



# Position Paper

July 2016

## EUROCHAMBRES' response to the public consultation under the Start-up Initiative

### 1. Introduction

EUROCHAMBRES welcomes initiatives with the objective of improving the environment for start-ups and scale-ups in Europe. This position paper presents EUROCHAMBRES' response to the public consultation under the Start-up initiative, which was launched on 31 March 2016.

This position paper is articulated in five main sections following the structure of the consultation's questionnaire:

- **Stand-up phase:** this section highlights the importance of introducing entrepreneurship education in curricula of all levels of education and "in company" training in initial vocational education. It also recommends a number of measures to support aspiring entrepreneurs and to boost entrepreneurial attitudes and skills, with a particular focus on students.
- **Start-up phase:** this section looks at the obstacles encountered when starting a business, among which burdensome and complicated administrative procedures, regulatory complexity, and difficulties in finding information on rules and requirements stand out. It then illustrates the actions needed to facilitate the creation and survival of a company and the most important policies and support measures for start-ups. Finally, rankings of the most used funding sources to start a company and of the most useful measures to boost innovation are presented.
- **Scale-up phase:** this section stresses the importance of the completion of the single market for a scale-up friendly environment. It then explores the obstacles faced by businesses within and beyond the EU, the most important policies and measures for the expansion of a company, the most useful ecosystem-level policies for start-ups and scale-ups, and the most used funding sources for financing the scaling-up of a company.
- **Exit phase:** this section gives a brief overview of the measures that could enhance the exit opportunities for companies in the growth/expansion phase, of the elements to be considered in terms of support schemes to help entrepreneurs carrying out a valuation of their company in preparation for exit and of the measures that could enhance the exit opportunities for venture capital investors.
- **Definitions of start-up and scale-up.**

## 2. Stand-up phase

If the EU is to produce more entrepreneurs, it is essential to equip individuals, starting from a very young age, with entrepreneurial attitudes and skills, such as sense of initiative, self-confidence, creativity, financial literacy, planning skills, teamwork and the ability to manage resources, uncertainty and risk. This is why introducing **entrepreneurship education** in curricula of all levels of education, from primary and secondary school to vocational education and university, is essential. Even more so considering the youth unemployment rate, which from the second quarter of 2008 followed an upward path, peaking at 23.6% in the first quarter of 2013<sup>1</sup>. Also noteworthy is that 22% of EU citizens aged 16-30 would like to start a business but consider it too difficult<sup>2</sup>. If exposed to and equipped for an entrepreneurial career, young Europeans could create and run their own business.

In this regards, it is of great importance that entrepreneurship education includes **hands-on experience**, such as the creation of mini or junior companies and project-based work. Given the prominent role of digital technology in facilitating the creation and expansion of companies<sup>3</sup>, it is also crucial to **foster digital skills** in school and leisure activities from pre-school up.

**Teachers** and professors play a key role in enabling students to develop the skills and mindset to be able to turn creative ideas into entrepreneurial action. In order for their work to be fruitful and effective, they should receive adequate **training** and attend updating courses. **Company visits** are considered useful to allow teachers to become familiar with the entrepreneurial world and its challenges. By observing the way companies operate, teachers can gain a better understanding of the skills employers need, get ideas for innovative teaching and strengthen the links between education and work<sup>4</sup>.

**Entrepreneurs** should be involved in the design and delivery of programmes and initiatives aimed to encourage entrepreneurial attitudes and skills and to support aspiring entrepreneurs in Europe in order for such activities to be as effective as possible. Entrepreneurs can play a direct role in entrepreneurship education, for example by contacting schools and universities for apprenticeships, lectures, workshops and company visits.

The introduction of **“in company” training in initial vocational education is extremely important**, as recent figures indicates that 50% of upper secondary students in the EU are in VET programmes but only approximately 26.5% of them are in work-based programmes. The importance of introducing apprenticeships is connected to the fact that a significant proportion of apprentices go on to create their own business.

With a view to boosting potential entrepreneurs **at school and university level**, it is considered particularly useful to organise **info-sessions and workshops** to advise students on how to assess the feasibility of a business, pitch investors and develop a business plan as well as to inform them of the obligations (e.g. of an administrative nature) for new companies and entrepreneurs. Also recommended is the organisation of **sessions with young entrepreneurs** that can share their experience with students, inspire and motivate them to pursue an entrepreneurial career. With specific regards to university level, it is suggested to award credits to students who set up their own business during their academic studies or to allow them to replace some classes with this activity.

<sup>1</sup> Eurostat, 2015.

<sup>2</sup> Flash Eurobarometer of the European Parliament EP EB 395 “European Youth in 2014”, 2014. The survey was carried out among over thirteen thousand Europeans aged 16-30 in the EU 28.

<sup>3</sup> According to the May 2016 HSBC report “The rise of micro-multinationals”, digital technologies made it easier for businesses to find information online and network across borders. They also cut the costs and barriers to entry, especially in emerging markets, thus levelling the playing field with larger competitors. Moreover, smaller businesses benefit from the rise of social media, for example with regards to building brand awareness.

<sup>4</sup> European Commission/EACEA/Eurydice, “Entrepreneurship Education at School in Europe”, Eurydice Report, 2016, Luxembourg, Publication Office of the European Union.

In consideration of the current context, tailored initiatives are needed to foster entrepreneurial attitudes and skills among **refugees and migrants**. Drawing on the good practices offered by Chambers of Commerce and Industry, the following actions are recommended:

- Providing individual advice – preferably in the migrants' or refugees' language – on how to set up a business and related issues (e.g. access to finance, market and location analysis, business plan development).
- Organising seminars where entrepreneurs with a migrant or refugee background share their experience.
- Organising mentoring programmes for migrants and refugees with experienced entrepreneurs. This measure can help to empower them, boost their confidence and convince them that they can undertake an entrepreneurial path.

