

DIGITALEUROPE's views on Commission 'Start-up Initiative'

Brussels, 19 July 2016

EXECUTIVE SUMMARY

DIGITALEUROPE as the voice of Europe's digital technology industry expresses its willingness to work closely with the EU Institutions and policymakers to provide valuable knowledge on improving the environment for start-ups in Europe. The European Commission took an important first step in October 2015 through the launch of its 'Single Market Strategy' to form one of the policy building blocks to boost jobs and growth in Europe. We welcome the added emphasis placed on European start-ups and fast growing firms through a dedicated 'start-up initiative'. As the European Commission continues to consider future actions, DIGITALEUROPE believes any future activities within the field of start-ups should focus on the following:

- **Support universities and research institutes** – During the “stand-up” phase the most important objective of public sector institutions should be to support universities and research institutes (including students and researchers).
- **Entrepreneurship in education** - Member State education systems must introduce entrepreneurship education in all levels of formal education (from primary and secondary school to vocational education and university).
- **Cross country collaboration & migration reforms** – Encourage cross-country collaboration as a foundation for building connections amongst individuals while following the example set by Member States such as Lithuania, which recently initiated migration reforms to give foreign entrepreneurs visas.
- **Access to finance** – Promote greater availability of finance through venture capital and creation of angel/investor ‘clubs’ to foster joint investments.
- **Predicable and stable legal framework** – Consider the impact of potential policy changes on start-ups as well as other businesses in the digital economy as action to address one issue may cause negative unforeseen consequences for start-ups.
- **Entrepreneurial hubs** - Work to build ‘entrepreneurial hubs’ focusing on specific topics/areas (e.g. Stockholm – Design).
- **Information sharing** – Pool information so that investors can identify the best performing companies and provide individual support to companies with high-growth potential.

BOOSTING ENTREPRENEURIAL ATTITUDES AND SKILLS: STAND-UP PHASE

Policies to support potential entrepreneurs

DIGITALEUROPE believes that during the “stand-up” phase the most important objective of public sector institutions should be to support universities and research institutes (including students and researchers). Member State based associations representing the private sector together with non-profit entities should simultaneously work to promote the entrepreneurial mind-set in the marketplace. In order to achieve this, it is important for Member State education systems to introduce entrepreneurship education in all levels of formal education (from primary and secondary school to vocational education and university). Industry associations can play an additional role during this phase by ensuring that local entrepreneurial communities are able to communicate together thereby creating a network effect.

The international organisation ‘Junior Achievement (JA)’ is an example of a non-profit entity working to promote the entrepreneurial mind-set. JA aims to strengthen young people’s competences in self-employment and innovation by supporting entrepreneurship teaching at all levels of education. We believe that initiatives such as JA, which introduce entrepreneurship at an early age and pursue this mindset at all levels in the educational system, should be pursued as an example of how to foster entrepreneurial culture in the EU. In Denmark, the initiatives from the Danish branch of JA have shown very positive results, with the entrepreneurial activity of master students increasing by 159% from 2001-2011.¹

Moreover, Europe has a strong research infrastructure highlighted by excellent universities and research institutions. This has led to a traditionally strong technical research foundation in Europe compared to the U.S. (which is further advanced in marketing/sales and the creation of new business models). While Europe should continue to maintain its technological base, we believe a shift is needed including the development of programmes that aid individuals to understand how to build and commercialise their technical research. This will enable stronger and more consistent product development compared to what we see today.

Some concepts to be considered include the provision of local support and ‘advice structures’ to encourage entrepreneurial activities coupled with pilot entrepreneurial programmes aiming to educate individuals on business model considerations (e.g. digital economy business model trainings). We also believe it is important to regularly organise competitions for new business ideas at both regional, national and EU level combined with events to promote entrepreneurship (e.g. <http://www.openaxel.com>).

Despite the above, we feel it is important to note that most successful start-ups are founded by individuals aged 35-40 compared to the common misconception that individuals aged 18-29 are the driving force behind successful entities. Reasons behind this include multidisciplinary backgrounds and more extensive exposure to colleagues with different backgrounds, skills and nationalities. As such, DIGITALEUROPE strongly supports cross-country collaboration (e.g. upscale Erasmus for entrepreneurs) as a foundation for building connections amongst individuals. Furthermore, we believe Member States should follow the example set by Lithuania, which recently initiated migration reforms to give foreign entrepreneurs visas.²

¹ <http://eng.ffe-ye.dk/media/637847/effektmacc8alingen20201520eng-online.pdf>

² [Startup Lithuania](#) provides for companies run by non-EU natives to receive a one-year residency permit. The length of the visa can be extended depending on the company’s success.

