. This could be satisfied by incorporation or the purchase of an already existing micro company. This second motive (invoice giving) is typical to the entire group of marginal enterprises.

The analysis regarding the company foundation brought two important results regarding the primary motivations of starting a company. First, regarding the

companies diversifying onto the Internet portal market, I concluded *that they are not unified regarding the type of motives*, as interpreted by the thesis. Second, the motive of *self-employment also appeared* in this segment.

Regarding the environment of the start up, I made two more conclusions. First, *those formed during the dot com fever – with the exception of the case where the self-awareness of the start up is questionable – expectations were pushed in the positive direction by the industry environment upheaval.* Second, the rate of the spread of the Internet was the most worrying factor. Among the strategic questions, one conclusion effects the strategic content question, *since there appeared those who took advantage of the initial period, who aimed for market leading roles.* Regarding the strategic form, two conclusions were made, first, that *the simpler the enterprise's legal form, the less likely it will create a business plan.* Also, that during information gathering before the market entry, *how important is the personal knowledge of the entrepreneur, his-her experience and feel of it, as far as the person is the one in whom the innovation is created, also in terms of information.* The importance of the entrepreneur's person can be seen on how entrepreneur-centric the operation and leadership of the company is.

Regarding operation, further important conclusions were made in the area of competitor advantage and - in some cases the survival-helping – organisational capabilities, and the economic factors having this same goal. Taking into consideration the different knowledge and competency concepts, the capability and the resources concepts were put in the centre of the empirical analysis. Taking into consideration the varying concepts, I concentrated foremost on finding the inner factor that provides a competitor advantage and strength to the enterprise. This is clearly *the human resources (H2)* in the empirical study. At the same place, I conclude that *in small organisations, the formal HR techniques have no role.* Regarding the financial basis of the operation, I presented that, on the one hand, economic operation is made possible by *relying on more than one revenue source, and also that cost efficiency is the key element in the operation.*

In light of all these results -returning to the original problem- the answer to the initial question of why they started up the enterprise despite the unfavourable environmental elements and industry's economic realities (difficulty on the revenue side), is the following:

Regarding revenues, it was the reliance on more than one revenue source that allowed the operation to continue after the start up. They had to survive in several segments of the Internet industry, and often non-Internet activities could also be found in their repertoire. We also see, however, that even by solely operating a portal service, there is possibility of other indirect revenue also. This is possible in case there is synergy among carrying activities, which can question the operation of the portal service in the case of less favourable profit making.

On the other hand, the generally unfavourable environmental situation also did not stop their enthusiasm. We find out that many were very optimistic regarding future progress, especially for those starting in the Internet fever. They considered the *relative undeveloped state* as a passing state of things, especially those regarding the revenue area. Since they felt this, *primarily in the shape of a lack of users.* On the other hand, they considered this as a given, that has to be considered and fought, but that did not particularly effect the starting up. We cannot of course forget that in the studied period, the entrants were often first in their segment, which did not make them uncertain regarding the future. The negative factors, as a whole, were counterbalanced by the positive elements of climate, personal attitude, business opportunity and the lack of understanding regarding competitors. The large number of entrants is due to this. (There are large numbers of entrants only if filter-criterias that I used here are not considered.)

Anyway, the peculiar entrance of people possessing often positive values and a sense of mission into the business segment is an important observation. For this reason, stepping out of the organisational framework, it would be valuable *to domesticate this network viewpoint* -along the *demographic* aspects- in the *research of Hungarian Internet businesses*. About the later factor, many data -which are not

processed here- are available thanks for the interviews. Thus, further research projects could be based on these data too. The question of the further utilization of this thesis is also adequate.

Possibility of conclusions' generalization is limited, because here we have a peculiarly filtered -national leveled- population and sample of a special industry. On the other hand, as the basic question of the thesis is aiming the entrepreneurial momentum, the experiences' utilization at other industries is not completely impossible. This way, these results can be considered in the examinations of starting period of newly established risky industries. In addition, since there were no this kind of researches in Hungary before, the thesis can be an important source for further examination of Internet industry. Furthermore, this can serve possible foreign investigations in this theme, as a Hungarian reference. The above-mentioned concrete results signify new opportunities in the field of strategic management or entrepreneurship research, and especially for Internet business research, but also for industrial dynamics' researchers. Not to mention, that derive from the induction's nature and definition, the conclusions listed here should be treated as further conditional scientific starting point.

Publications on the issue

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