To all categories of aspiring entrepreneurs it is highly recommended to offer **tailored support, mentoring and coaching**.

In addition, **job shadowing programmes** can play a relevant role in boosting entrepreneurial attitudes and skills. Given the opportunity to shadow an entrepreneur for a period ranging from a few (half) days to several weeks, students and wannabe entrepreneurs can get a taste of what it is like to be an entrepreneur, gain insight into the daily tasks, get a better sense of the required competencies, acquire new skills and expertise and better understand if entrepreneurship is a suitable career path for them. They can also benefit from job shadowing in terms of networking. In order for students to take advantage of such opportunities, partnerships are needed between businesses and educational institutions.

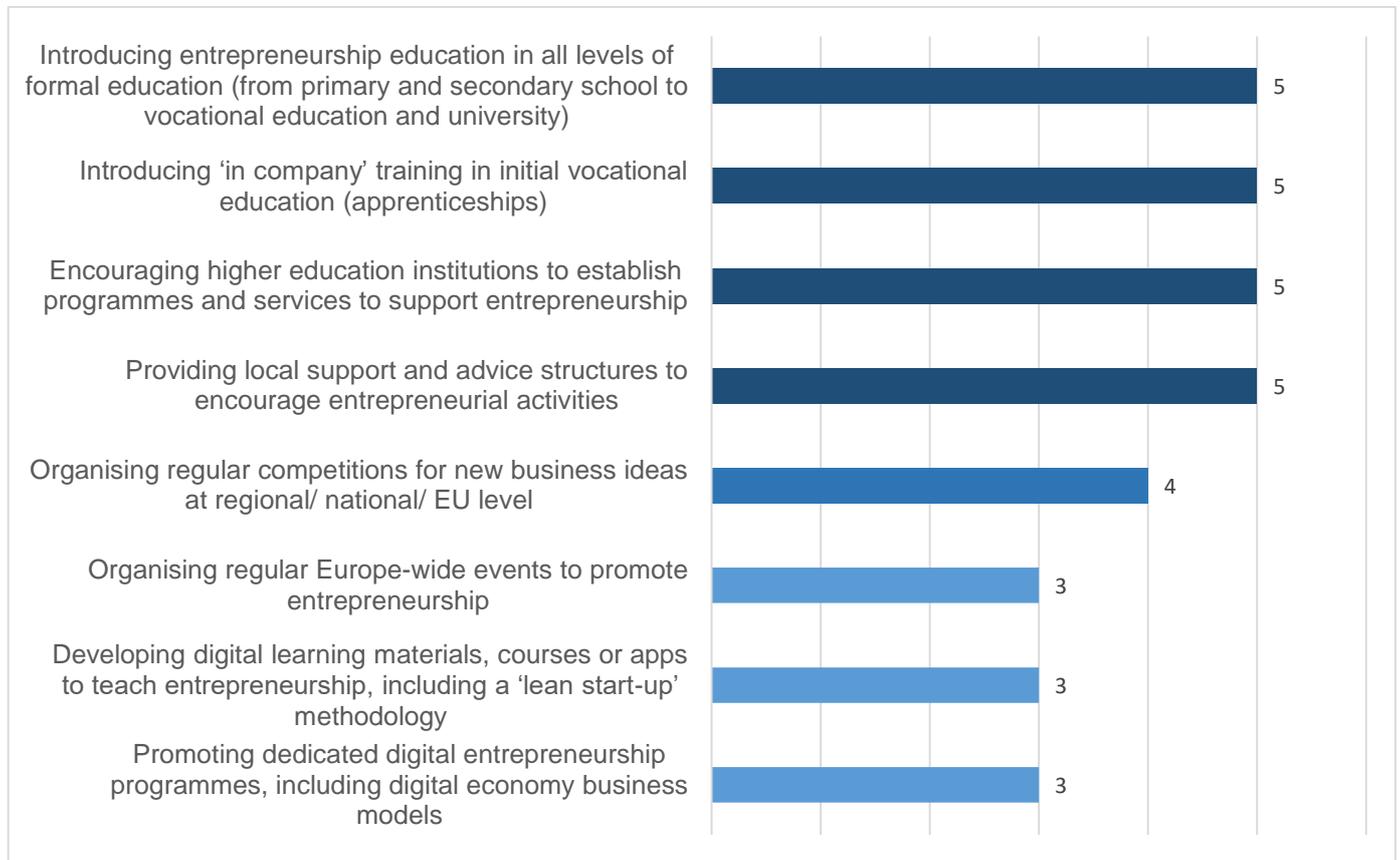
Last but not least, in order for individuals to consider the option of starting their own business as attractive, **information campaigns** aimed at raising awareness of the benefits of entrepreneurship and at enhancing the perceptions of the role of entrepreneurs within the society are needed. The special Eurobarometer "Entrepreneurship in the EU and beyond" shows that a majority of EU respondents expressed a negative perception of entrepreneurs, agreeing that "entrepreneurs take advantage of other people's work" (57% agreed) and that they "only think about their pockets" (52%)<sup>5</sup>. As acknowledged by the European Commission in the Communication "*Think Small First. A Small Business Act for Europe*", society's **recognition of entrepreneurs** is crucial<sup>6</sup>.

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<sup>5</sup> Flash Eurobarometer 354 "Entrepreneurship in the EU and beyond", 2012.

<sup>6</sup> COM(2008) 394.

The chart below ranks the options presented in the consultation's questionnaire to support potential entrepreneurs in Europe from the most important (5) to the least important (1).



### 3. Start-up phase

#### Obstacles to start a company

The top obstacles identified in relation to starting a business are **burdensome and complicated administrative procedures, regulatory complexity** and **difficulties in finding information on rules and requirements**.

