"European Entrepreneurial Economy"

Preparatory workshop for Forum Alpbach

Salzburg, Aug. 30th and 31st, 2015, Schloss Leopoldskron

Results and minutes

(including a summary by Alvise Bonivento as appendix)

Background and purpose of the workshop

The first class of "Alpbach in Motion (AIM)" (which is the young leader's forum of the European Forum Alpbach) in 2013 defined a more entrepreneurial economy in Europe as top priority. Consequently, members of AIM 2013 set up a working group for this subject. Over the last two years, Georg Kopetz, founder and CEO of TTTech AG in Vienna, initiated several sessions of this working group. One outcome was the workshop on August 31st in Salzburg as well as the plenum discussions in Alpbach 2015 on September 1st, 20:30 ("Entrepreneurship – how to become a champion?"), and on September 3rd, 11:00 am ("How to grow or not to grow?")

Objective of the preparatory workshop on August 31st in Salzburg was to work on questions like: What can we operatively do to make Europe an attractive growth region? What is necessary that European Entrepreneurial jewels and brilliant companies do not leave to the US or are sold to China? How can Europe stay/become attractive especially for high growth companies? How can we promote entrepreneurial spirit and re-evaluate entrepreneurial risk? What can be the roles of **our target groups**: established companies, engaged universities, private individuals, investor groups, private consumers or media?

The workshop did not want to re-invent the wheel, but to build on those innumerous published ideas and initiatives, 7-, 12-, or 40 bullet-point plans, studies and declarations. Our intention was to build a concrete action plan for non-politicians – under the slogan "What can we do ourselves? Politicians can jump onto the train, but we do not wait for them!" Consequently, nobody from politics was invited.

Location and approach

The workshop was held in Salzburg's castle Leopoldskron, a worthy and ideal location for discussing such a subject. The 24 participants from 13 countries met on Sunday afternoon and worked until Monday evening, before about the half of them proceeded to Alpbach.

The workshop consisted of five sessions:

- On Sunday evening, the results of the preparatory work were presented and discussed.
- In the first session on Monday, Rob Siegel and Burton Lee were setting the stage with their keynotes.
- In order to start the work with a positive attitude, we then discussed the strengths of Europe from an entrepreneurial point of view, in three parallel groups.
- In the fourth session, we focused on action areas and matched them to the predefined target audiences.
- In the last session, we discussed and prioritized a list of concrete actions in order to set the first steps for improving the European Entrepreneurial Economy by mid-2016.

Inputs and preparations for the workshop

We did not want to re-invent the wheel. Therefore the core team consolidated 3 different sets of inputs:

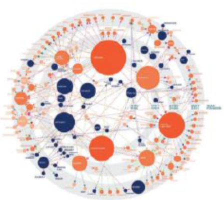
- Aggregated considerations of participants, sent front-up via mail (see first lines of next page)
- Five different studies on entrepreneurial ecosystems (as shown in below graph)
- Benchmarking of five successful locations: Silicon Valley, Tel Aviv, London, Amsterdam, Berlin

These three papers were sent to the participants front-up. They are available upon request.

We are not trying to (re-)invent the wheel – numerous studies about entrepreneurial ecosystems should become our starting base

Selected studies on entrepreneurial ecosystems

A Entrepreneurial Ecosystems Around The Globe



- Systematically examines which pillars of an eco-systems matter most to entrepreneurs when it comes to their growth
- Out of 8 components of eco-systems 3 are very important to entrepreneurs – accessble markets, workforce and financing
- Highlights productive relationships and growth between large and early-stage companies

World Economic Forum, Stanford University, Ernst & Young, 2013

B CITIE - Resource for City Leadership

- Ranking of 40 cities around the globe along 3 key areas of city govern-mental policy
- Definition and scoring of 9 roles a city could play in supporting high-growth companies
- Clustering the 40 cities in four different tiers of performance
- Best practices and chara-cteristics of high perfor-ming city governments

Nesta, Accenture, Future Cities Catapult, 2015

C Manifesto for Entrepreneurship and Innovation

- A group of distinctive European startups developed a list of 22 measures in 5 categories
- Recommendations to a large group of stakehol-ders (companies, advisors and policy makers) with the goal to develop a single digital growth plan for Europe