We wish to remind the European Commission that there are significant differences between the ecosystems in Western European Member States and Central and Eastern Europe (CEE) Member States. To bridge this gap, significant attention should be paid to the CEE region in order to effectively connect CEE entrepreneurs with those in Western European hubs.

Along with intra-European exchange, we feel that international exchange/exposure is necessary to encourage entrepreneurial attitudes. This should include the creation of close links to Silicon Valley as well as to U.S. East Coast hubs through the form of immersion tours, knowledge exchange and networking actions. We suggest the creation of systematic transatlantic value chains to tap into the more advanced U.S. ecosystem and bring ideas to Europe.

FORMING A LEGAL ENTITY: START-UP PHASE

Main obstacles when establishing a company – how to overcome them?

When it comes to measuring ‘entrepreneurship’ many indices focus on the time spent to set up a company. Indeed, many European Governments are currently focusing on this factor. DIGITALEUROPE believes that on average, it is relatively easy to set up a company in Europe despite the huge differences amongst Member States (i.e. administrative burdens in Estonia are minimal whereas Southern European Member States still require unnecessary ‘red tape’). We believe that in addition to focusing on the ‘time spent’, public entities should focus on the following 10 factors, which in our view play a bigger and more important role in the “start-up” phase:

- Access to finance
- Unpredictable and unstable legal framework
- Number of operational permits and licenses needed
- Costs of obtaining operational licenses and/or permits
- Lack of single entry point (one-stop-shop) and information for start-up procedures
- Rules and cost of hiring workers
- Proceedings for contract enforcement
- Motivation
- Education / skills
- Support facilities

We believe that the EU Institutions should focus on boosting Member State cooperation to address the above obstacles. The EU Institutions should investigate the viability of a single European legal format for start-ups which could be valid in all Member States (i.e. an entrepreneur could register a company online and select the location and be provided information on local legal requirements, registration fees, etc.).

Support multipliers

DIGITALEUROPE and its members have noticed that during the “start-up” phase, entities exhibit heterogeneous needs across different locations making it difficult to find broad spectrum solutions suitable to all. Despite these challenges, we have found the work of multiplier organisations (e.g. accelerators & national industry associations) to be the most successful in addressing these wide ranging needs. We wish to draw your attention once more to

the OpenAxel programme (<http://www.openaxel.com>), which we believe can be considered as a best practice to use European funds and to boost the European “start-up” market.

Sourcing funding

While the most common sources of funding for a “start-up” are basic savings, contributions from family and friends, business angels and incubators, innovation vouchers, and crowd-funding, it is worth stressing that Europe continues to lag behind its counterparts in the U.S. and China when it comes to venture capital. The EU must focus on promoting greater availability of venture capital. If Europe wishes to grow businesses to reach the scale of those found in the U.S. and Asia, increased access to capital is needed including access to larger funds with less restrictions on risk. Furthermore, we wish to note that while venture capital plays a critical role in scaling a company, business angels play a much bigger role during the “start-up” phase. As such, the EU should investigate how to foster investor clubs to pool greater capital and enable EU wide crowdfunding.

Fostering the creation and survival of EU start-ups

As previously mentioned, we strongly believe in the need to connect and upscale existing initiatives (i.e. accelerators & incubators). These should be combined with initiatives encouraging the free movement of people (e.g. start-up visas). We support the belief that creating more exchange programmes within the EU will increase efficiency. However, these actions must be combined with sustainable funding structures. This is why we stress the importance of the creation and promotion of angel/investor ‘clubs’ to foster joint investments. By pooling small angels that normally would not be able to significantly impact “start-ups”, Europe has the potential to effectively make use of funds that are often less centralised and in the hands of traditionally risk averse individuals. Some crowdfunding platforms already function as an ‘investor club’, through which venture capitalists and business angels invest their money and share risk. These practices should be encouraged.