In addition, whereas there is consensus in considering the lack of a single entry point (one-stop-shop) for start-up procedures, access to finance, the lack of e-governance for administrative procedures, the rules and costs of hiring workers and the number of operational permits and licenses needed as significant to extremely significant obstacles, the rating of other elements (e.g. registration cost, registration time, time to obtain operational licenses and/or permits, labour costs, tax compliance costs and unpredictable and instable legal framework) differs substantially from country to country.

#### Actions needed to facilitate the creation and survival of a company in the EU

A fundamental factor for the survival of a company is access to markets. Therefore, the Single Market needs to function far better than it does at the moment.

In a survey carried out by EUROCHAMBRES from 31 August to 14 September 2015 among 592 entrepreneurs from the EU 28<sup>7</sup>, 93% of the respondents declared their support for the establishment of a **single online portal**, where companies can find accurate and clear information in different languages on all necessary procedures and formalities to operate domestically or in another EU country.

A single digital entry point to the internal market would benefit not only start-ups but also scale-ups. However, today there is still a plethora of portals, websites and access points that vary in quality and are not interconnected. In light of this, EUROCHAMBRES reiterates the call for setting up a single online portal for companies to establish, operate or do business in another EU Member State.

The introduction of procedures to set up a company online, without any paperwork, would be particularly useful to facilitate the creation of a company.

However, in light of the complexity of the administrative and legal procedures and requirements for the creation of a company, on top of a single online portal, onsite support remains necessary. The Chambers of Commerce and Industry and the Enterprise Europe Network can play a key role in ensuring adequate coordination and interaction of support networks in the different Member States.

Moreover, efforts at EU level are needed to streamline the creation of a company in other EU countries, with particular regards to sharing the information and/or documents needed to establish a business across borders.

In order to foster the creation and survival of **start-ups**, specific actions are needed at EU level in the framework of **financial education**. With this regard, the EU should provide and/or support the followings:

- Accessible and understandable financial knowledge and information
- More information on equity finance, which is the first choice for start-ups
- Knowledge on elements of book-keeping, taxation, etc.

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<sup>7</sup> Available [here](#).

- Support tools, such as apps<sup>8</sup> and games<sup>9</sup>, that cultivate financial skills
- Training, networks and tools to increase interconnectivity between start-ups, financing and expertise
- Exchange of experience, tapping into the guidance given by accelerators and incubators
- Guidance to start-ups on options and investment-readiness support, such as InvestHorizon<sup>10</sup>.

In addition, the EU should support:

- Broader choice of finance sources, including more flexible and competitive credit options
- Opportunities for start-ups to “shop around”
- Better groupings of business angels
- Direct bank-business relationships via joint undertakings, e.g. Co.Station<sup>11</sup>

## Policies and support measures for start-ups

Among the policies and support measures for start-ups, EUROCHAMBRES stresses the importance of promoting exchange programmes between new or aspiring and experienced entrepreneurs, such as **Erasmus for Young Entrepreneurs (EYE)**. With this regard, EUROCHAMBRES highlights the **need to further develop this programme in a coherent manner**, for example **in third countries or towards migrants, instead of creating similar initiatives**. The importance to improve and expand the Erasmus for Young Entrepreneurs programme, as well as to secure more finance for it, has also been stated by Commissioner Elżbieta Bieńkowska on the occasion of the EYE MEP Ambassadors launch event, which took place on 23 May 2016 at the European Parliament.

Existing programmes should also be better promoted, for example through a more targeted use of social media, so as to enable more people to take advantage of the opportunities they offer. In addition, it is important to develop synergies between complementary schemes.

Other support measures that are considered of key importance are:

- Providing training/advisory/mentoring services to young start-ups
- Supporting the creation of incubation centres, accelerator programmes and co-working spaces for start-up projects
- Helping to secure intellectual property (IP). This is important in all the stages of a company, not only in the early ones.

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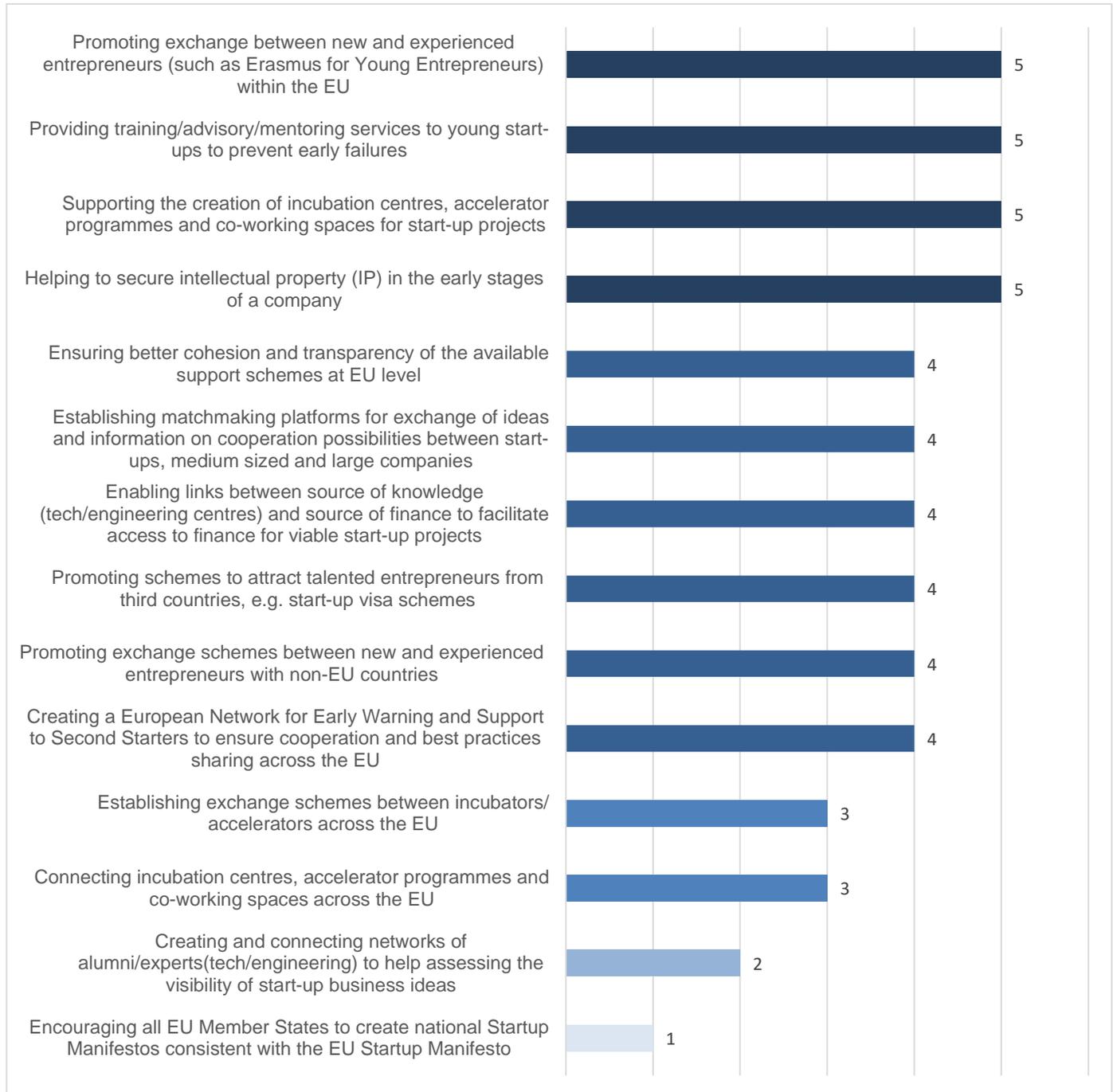
<sup>8</sup> E.g. Invstr, an app whose purpose is to make sophisticated financial information available to laypeople. More information available at <http://invstr.com/>

