

## Executive Summary

This “Red Paper on Entrepreneurship” represents a response to the “Green Paper on Entrepreneurship in Europe” put forward by the European Commission. They build on the “Ten Proposals to Accelerate Change in the European Entrepreneurial Culture” by Prof. Juan Roure representing GrowthPlus and provide a detailed follow-up.

## Observations

Fast growing entrepreneurial firms, gazelles, play a key role for job creation as experience both in the US and in Europe shows.<sup>1</sup> In Europe the 500 fastest growing companies identified by GrowthPlus in 2002 have created a total of 277.000 jobs from 1996 to 2002 and almost tripled their employment base within these five years.<sup>2</sup> As the European Charter for Small Enterprises acknowledges, small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe.<sup>3</sup>

With unemployment rates across Europe at a very high level of 8.6%, with peaks of more than 10%, immediate and decisive actions are needed to prevent a further deterioration and to move considerably in the direction of the Lisbon agenda.<sup>4</sup> Now is the time to act to support entrepreneurial ventures in two dimensions: to start and to grow fast. It is imperative to focus and set measurable action steps in a specific timeframe not just paper recommendations. Any delay risks to substantially harm the European economy and the job market.

Among the various factors that are important for entrepreneurship and that were mentioned in the proposal by Prof. Juan Roure, of IESE, three of them are especially critical in Europe to enhance fast growing entrepreneurial companies:

- **A favorable risk-reward trade-off and adequate access to finance.** (On average it takes 5+ years for an entrepreneurial venture to break even and subsequent profits are subject to high taxes. Most risk capital is provided by family and friends with only a small portion coming from banks, venture capital and business angels.<sup>5</sup>)
- **Entrepreneurial know-how and motivation.** (There is a lack of entrepreneurial and managerial know-how among technical experts and missing networks between technical and business universities. In addition, an entrepreneurial career is not a choice for life in Europe.<sup>6</sup>)
- **Incentive to grow.** Especially in light of European enlargement, entrepreneurs need to be given the opportunity and the incentive to grow beyond their respective national borders on a Pan-European scale.

## Recommendations

Therefore, in response the questions by the European Commission on the Green Paper the following actions are indispensable for growth both with respect to output and employment.

- Focus 1: Enhance **risk-reward trade-off** and **access to financing** for entrepreneurs  
(Answer to questions 2 and 6)

- Action: Honor long-term risk taking by reducing corporate taxes for start-ups on a national level. Provide a **tax relief to the enterprise equal to the start-up capital** within the first ten years of operation to be distributed at the choice of the entrepreneur.
  - Action: Provide substantial tax incentives for individuals (business angels) and corporate investors to invest in start-up companies. Grant a **tax relief from income/corporate tax for private/corporate investors** if they invest in start-ups within the first three years of operation of the total amount of that investment and a maximum of EUR 40.000 (Model UK with income tax relieves)
  - Action: Provide incentives for institutions to finance start-up companies both on EU level and on national level. Provide public money by **matching equity participations in start-ups 3:1** within the first three years of operation. Expand the current EIB equity program ten-fold from approx. EUR 500 million to EUR 5 billion. (Model SBICs in US<sup>7</sup>)
- Focus 2: Promote Pan-European expansion of business and specialized clusters  
(Answer to questions 3 and 5)
    - Action: Map existing and developing **clusters** in Europe. Introduce training session for accession countries on cluster policy. Enhance the formation of regional clusters and specialized centers of competence including collaboration with universities and incentivise company start-ups within clusters.
    - Action: Provide fiscal incentives for enterprises that **expand their business across national borders** as an extension of the European Company Statute (e.g. make costs for setting-up a business in one country tax-deductible in the original country)
    - Action: Organize an **entrepreneurship communication campaign** across Europe and "Entrepreneurship Days" with SMEs from EU members and from candidate countries.
- Focus 3: Promote **entrepreneurship education** on a Pan-European level  
(Answer to questions 4 and 9)
    - Action: **“Teach the Teachers”** of entrepreneurship at universities in Europe and create knowledge exchanges between these teachers on a European and a global level (Shortage of 500 entrepreneurship faculties in 120 Central and Western European universities.<sup>8</sup>)
    - Action: Teach entrepreneurial skills at technical universities and create **networks between technical schools and business schools** (models MIT, Stanford and Cambridge. The quality of technical universities in Europe should be used and leveraged much more intensively.)
    - Action: Promote **partnerships between universities and businesses** and abolish legislation that hinders public research to be leveraged for commercial purposes

All these action steps need to be translated into measurable targets and their implementation monitored on a yearly basis.

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<sup>1</sup> „Entrepreneurship: A survey of the literature”, David B. Audretsch, October 2002; also quoted in Green Paper

<sup>2</sup> „2002 Europe’s 500 Fastest Growing Companies – Europe’s Most Dynamic Entrepreneurs, The Real Job Creators”, GrowthPlus, 2002

<sup>3</sup> „European Charter for Small Enterprises”, adopted on 13.06.00 by the General Affairs Council and endorsed at the Feira European Council on 19-20 June 2000

<sup>4</sup> „UNICE Economic Outlook”, UNICE, Spring 2003

<sup>5</sup> „GEM Global Entrepreneurship Monitor – 2002 Summary Report”, Paul D. Reynolds, William D. Bygrave, Erkkö Autio, Michael Hay, November 2002

<sup>6</sup> Students’ interest in becoming entrepreneurs in Europe is 50% lower than in the USA, with only 15% of students interested in becoming an entrepreneur within five years after completing their studies according to the Ministry of Economic Affairs, The Netherlands and EIM Business & Policy Research.

<sup>7</sup> More information can be found at: [www.nasbic.com](http://www.nasbic.com) and in “Benchmarking Business Angels” European Commission, No 1 - 2003

<sup>8</sup> „Choice for life: European Entrepreneur”, Dr. Bert W. M. Twaalfhoven at Vlerick, Leuven, Gent Management School, September 2002