In light of the above, the following policies and support measures should be pursued:

- Encourage Member States to create national “start-up” Manifestos consistent with the EU Start-Up Manifesto and appoint national start-up champions
- Support the creation and uptake of accelerator programmes, incubators and co-working spaces for start-up projects
- Connect incubation centres, accelerator programmes and co-working spaces across the EU to harmonise their activities
- Establish exchange schemes between incubators/accelerators across the EU
- Create and connect networks of experts (tech/engineering) to help assess the viability of start-up business ideas
- Enable links between source of knowledge (i.e. research centres) and sources of finance to facilitate access to finance for viable start-up projects
- Provide training/advisory/mentoring services to young start-ups to prevent early failures
- Promote exchanges between new and experienced entrepreneurs (e.g. Erasmus for Young Entrepreneurs) within the EU
- Promote exchange schemes between new and experienced entrepreneurs with non-EU countries
- Promote schemes to attract talented entrepreneurs from third countries (e.g. start-up visa schemes)
- Ensure better cohesion and transparency of the available support schemes at EU level

Boost innovation by connecting different stakeholders

While we believe that supporting universities and research institutions is central to the “stand-up” phase, during the “start-up” phase, the next step must be taken to establish connections between universities and research institutions with SMEs, budding start-ups and established corporate entities.

To help build these connections, Member States should not only work to build ‘entrepreneurial hubs’ but also aim to specialise and focus on specific topics/areas (e.g. Stockholm – Design). However, this framework will only be successful if connections/collaboration between Member States are strengthened. As such we believe the following factors should be considered:

- Support universities in establishing services to promote entrepreneurship (e.g. internship schemes with businesses, business-creation trainings, organising access to business incubator, etc.)
- Provide support from public sources to incubators, university R&D and technology transfer programmes to increase their capacity to boost innovative solutions
- Promote the 'outsourcing' of R&D (e.g. through tax incentives related to outsourced R&D expenses)
- Promote partnerships between start-ups and medium sized companies to facilitate access to innovation
- Establish and support long term partnerships between business, research and higher education institutions to strengthen the EU’s innovation capacity
- Support ad hoc partnerships between business, research and higher education to implement specific projects
- Promote schemes to attract innovators from non-EU countries

EXPANSION OF A COMPANY: SCALE-UP PHASE

Main obstacles when scaling up a company – how to overcome them?

During the “scale-up” phase companies are normally established as clear legal entities and larger in size than during the “start-up” phase. These entities are often in a more favourable state to absorb capital and as such we believe the EU should work to pool information so that investors can better identify the best performing companies and provide individual support to companies with high-growth potential. We propose to set up a specific measurement to support scale-up companies.

One opportunity available for those companies who wish to “scale-up” is to pursue an Initial Public Offering (IPO). However, the requirements for IPOs are in many cases prohibitive for start-ups, scale-ups and SMEs. As the EU Institutions continue to review the Prospectus Directive³, we wish to express our support for the proposal to simplify the prospectus and introduce a ‘growth prospectus’.

However, despite best intentions, we recognise that it is difficult to accurately identify the ‘best performing companies’. As a specific definition is difficult to construct, we instead suggest to use the following criteria. If a

³ Directive 2003/71/EC – Prospectus to be published when securities are on sale to the public or admitted to trading

company complies with a majority of the below criteria, then it could be acknowledged that it is a high-growth potential enterprise:

- Revenue growth was 20% on average in the past two years (minimum revenue € 0,5 M) - it must have minimum two closed full business year
- Revenues come from minimum two Member States
- Minimum 5 employees
- Web and social media presence is available, website in English and in minimum 2 other EU languages

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ABOUT DIGITALEUROPE

DIGITALEUROPE represents the digital technology industry in Europe. Our members include some of the world's largest IT, telecoms and consumer electronics companies and national associations from every part of Europe. DIGITALEUROPE wants European businesses and citizens to benefit fully from digital technologies and for Europe to grow, attract and sustain the world's best digital technology companies.

DIGITALEUROPE ensures industry participation in the development and implementation of EU policies. DIGITALEUROPE's members include 62 corporate members and 37 national trade associations from across Europe. Our website provides further information on our recent news and activities: <http://www.digitaleurope.org>

DIGITALEUROPE MEMBERSHIP

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National Trade Associations

Austria: IOÖ	Germany: BITKOM, ZVEI	Slovakia: ITAS
Belarus: INFOPARK	Greece: SEPE	Slovenia: GZS
Belgium: AGORIA	Hungary: IVSZ	Spain: AMETIC
Bulgaria: BAIT	Ireland: ICT IRELAND	Sweden: Foreningen Teknikföretagen i Sverige, IT&Telekomföretagen
Cyprus: CITEA	Italy: ANITEC	Switzerland: SWICO
Denmark: DI Digital, IT-BRANCHEN	Lithuania: INFOBALT	Turkey: Digital Turkey Platform, ECID
Estonia: ITL	Netherlands: Nederland ICT, FIAR	Ukraine: IT UKRAINE
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