



EUROPE'S DIGITAL ECONOMY

ERT Paper #3 “Start-ups/Entrepreneurship”

Executive Summary

European competitiveness depends on lively ecosystems for entrepreneurs, start-ups and small enterprises. Such dynamic partners are needed for European industry to innovate and for creating the next generation of industrial global champions based in Europe. In particular, the development of start-ups is essential to help digitalise the economy and thus maintain Europe competitiveness.

Europe has become more hospitable to entrepreneurs and presents several fast growing start-up hubs. Unfortunately the overall ecosystem is still less supportive to new business creation than e.g. the United States. Moreover, emerging markets such as China are creating large ecosystems for entrepreneurship and start-ups, especially for digital technologies and services. Europe must urgently increase its efforts to create more start-ups, facilitate their ability to grow, and keep them in Europe.

Key gaps include:

- **People:** Despite being well educated in general, European citizens create new businesses less frequently than their US counterparts.
- **Regulatory environment:** European entrepreneurs struggle with red tape and burdensome regulation as well as the lack of a homogenous single market in Europe.
- **Funding:** Entrepreneurs are generally under-funded in Europe, compared to the US, once they have completed their start-up phase.
- **Technology:** Entrepreneurs depend on easy and cost-effective access to existing technologies (hardware, software, wetware, etc.).
- **Ecosystem:** An ecosystem of customer and partners is critical for start-ups to rapidly reach critical mass and to globalise their businesses.
- **Exits:** Successful exits of European small enterprises via IPOs or M&A happen less frequently than in the US.

ERT Member companies have collaborated with European start-ups for many years and have provided support to enable them to take off and prosper. However, to address the above-mentioned gaps, ERT companies believe that enhanced cooperation becomes essential. Two focus areas affecting the whole industry and where such cooperation could be enhanced have been identified: Internet of Things and Big Data.

Moving forward ERT will explore how companies can create synergies between their existing start-up initiatives.

For European policy-makers a lot remains to be done. ERT recommends the following policy actions:

1. **Allow scalability:** The completion of the *EU Single Market* is a prerequisite for start-ups to scale up easily and attract investment. Therefore, we should prioritise areas of the Single Market which are important for start-ups in the new Internal Market Strategy, i.e. *simplifying and harmonising rules* e.g. red tape for setting-up a business, tax treatment, hiring people, small equity investments. Developing and networking European centres of excellence for start-ups is also an idea to explore.
2. **Make data regulations innovation-friendly:** Harmonisation across all Member States of *data protection* rules that establish a balance between promoting new digital services and business models, while protecting consumers. We also encourage policy-makers to review and if possible remove existing *data localisation* policies within the EU.
3. **Offer tax incentives for start-ups and those investing in start-ups:** Europe needs to encourage talents to join start-ups and reward risk-taking, e.g. by investing into early-stage technology ventures, or through tax reductions. For instance, France and the UK have put in place tax policies to foster innovation and start-ups. ERT encourages all Member States to consider introducing similar tax policies.
4. **Provide public funding** which should focus on the *growth phase* of start-ups in order to address the real funding gap in Europe. ERT would welcome more *EU-wide* and *dedicated government programmes* to support digital start-ups, possibly with a focus on Internet of Things and Big Data applications.
5. **Reduce personal impact of start-up failure:** This could be achieved through limiting personal liability of founders and limiting lawsuits on insolvency procrastination for start-ups. Personal insolvency treatment for technology start-up founders should be improved.
6. **Promote an entrepreneurial culture and ICT skills** throughout the various *educational systems*, starting already in school. We should strengthen entrepreneurial programmes at European universities. All major start-up hubs in the world are linked to a well-known university. ERT also supports the creation of a European network of *Student Entrepreneurship Centres*, where students can exchange best practices and find additional support and possibly funding to realise their business projects.