European Comission, Startup Europe Leaders Club, 2015

D Eco-systems and Growth Oriented Entrepreneurship

- Based on Isenberg's model of entrepreneurial eco-system, this paper highlights the distinctive types of supportive envi-ronments in order for a high-growth company (HGF) to flourish
- Creating favourable environments for business start-ups is not leading to the creation of more HGFs
- Roles and successful features of eco-system

OECD LEED Programme and Dutch Ministry of Economic Affairs, 2014

E The Revaluation of Risk-Taking

- This action plan identifies missing and eventually achievable measures to increase the global competitiveness of European Internet/high-tech companies and startups
- Five areas with concrete measures defined based on expert inpterviews
- Addresses large private enterprises, public sector and academia

Tuck School of Business, ETH Zürich, University of St. Gallen, 2015

In their front-up considerations, all respondents agreed on the fact, that the DNA of Silicon Valley is not transferable to Europe. There are some aspects, however, which should be implemented in Europe. One thing we can learn and transfer is the close link of young companies to universities. Another point mentioned was the accessibility and the working style of bigger venture capital funds. Berlin, London, Tel Aviv, Shenzhen were mentioned as successful ecosystems.

As most important elements, which are under-represented or even missing for the European entrepreneurial ecosystem, the respondents listed the presence of a solid VC community, a class of entrepreneurs who are re-investing their returns, start-up centric labor laws, a positive attitude towards successful entrepreneurs, and a supportive regulatory infrastructure as well as helpful networks.

As „fertilizer", tax incentives for HNI-(High net wealth) individuals and for foundations are seen as helpful, if they take the risk to invest in young and high-growth companies. As most serious inhibitors for Europe were mentioned: the non-existence of one single big European market, bureaucratic complexity, and especially a missing „failure culture".

Highlights of the first session on Sunday

Already the first discussions on Sunday afternoon/evening gave an impression about the different positions of Europe versus the US:

- Hidden champions in Europe vs. bold Unicorn thinking in the US
- Cautious corporate visions vs. moonshot thinking
- European clients (B2C and B2B) more conservative towards new products vs. early adopter attitude in the US
- Disadvantageous vesting constraints for (management and employee) shares in Europe vs. stock option thinking in the US
- Venturers exploiting entrepreneurs (e.g. Rocket Internet or some VC-Funds) vs. true partnerships between young entrepreneurs and venturers with financial and fair support
- Primarily bankers as Venture Capitalists in Europe vs. experienced entrepreneurs as venture partners in US.

Keynote addresses

On Monday morning, two keynote addresses by Rob and Burton, the two Stanford lecturers, gave additional inputs. Rob talked about "The importance of regional proximity" and Burton about "The differences between European and US entrepreneurial environments".

Rob stressed the role of successful former entrepreneurs in Silicon Valley, acting now as Angels and Heads of Venture Funds. Burton differentiated between a "simple" entrepreneurship in the US/Silicon Valley versus a "complex" entrepreneurship in Europe. For example, US entrepreneurs need not care about demand for their ideas, whereas European entrepreneurs have to act in different legislative and cultural environments, have to intensively look for demand (in B2C-segments and also in B2B-markets), and are confronted with an attitude, which can be characterized by "walls" between all kind of societal entities (e.g. inside faculties and universities, and between them). Burton sketched the differences as follows:

- Complex entrepreneurship in Europe vs. simple entrepreneurship in the US
- US has no demand side issue, lots of early adopters, few worries about regulations, whereas Europe can be seen as nearly the opposite.
- Viral growth difficult in Europe – only in gaming
- Walls everywhere; no sharing but a separation culture – culture hacking might work (supporting the revolutionaries)
- European universities "separated by walls" internally and externally, not supportive and focused on pure science. Jealous colleagues see commercially entrepreneurial professors as neglecting education and close to stealing publicly financed IP.
- Hockey sticks in Europe generated only with European/local customers – no drive to go global from the beginning
- Jealousy of established managers seeing the by far higher income of relatively young entrepreneurs from high purchase price for their companies
- Acquisitions of smaller and innovative businesses are considered almost as "cheating". Legal and other administrative departments do not want to manage shareholdings, considering accounting difficulties.

All these aspects were repeatedly mentioned during the workshop.

The core working session was titled

"Why not Europe?"