<sup>9</sup> BTS, a global professional services company headquartered in Sweden has designed a simulation to help micro-entrepreneurs to develop business acumen and key financial skills. More information available [here](#).

<sup>10</sup> <http://www.investhorizon.eu/>

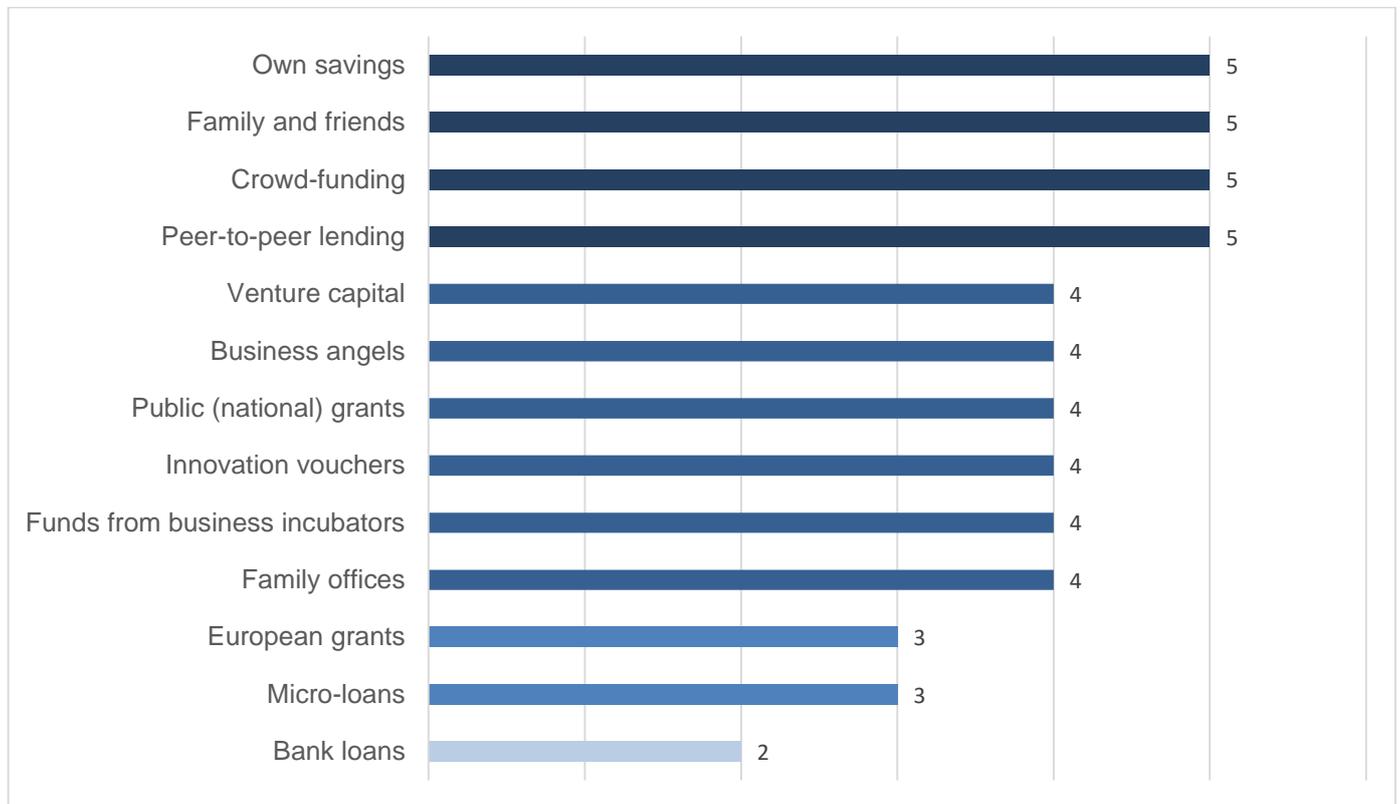
<sup>11</sup> <http://co-station.com/>

The policies/support measures for start-ups presented in the consultation's questionnaire are ranked from the most important (5) to the least important (1) in the chart below.