In three groups, we generated arguments, why Europe is and can remain attractive for coming to / staying in Europe – resulting from its different and complementary positioning versus the US: Europe has strong industries with significant potential to grow and to change during the upcoming decade: e.g the automotive industry, smart machinery, infrastructures, or luxury goods. Revenues of these – often hardware-oriented – industries are bigger than those of Google, Facebook, or Amazon combined. Europe with its additional strengths like passion for details and quality, patience for longer development cycles, its successful Mittelstand-attitude, or its loyalty of talent can derive strong growth opportunities.

This positioning of Europe vs. the US can be summarized in the following bullet points:

- Network of trust in various regions
- Very good infrastructures

- Passion for detail and quality - patience of investors with long development cycles
- Quality of life
- Loyalty of talent
- Density of cultural diversity
- Country as an incubator: smaller regional entities have some advantages
- During the last decade, significant changes have already happened. The challenge is to speed this up to the change in the US and China.
- Limited resources (typical in young European companies) trigger creativity and effectiveness
- Lot of money looking for opportunities, if politics would channel it effectively
- Mittelstand-attitude of many successful families
- Significant core industries (luxury, chemicals, hardware, automotive – e.g. ”Automotive Valley” in Southern Germany/Austria/Switzerland/Northern Italy)
- Top universities (at least in scientific and technological aspects)
- Potential for a common European Vision

These existing strengths of European business trigger a differentiated positioning of European Economy, which has to be reflected also in high growth companies. For example, it would be a mistake to strive for a European Facebook, a European Google etc. We rather have to take into account that the European strengths lay in its supply structure for big and world-leading integrators like the automotive OEMs, Airbus or smart machinery producers – using latest technology to build competitive advantages here. If European contributions to global internet applications pop up, like Spotify (Sweden, Music streaming), runtastic (Austria, Sports), or Klarna (Sweden; Financial payments), they are a good complement, but not a core European strategic competence.

Measures proposed by workshop participants:

- Disruptive cooperation models between established companies and high-growth companies (like BMW start-up garage)
- Round tables between Mittelstand companies and high growth companies
- Digital transformation of Mittelstand, connecting with high-growth companies
- Universities to promote spin-offs with their IP and shrug off their skepticism towards commercializing IP
- Professionalizing Board work and governance of high growth companies
- Create snowball effect of workshops like these (make an event manual for it)
- Practitioners should go into Universities and show practical entrepreneurial work
- Triggered by Dan Shechtman in Alpbach, we have conceptualized in Alpbach an entrepreneurial training for students and interested persons also outside universities, which we would offer from mid-2016 onward. Core should be attractive guest speakers, bringing in more than 100 participants in one of these trainings
- Advisory Boards of experienced entrepreneurs for universities
- Panel with associations on: “The future of the Mittelstand” (series of articles)

- Lobbying on new stock option taxation schemes
- More networking between investors and media

Major levers for implementing a truly entrepreneurial economy in Europe would be:

- **Established companies**, which should open up and learn to cooperate with younger high growth companies. They should use the more dynamic culture of young high growth companies as catalyzer for internal change and innovation. There are good initial examples around, like BMW with its “start-up garage” or Axel Springer in the media-segment.
- **Universities** are major sources and fertilizers of ideas, Intellectual Property, and growth. They should pull down their walls within and against non-scientific thinking and produce more entrepreneurial teams, as shown by some of the top American universities, e.g. Stanford University, which was the cradle of Silicon Valley, and Harvard University, which is a source of e.g. of successful companies in the pharmaceutical sector.

Follow-up in Alpbach

In Alpbach, these ideas were communicated on two plenum panels: on September 1st by Johanna Mair, Rob Siegel, Burton Lee, and Manfred Reichl, participating on the panel; and on September 3rd, by Georg Kopetz, being outspoken on the concluding plenum.