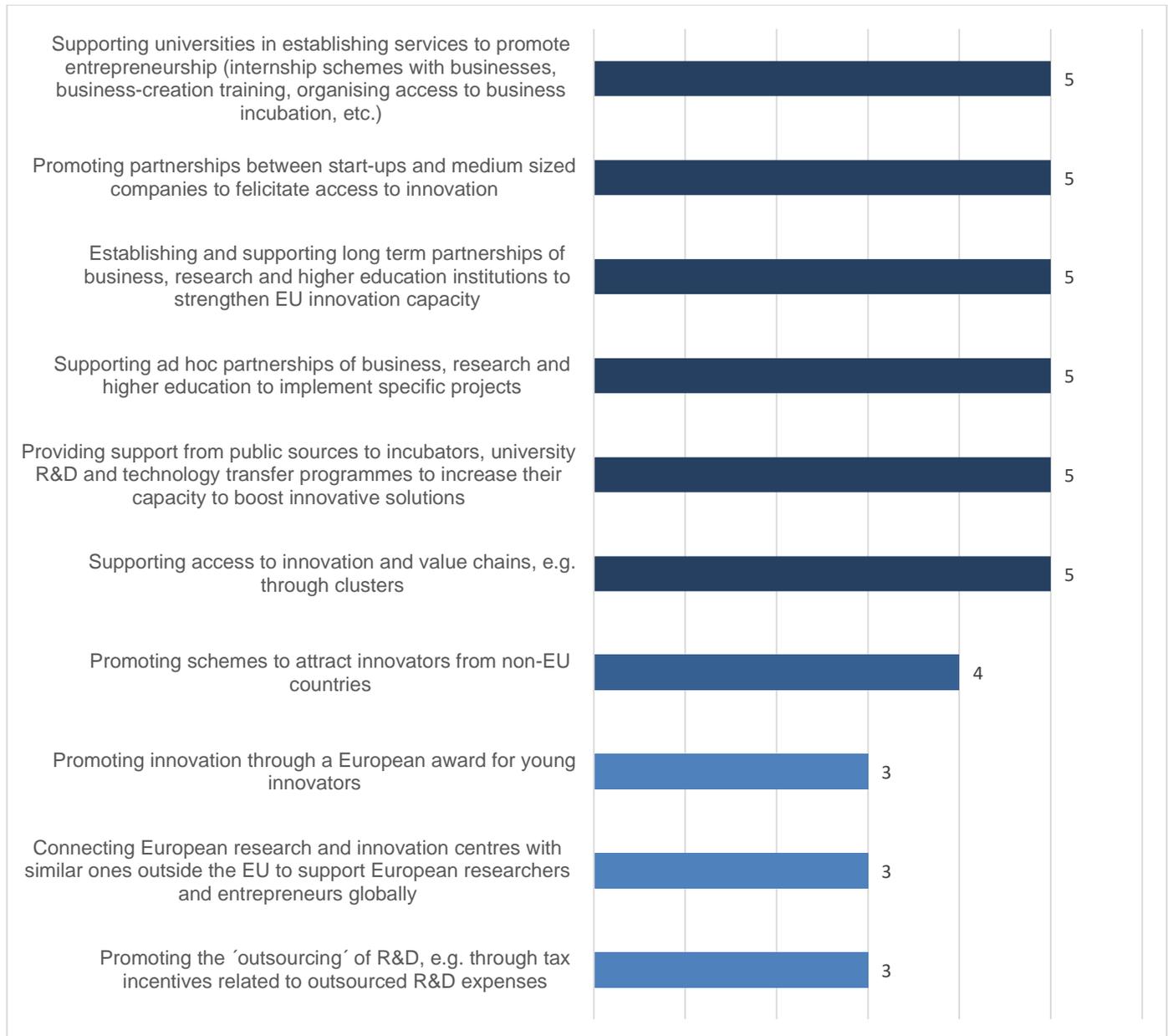
## Sources of funding to start a company

In the chart below the sources of funding to start a company are ranked from the most used (5) to the least used (1).



## Boosting innovation

The chart below illustrates the ranking of the options provided in the consultation's questionnaire with regards to boosting innovation. In addition to these, it is considered important to facilitate the collaboration between start-ups and universities in the area of Research and Development (R&D) with attention to IP rights and related issues.



## 4. Scale-up phase

### The completion of the single market is essential to scale-ups

At the October 2014 European Parliament of Enterprises (EPE), 84% of the participating entrepreneurs voted “No” to the question: “Is the EU Single Market sufficiently integrated, allowing your company to operate and compete freely?” This striking result highlighted a remarkable and worrying gap between internal market rules and the benefits perceived by businesses.

**There is no doubt that the completion of the single market is essential to scale-ups. Market access is critical to the scalability of companies and investments alike. So genuine progress towards a single market – for people, capital, goods and services, as well as for online and offline – is a sine qua non to a scale-up friendly EU. It is therefore of paramount importance to ensure follow-up on and delivery of the aims contained in the Capital Markets Union, the Digital Single Market and the Single Market Strategy, adopted in 2015. Other initiatives that might be taken at EU level will be irrelevant and ineffectual in absence of a more dynamic capital market, a “digital by default” approach across the EU and a more complete and functioning single market for goods and services and for online and offline.**

### Main obstacles faced by companies within the EU

The previously mentioned survey carried out by EUROCHAMBRES in summer 2015 among 592 entrepreneurs from the EU 28 shows that the major obstacles to do business in the EU are **complex administrative procedures** (83% of the respondents identified this as an extremely significant or significant barrier), inaccessibility of information on rules and requirements (81%) and different national product or service rules (81%).

These are ranked as the top three obstacles both by companies involved in business activities in another EU country and by those that operate exclusively in their domestic market. Micro, medium and large enterprises alike identified them as the most serious barriers. Small businesses were found to be more concerned about payment recovery, ranked as an extremely significant or significant obstacle by 75% of the overall respondents.

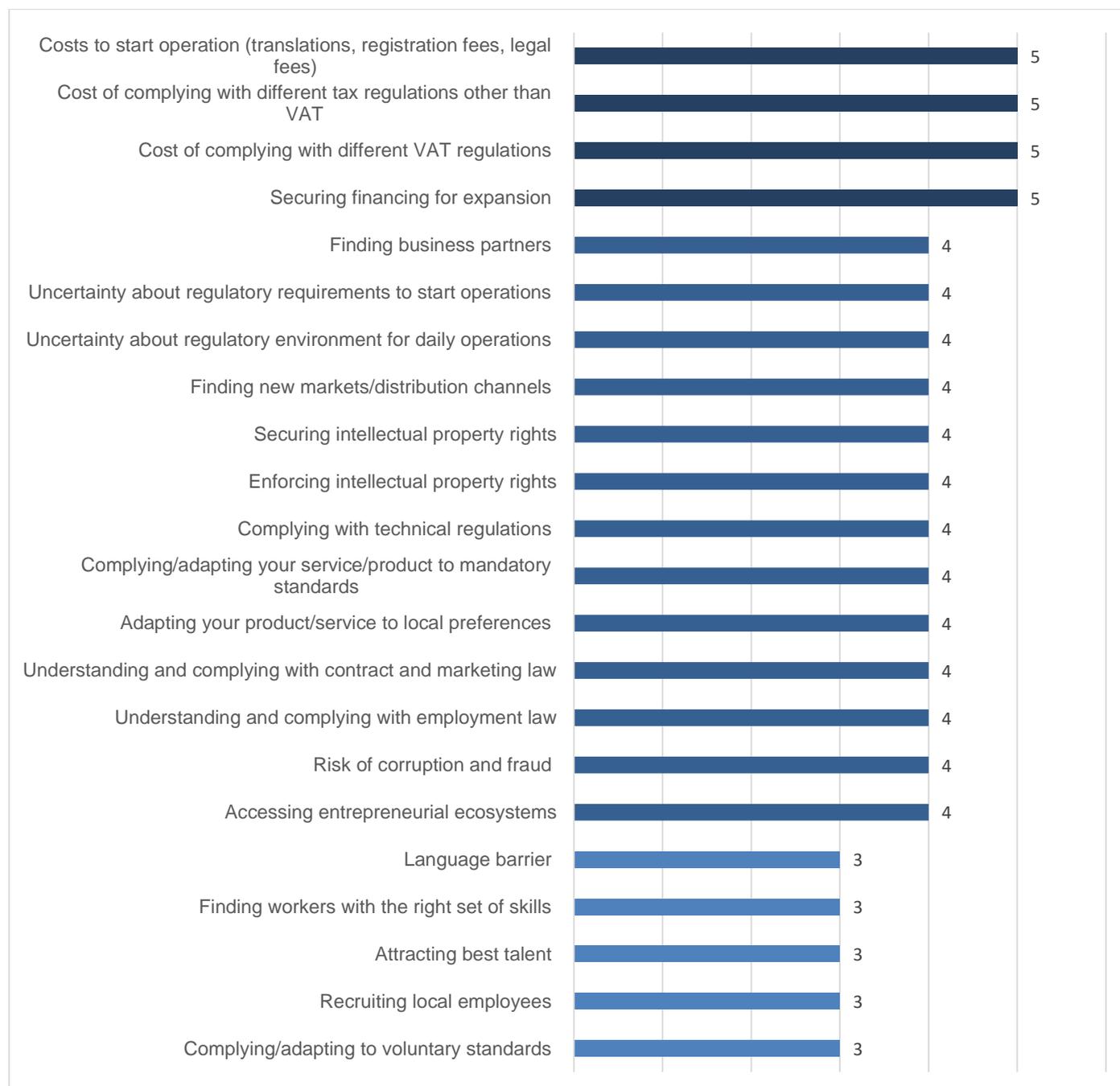
Other relevant obstacles include different contractual or legal practices (76%), insufficient legal or financial information about potential business partners in other countries (74%), concerns about resolving commercial disputes (74%), non-VAT related taxation issues (66%) and differing VAT procedures (64%).

In addition to the barriers illustrated above, a significant obstacle to the expansion of a company is the **difficulty in finding and engaging in partnerships with larger companies**, which is a key element in enabling businesses to scale up.

### Main obstacles faced by companies outside the EU

The **complexity of administrative procedures** is also a top obstacle in relation to third country markets.

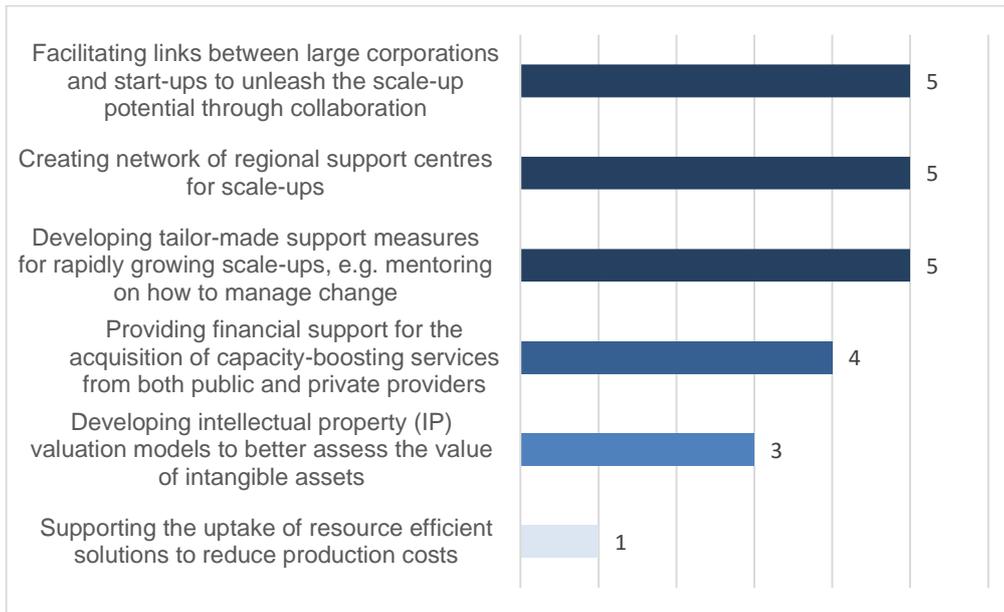
The chart below ranks the obstacles presented in the consultation's questionnaire with regards to the expansion of a company outside the EU from the most significant (5) to the least significant (1).