In various discussions with Dan Shechtman, Nobel Prize Laureate in Chemistry in 2011, he gave insights into his two decades long experience with broad training programs on entrepreneurship at the Technion University in Haifa, for 300 – 600 students each year. Altogether he has trained about 10.000 participants, which surely helped to turn Israel into the entrepreneurial economy as it is today (http://www.ft.com/intl/cms/s/0/0cb59016-29cb-11e2-9a46-00144feabdc0.html) (Major attitude: “Failure ok! Start Again!”). We took this point and recognized that a specially designed training for a broader audience should be offered (maybe even outside universities)

Participants of the workshop

Bülent Altan (TK), Milenco Beric (SRB) , Alivise Bonivento (I), Lee Burton (US, Stanford), Jordan Georgiev (BLG), Gregor Gimmy (E), Federico Guidiceandrea (I), Georg Kopetz (A), Florian Löbermann (D), Johanna Mair (I, Stanford, Hertie school of Governance), Jama Nateqi (Afg), Manfred Reichl (A), Alexander Schwartz (A), Debbie Siegel (CDN), Rob Siegel (US, Stanford), Romy Sigl (A), Ivan Skrlec (SLO), Herwig Springer (A), Philipp Thurn und Taxis (A), Michael Thurow (A), Andreas Tschas (A), Artemis Vakianis (GR), Vanessa Voss (A), Sebastian Wieser (D)

Appendix: Summary by Alvise Bonivento

On his way home, Alvise wrote an excellent bullet point and catchword summary of our discussion points and outcomes. Despite some overlaps with above text, it is a very good complement.

Introduction

- Several studies, similar results
- Despite we all know this, EU is still slow to move towards, often related to different political agendas in different countries and legacy situations
- Overall this is part of a more complex understanding of the change of our economic infrastructure
    - From capital/asset based society to entrepreneurial/knowledge based
- However, when interviewing people, there are always 3 main dimensions that are analyzed and that are the key to the question:
    - Accessible markets
    - Workforce
    - Capital
- There is also a fourth important dimension “Rules & Framework” which is more transversal to the main 3 as it should act as an enabler

Key aspects differentiating EU from Silicon Valley

- **Consumer demand side complexity**
    - European consumer market is very fragmented with different cultures and different regulations
    - This creates a major barrier to the development of virality phenomena (Except for gaming and some luxury goods)
    - The direct consequence is that for consumer products (or apps) it is extremely difficult to grow at the required speed in Europe in order to become major hits and compete in large IPOs
- **Human resources. It is much more complex to attract and retain talents in EU. This is a KEY ISSUE**
    - Proximity factor in the Bay Area invited the brightest in a sort of dreamland environment where everybody is in the business
        - However, we do have some advantages in Europe in terms of lifestyle for young adults that can/should be leveraged much more
    - It is complex to have a widespread adoption of stock options in Europe
        - There is no unified tax policy in EU to incentivize the adoption of SoP
        - Cultural barriers are still present both for entrepreneurs, shareholders, employees (heritage of Capital model)
        - Tendency to grant the SoP to entrepreneurs instead of widespread in the company
    - Compensation

        - Compensation for engineers and biz dev professionals in SV start-ups is much higher than in Europe, very often US companies are aggressively recruiting via LinkedIn and other means
        - This is also a heritage problem from the way we conceive organizations in EU where there is still a difference between managers, engineers and we pretend engineers should be working for lower salaries
        - This is part of the failure to understand that we are moving from an asset based society to a knowledge based society, and unfortunately this aspect is not very well appreciated by entrepreneurs and investors as well
    - Education
        - Too often entrepreneurship is not adequately addressed at Business Schools
        - Top BS in US are constantly using practitioners as teachers/lecturers while in EU BS this is not always the case, this is an important point that could be addressed because entrepreneurship comes by role modeling and P2P pressure (Stanford example)
- **Society**
    - There is still a cultural problem in accepting failure, and this is an important show stopper for having an aggressive business behavior and/or for moving your SME into something more ambitious
    - The are many socio-economic walls still present in Europe that prevent a better integration and creation of marketplace for ideas as well as talents
- **Attitude from large and medium companies**
    - Very long sale cycles towards established companies for a start-up, not easy to accept a tart up as a supplier
        - In fact there is a tradition of squeezing a supplier, specially a start-up as an external low cost labor
        - This can be addressed in terms of policies to facilitate it
    - Not as active in M&A and creating exit like US corporates. They are not competitive in bids for premium companies like US corporates, and as a consequence top tech EU companies are bought US companies and the technology and people are transferred oversea
        - For large companies, it's not a problem of resources, it's more a problem of mentality and difficulty in understanding the need for retaining innovation and long term growth plans
        - For other growing start-ups, it is a problem of resources since they are generally less capitalized of US start-ups, and as a consequence it is complicated to have a process of aggregation of tech companies to create champions
- **Access to capitals (size and competence)**
    - Still there is a lack of financing size for European start-ups compared with US ones
    - Also there are several policies from EU countries and regions that somehow result in funding of start-ups with public money in order to develop a specific region. But usually this has a negative impact in terms of resource allocation (e.g. geographic limitation of funding)
    - Very often EU investing professionals are not as skilled as US top VCs in the sense that hardly have a background in developing/marketing new products/technologies, and do not have the necessary links in the top tech giants in order to help companies to find clients and exits. Hence there is a limited availability of "smart money"
- **Consequences of these shortcomings**
    - It is much harder to develop a growing start up in Europe because
        - Demand is much more complex to analyze and address