## Policies and support measures for the expansion of a company

In order to help the expansion of a company, **tailor-made support** is key. The creation of **networks of regional support centres for scale-ups** is highly recommended, along with the creation of (cross-border) **partnering and mentoring schemes** with larger, more established companies. With regards to the latter, the Enterprise Europe Network can play a relevant role in matchmaking companies and facilitate the reaching of partnership agreements.

The graph below shows the ranking of the policies and support measures provided in the consultation's questionnaire from the most important (5) to the least important (1).

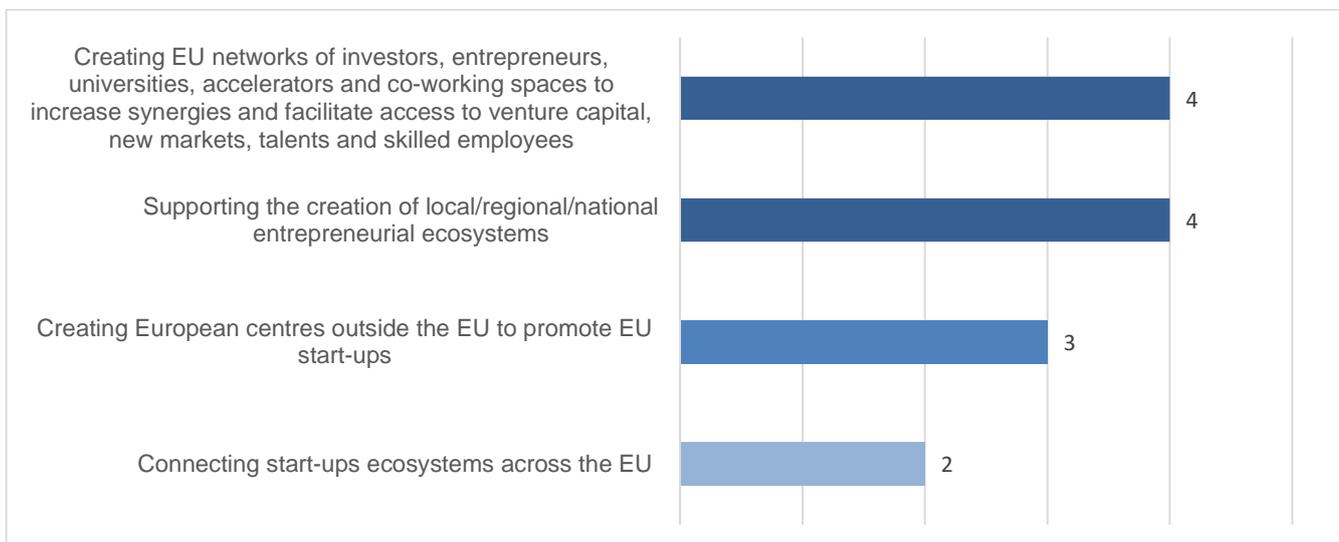


**It is crucial that any new initiative to support EU start-ups and scale-ups, both within the EU and beyond, is complementary to the existing ones and that the EU does not duplicate existing structures, activities and services.**

### Ecosystem-level policies for start-ups and scale-ups

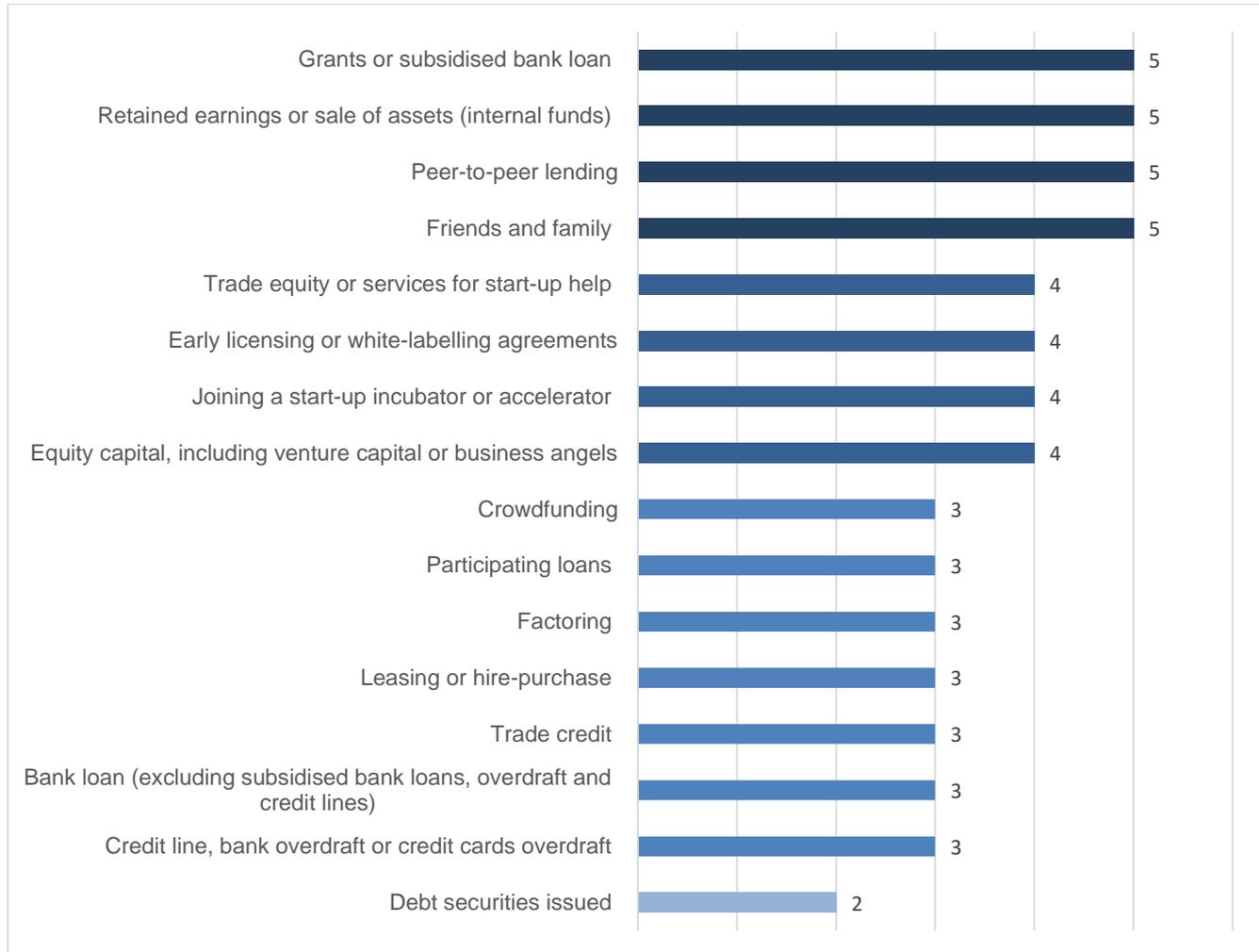
In order to develop effective ecosystem-level policies, it is useful to observe cities and regions where scale-ups are concentrated so as to understand what elements of the entrepreneurial ecosystem should be supported elsewhere.