        - It is harder to attract and retain talent
        - There is less capital, and especially smart capital, available
    - Even when a start-up succeed in growing it is complicated to have a European based exit
        - For consumer companies it's very hard to grow viral in EU, hence they have to grow in the US where it's easier, and when they go IPO they do it in US (or Asia)
        - For tech companies, the M&A market is clearly more favorable when the buyer is a US company (or an Asian fund)
        - As a consequence talents move away and there is a vacuum for refueling the system (which instead is the main driver for SV where serial entrepreneurs are very common) both in terms of workforce as well as resources

Important point of strengths for EU which can be leveraged for the future

- **Lifestyle for young adults and families**
    - Although we do not experience the proximity of SV, we do live in a continent which can be easily traveled for weekends and it is a much better lifestyle and educational experience
    - In most of EU countries there is a good public health and education system, hence for young families this is an important asset
- **Strong engineering and design culture**
    - We do have a cultural attention to details such as engineering perfection and quality of design
    - In some cases this can become a burden when you have to go for fast prototyping and go to market speed
    - However, this also turns out in a higher degree of patience from shareholders and stakeholders for the development of new products; in some fields this can be an important asset
    - We have a strong tradition and knowhow of industrial automation and automotive
    - Consequently, in the emerging field of IoT, especially for automotive and industrial automation (maybe less for consumer wearables and domotics), EU is perfectly positioned to take advantage of this opportunity
- **Attention to profitability / resilience**
    - Because of the limited resources EU start-ups (and SMEs) must focus early on profitability
    - On the one side this can limit somehow the growth potential of the company
    - On the other side this makes the company healthier and more resilient to economic downturns
- **Regulations**
    - Although in many areas the fragmentation of regulation in EU is a major issue, in the Medtech sector the possibility of reaching CE marking much earlier than FDA marking gives an important headstart for companies that want to start developing their innovations in EU
    - The existence of alternative markets (e.g. AIM in Italy and UK) is creating the possibility of early IPOs for growing start-ups, and that facilitates the process of roll up by consolidation with other tech companies

Opportunities, obstacles and actions

- In the intent of leveraging on EU strengths while trying to solve some of the gaps that we are currently facing, there are great opportunities in the next future coming along fo EU entrepreneurs, especially in the new field of smart cities, smart transportation, connected automotive, industrial IoT
- However in order to address these opportunities there are great obstacles and challenges that must be addressed. We can look at them going back to our main 3 dimensions (Markets, Workforce, Capitals)
  - Markets
    - Uniform EU market rules, this is a key both for consumer market (e.g. privacy rules, etc.), but also for B2B
    - Study virality. We need to start having comprehensive studies on how virality can be exploited in the EU
    - Facilitate cooperation b/w large corporates and growing start-ups (facilitate process for acquiring required licenses, tax benefits for corporates working for start-ups, etc.)
  - Workforce
    - Improve business school education for entrepreneurship with an increasing presence of practitioners
    - increase participation of skilled labor in company equity
    - Improve packages in order to retain talent vs US aggressive hiring
    - Improve cultural understanding and acceptance of success by failures
  - Capital
    - Increase the number of skilled practitioners in the VC industry (e.g. the EIF should privilege investing in funds with partners with strong sector experience and track record)
    - Increase the engagement of HNWI in investing in start-ups, since it is already a growing phenomenon,
    - Continue to support and engage corporates in the involvement with start-ups, both for CVC as well as ”corporate garage”
    - Facilitate liquidity to improve M&A EU internal market for growing start ups