The graph below shows the ranking of the ecosystem-level policies for start-ups and scale-ups from the most important (5) to the least important (1).



## Funding sources for financing the scaling-up of a company

The graph below ranks the funding sources for financing the expansion of a company from the most used (5) to the least used (1).



## 5. Exit phase

EUROCHAMBRES believes that the followings could enhance the exit opportunities for companies in the growth/expansion phase:

- Providing affordable advice and training
- Understanding the need to give away ownership and to be aware of the necessity of having an exit strategy among a variety of exit possibilities, such as IPOs, mergers, private offerings or VCs
- Defining a good value proposition, in terms of added services, market competition, building a sense of community
- Qualifying and quantifying each of the prospective investors and determining what needs to be done to align a business with those prospective buyers generating the highest returns
- Introducing valuation of intangible assets (e.g. copyright, patents, trade secret and industrial design rights)
- Bringing in schemes to support tax incentives both on investment and on capital gains
- Removing double taxation on equity
- Creating tax incentives for private investors, e.g. via co-investment and fund-of-fund models, as a way to leverage private sector investment
- More competition in offering funding to small firms leads to more and better offers, outreach and synergies, e.g. peer to peer funding introducing small businesses to investors
- Facilitating the procedure to go public
- Strengthening capital market through lean regulation.

The following elements need to be considered in terms of support schemes to help entrepreneurs carrying out a valuation of their company in preparation for exit:

- Accelerators and incubators
- Co-working spaces
- Business mentoring/consultancy
- Early stage training
- Investment readiness training
- Financial education
- The quantification of intangible assets can be a useful component in the fight for better access to finance. Many financial intermediaries already implicitly evaluate intangible assets when considering potential SME customers. However, EUROCHAMBRES continues to believe that action at EU level is not required in this area (except possibly in relation to best practices exchange), since intangible assets are mostly a question of national law.

To enhance the exit opportunities for venture capital investors there is a need for:

- Better preparation of businesses and their awareness on exit strategies
- Improved networking and pooling resources from business angels giving a good starting point to VCs
- Being able to access channels of partnership between young and more mature/large businesses/corporates.

## 6. Definitions

There is no consensus among EUROCHAMBRES' members on whether it is important or not to have an agreed EU-wide definition of "start-up" and of "scale-up". The impossibility to reach a common position on this issue is partly due to the fact that it is unclear what the definitions will be used for. From the analysis of the input received from members, it is however possible to say that the definition of a scale-up is considered less important compared to that of a start-up.

### Start-up

It can be agreed that the core attributes of start-ups are that they **search for a scalable business model** and are **growth-oriented**. The focus on growth is unconstrained by geography. The combination of these two elements is what distinguishes start-ups from SMEs.

There is no consensus on whether age and size limits should be included in a definition of "start-up" and, if so, what such limits should be. However, it is noteworthy that a definition which imposes an age limit risks to exclude a significant number of start-ups, notably (but not exclusively) those dealing with advanced technology that might need a long time for the research and testing to develop their ideas and implement their business model.

Moreover, it should be highlighted that although they often are, start-ups do not necessarily have to be tech-oriented or innovation oriented.

In light of this, drawing from Steve Blank's definition<sup>12</sup>, EUROCHAMBRES suggests to define a start-up as a business venture designed to search for a repeatable and scalable business model.

While they might not be included in a definition of "start-up", **it is essential not to forget the other new businesses created in the EU that are less growth-oriented but make nonetheless a significant socio-economic contribution.**

### Scale-up

While start-ups and scale-ups are both growth-oriented, the main feature that distinguishes them from one another is that while the former is in search of a scalable business model, the latter has already found it, and therefore rapidly expands and grows in terms of market access, revenues or number of employees.

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*EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 43 countries and a European network of 1700 regional and local Chambers.*

<sup>12</sup> Steve Blank defined a start up as a "a temporary organisation designed to search for a repeatable and scalable business model".